

Buckeye GP Holdings L.P.  
Form 10-K  
March 16, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2008

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 001-32963

## Buckeye GP Holdings L.P.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**11-3776228**  
(IRS Employer  
Identification number)

**Five TEK Park**  
**9999 Hamilton Blvd.**  
**Breinigsville, Pennsylvania**  
(Address of principal executive offices)

**18031**  
(Zip Code)

Registrant's telephone number, including area code: **(610) 904-4000**

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Units representing limited partnership interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None** (Title of class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

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 Act). Yes  No

At June 30, 2008, the aggregate market value of the registrant's Common Units held by non-affiliates was \$240.3 million. The calculation of such market value should not be construed as an admission or conclusion by the registrant that any person is in fact an affiliate of the registrant.

As of March 9, 2009, there were 27,769,647 Common Units and 530,353 Management Units outstanding.

---

Table of Contents

TABLE OF CONTENTS

	<b>Page</b>
<b><u>PART I</u></b>	
<b><u>Item 1.</u></b> <i><u>Business</u></i>	3
<b><u>Item 1A.</u></b> <i><u>Risk Factors</u></i>	24
<b><u>Item 1B.</u></b> <i><u>Unresolved Staff Comments</u></i>	39
<b><u>Item 2.</u></b> <i><u>Properties</u></i>	39
<b><u>Item 3.</u></b> <i><u>Legal Proceedings</u></i>	40
<b><u>Item 4.</u></b> <i><u>Submission of Matters to a Vote of Security Holders</u></i>	40
<b><u>PART II</u></b>	
<b><u>Item 5.</u></b> <i><u>Market for the Registrant's Common Units, Related Unitholder Matters, and Issuer Purchases of Common Units</u></i>	41
<b><u>Item 6.</u></b> <i><u>Selected Financial Data</u></i>	41
<b><u>Item 7.</u></b> <i><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i>	43
<b><u>Item 7A.</u></b> <i><u>Quantitative and Qualitative Disclosures About Market Risk</u></i>	64
<b><u>Item 8.</u></b> <i><u>Financial Statements and Supplementary Data</u></i>	66
<b><u>Item 9.</u></b> <i><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></i>	108
<b><u>Item 9A.</u></b> <i><u>Controls and Procedures</u></i>	108
<b><u>Item 9B.</u></b> <i><u>Other Information</u></i>	108
<b><u>PART III</u></b>	
<b><u>Item 10.</u></b> <i><u>Directors, Executive Officers and Corporate Governance</u></i>	109
<b><u>Item 11.</u></b> <i><u>Executive Compensation</u></i>	113
<b><u>Item 12.</u></b> <i><u>Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters</u></i>	129
<b><u>Item 13.</u></b> <i><u>Certain Relationships and Related Transactions and Director Independence</u></i>	131
<b><u>Item 14.</u></b> <i><u>Principal Accountant Fees and Services</u></i>	134
<b><u>PART IV</u></b>	
<b><u>Item 15.</u></b> <i><u>Exhibits and Financial Statement Schedule</u></i>	135

Table of Contents

**PART I**

**Item 1. Business**

**Buckeye GP Holdings L.P.**

Buckeye GP Holdings L.P. ( *BGH* ) is a master limited partnership publicly traded on the New York Stock Exchange (NYSE symbol: *BGH*). *BGH* was organized on June 15, 2006 under the laws of the state of Delaware. *BGH* owns 100% of Buckeye GP LLC ( *Buckeye GP* ), which is the general partner of Buckeye Partners, L.P. ( *Buckeye* ). *Buckeye* is a master limited partnership that was organized in 1986 under the laws of the state of Delaware and is separately traded on the New York Stock Exchange (NYSE symbol: *BPL*). *BGH*'s limited partnership units are owned approximately 62% by *BGH GP Holdings, LLC* ( *BGH GP* ), approximately 37% by the public and approximately 1% by certain members of *Buckeye GP*'s senior management. *MainLine Management LLC*, a Delaware limited liability company ( *MainLine Management* ), is the general partner of *BGH*.

*BGH*'s only business is the ownership of *Buckeye GP*. *Buckeye GP*'s only business is the management of *Buckeye* and its subsidiaries. At December 31, 2008, *Buckeye GP* owned an approximate 0.5% interest in *Buckeye*.

*BGH*'s initial public offering ( *IPO* ) occurred on August 9, 2006 and, prior to such date, *BGH* had no activity. The *BGH* common units sold in the *IPO* represent approximately 37% of the outstanding equity of *BGH*, which includes common units ( *Common Units* ) and management units ( *Management Units* ).

On June 25, 2007, *Carlyle/Riverstone BPL Holdings II, L.P.* ( *Carlyle/Riverstone* ), certain members of senior management of *Buckeye GP* and other limited partners sold an approximate 62% limited partner interest in *BGH*, and *Carlyle/Riverstone* sold its member interest in *MainLine Management*, to *BGH GP*, a limited liability company owned primarily by affiliates of *ArcLight Capital Partners, LLC* ( *ArcLight* ), *Kelso & Company* and certain investment funds along with certain members of senior management of *Buckeye GP*, for \$411.6 million. The transaction constituted a change of control of *BGH* and, indirectly, *Buckeye*.

*BGH*'s only cash-generating asset is its ownership interest in *Buckeye GP*. *Buckeye GP* generates cash and earnings primarily through its ownership of the general partner interest along with incentive distribution rights in *Buckeye*, and its approximate one percent general partner interest in certain of *Buckeye*'s operating subsidiaries. *BGH*'s cash flow is, therefore, directly dependent upon the ability of *Buckeye* and its operating subsidiaries to make cash distributions to its partners. The actual amount of cash that *BGH* will have available for distribution will depend primarily on *Buckeye*'s ability to generate cash beyond its working capital requirements.

**Buckeye Partners, L.P.**

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Buckeye has one of the largest independent refined petroleum products pipeline systems in the United States in terms of volumes delivered with approximately 5,400 miles of pipeline and 64 active products terminals that provide aggregate storage capacity of approximately 24.7 million barrels. In addition, Buckeye operates and maintains approximately 2,400 miles of other pipelines under agreements with major oil and chemical companies. Through the acquisitions of Lodi Gas Storage, L.L.C. ( Lodi Gas ) and Farm & Home Oil Company LLC ( Farm & Home ) in the first quarter of 2008, Buckeye now owns and operates a major natural gas storage facility in northern California which provides approximately 33 billion cubic feet ( Bcf ) of gas capacity (including capacity provided pursuant to a nearly completed expansion project) and a leading wholesale distributor of refined petroleum products in the northeastern United States in areas also served by Buckeye's pipelines and terminals.

Buckeye conducts all of its operations through operating subsidiaries, which are referred to herein as the Operating Subsidiaries :

- *Buckeye Pipe Line Company, L.P.* ( Buckeye Pipe Line ), which owns an approximately 2,643-mile refined petroleum products pipeline system serving major population centers in eight states. It is the primary jet fuel transporter to John F. Kennedy International Airport ( JFK Airport ), LaGuardia Airport, Newark Liberty International Airport ( Newark Airport ) and certain other airports within its service territory.
- *Laurel Pipe Line Company, L.P.* ( Laurel ), which owns an approximately 345-mile refined petroleum products pipeline connecting five Philadelphia area refineries to 10 delivery points across Pennsylvania.
- *Wood River Pipe Lines LLC* ( Wood River ), which owns six refined petroleum products pipelines with aggregate mileage of approximately 925 miles located in Illinois, Indiana, Missouri and Ohio.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

### Table of Contents

- *Buckeye Pipe Line Transportation LLC* ( *BPL Transportation* ), which owns a refined petroleum products pipeline system with aggregate mileage of approximately 478 miles located in New Jersey, New York, and Pennsylvania.
- *Everglades Pipe Line Company, L.P.* ( *Everglades* ), which owns an approximately 37-mile refined petroleum products pipeline connecting Port Everglades, Florida to Ft. Lauderdale-Hollywood International Airport and Miami International Airport. It is the primary jet fuel transporter to Miami International Airport.
- *Buckeye NGL Pipe Lines LLC* ( *Buckeye NGL* ), which owns an approximately 350-mile natural gas liquids pipeline extending generally from the Wattenberg, Colorado area to Bushton, Kansas.
- *Buckeye Pipe Line Holdings, L.P.* ( *BPH* ), which owns (or in certain instances leases from other Operating Subsidiaries) 59 refined petroleum and other products terminals with aggregate storage capacity of approximately 23.7 million barrels (of which 56 are included in Buckeye's Terminalling and Storage segment and three are included in Buckeye's Pipeline Operations segment) and 574 miles of pipelines in the Midwest, Southwest and West Coast. BPH operates, through its subsidiary Buckeye Gulf Coast Pipe Lines, L.P. ( *BGC* ), pipelines in the Gulf Coast region for third parties. BPH also holds minority stock interests in two Midwest refined petroleum products pipelines and a natural gas liquids pipeline system.
- *Buckeye Gas Storage LLC* ( *Buckeye Gas* ), which, through its subsidiary Lodi Gas, owns a natural gas storage facility in northern California.
- *Buckeye Energy Holdings LLC* ( *Buckeye Energy* ), which, through its subsidiary Buckeye Energy Services LLC, markets refined petroleum products in areas served by Buckeye's pipelines and terminals and also owns five refined petroleum product terminals with aggregate storage capacity of 1.0 million barrels and other distribution assets located in northeastern and central Pennsylvania.

### **Business Development**

Beginning in the fourth quarter of 2004 and continuing into 2008, Buckeye substantially expanded its business operations through acquisitions and equity investments of approximately \$1.6 billion, the most recent of which are set forth below.

#### *2008 Acquisitions and Equity Investments*

*Lodi Gas.* On January 18, 2008, Buckeye acquired all of the member interests in Lodi Gas for approximately \$442.4 million. Lodi Gas owns and operates a major natural gas storage facility in northern California that currently provides approximately 33 Bcf of natural gas storage

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

capacity (including capacity provided pursuant to a nearly completed expansion project) and is connected to Pacific Gas and Electric's intrastate gas pipelines which service natural gas demand in the San Francisco and Sacramento areas.

*Farm & Home.* On February 8, 2008, Buckeye acquired all of the member interests in Farm & Home for approximately \$146.2 million and soon thereafter sold all of the acquired retail operations of Farm & Home, retaining only the wholesale operations. Farm & Home was a major regional distributor of refined petroleum products in northeastern and central Pennsylvania and surrounding areas.

*Niles and Ferrysburg, Michigan Terminals.* On February 19, 2008, Buckeye acquired a terminal in Niles, Michigan and a 50% ownership interest in a terminal in Ferrysburg, Michigan from an affiliate of ExxonMobil Corporation for approximately \$13.9 million. The Niles and Ferrysburg terminals have an active storage capacity of 0.3 million barrels.

*50% Member Interest in WesPac Pipelines - San Diego LLC.* Effective May 1, 2008, Buckeye purchased the 50% member interest in WesPac Pipelines - San Diego LLC ( WesPac San Diego ) from Kealine LLC ( Kealine ) not already owned by Buckeye for approximately \$9.3 million.

*Wethersfield, Connecticut Terminal.* On June 20, 2008, Buckeye acquired a refined petroleum products terminal in Wethersfield, Connecticut from Hess Corporation for approximately \$5.5 million. The Wethersfield terminal has an active storage capacity of 0.3 million barrels.

*Albany, New York Terminal.* On August 28, 2008, Buckeye acquired an ethanol and petroleum products terminal in Albany, New York from LogiBio Albany Terminal, LLC (the Albany Terminal ). The purchase price for the terminal was approximately \$46.5 million, with an additional \$1.5 million payable if the terminal's operations meet certain performance goals over the three years following the consummation of the acquisition. The Albany Terminal has an active storage capacity of 1.8 million barrels.



Table of Contents

*West Texas LPG Pipeline Limited Partnership.* In 2008, Buckeye invested an additional \$9.8 million in West Texas LPG Pipeline Limited Partnership as Buckeye's pro-rata contribution for an expansion project to meet increased pipeline demand caused by increased liquid production in the Fort Worth basin and East Texas regions.

The following chart depicts BGH's and Buckeye's ownership structure as of December 31, 2008.

---

*\*Ownership percentages in the chart are approximate.*

**Table of Contents****Business Activities**

The following discussion describes the business activities of BGH's operating segments for 2008, which are the same as Buckeye's operating segments and include Pipeline Operations, Terminalling and Storage, Natural Gas Storage, Energy Services, and Other Operations. The Pipeline Operations and Energy Services segments derive a nominal amount of their revenue from U.S. governmental agencies. Otherwise, none of BGH's operating segments have contracts or subcontracts with the U.S. government. All of BGH's assets are located in the continental U.S. Detailed information regarding revenues, operating income and total assets of each segment can be found in Note 24, Segment Information, to BGH's consolidated financial statements.

***Consolidated Revenue by Segment***

	<b>Consolidated Revenue and Percentage by Segment</b>					
	<b>(Revenue in thousands)</b>					
	<b>2008</b>		<b>2007</b>		<b>2006</b>	
	<b>Revenue</b>	<b>Percent</b>	<b>Revenue</b>	<b>Percent</b>	<b>Revenue</b>	<b>Percent</b>
Pipeline Operations	\$ 387,267	20.4%	\$ 379,345	73.0%	\$ 350,909	76.0%
Terminalling and Storage	119,155	6.3%	103,782	20.0%	81,267	17.6%
Natural Gas Storage	61,791	3.3%		0.0%		0.0%
Energy Services	1,295,925	68.3%		0.0%		0.0%
Other Operations	43,498	2.3%	36,220	7.0%	29,584	6.4%
Intersegment	(10,984)	-0.6%		0.0%		0.0%
<b>Total</b>	<b>\$ 1,896,652</b>	<b>100.0%</b>	<b>\$ 519,347</b>	<b>100.0%</b>	<b>\$ 461,760</b>	<b>100.0%</b>

***Pipeline Operations Segment***

The Pipeline Operations segment owns and operates approximately 5,400 miles of pipeline that are located primarily in the Northeastern and upper Midwestern portions of the United States and services approximately 100 delivery locations. This segment transports refined petroleum products, including gasoline, jet fuel, diesel fuel, heating oil, kerosene and natural gas liquids, from major supply sources to terminals and airports located within end-use markets. The pipelines within this segment also transport other refined products, such as propane and butane, refinery feedstock and blending components. The segment's geographical diversity, connections to multiple sources of supply and extensive delivery system help create a stable base business.

The Pipeline Operations segment conducts business without the benefit of exclusive franchises from government entities. In addition, Pipeline Operations generally operates as a common carrier, providing transportation services at posted tariffs and without long-term contracts. Demand for the services provided by Pipeline Operations derives from end users for refined petroleum products in the regions served and the ability and willingness of refiners and marketers to supply such demand by deliveries through Pipeline Operations' pipelines. Factors affecting demand for refined petroleum products include price and prevailing general economic conditions. Demand for the services provided by the Pipeline Operations segment is, therefore, subject to a variety of factors partially or entirely beyond their control. Typically, this segment's pipelines receive refined petroleum products from refineries, connecting pipelines, and bulk and marine terminals and transport those products to other locations for a fee.

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Buckeye transported an average of approximately 1,382,200 barrels of refined petroleum products per day in 2008. The following table shows the volume and percentage of refined petroleum products transported by the Pipelines Operations segment over the last three years:

**Volume and Percentage of Refined Petroleum Products Transported (1)**  
**(Volume in thousands of barrels per day)**  
**Year Ended December 31,**

	2008		2007		2006	
	Volume	Percent	Volume	Percent	Volume	Percent
Gasoline	673.5	48.7%	717.9	49.6%	722.3	49.8%
Jet fuel	354.7	25.7%	362.7	25.1%	351.3	24.2%
Middle distillates (2)	304.2	22.0%	320.1	22.1%	324.2	22.4%
Natural gas liquids	20.9	1.5%	20.4	1.4%	19.8	1.4%
Other products	28.9	2.1%	26.3	1.8%	32.7	2.2%
Total	1,382.2	100.0%	1,447.4	100.0%	1,450.3	100.0%

**Table of Contents**

---

- (1) Excludes local product transfers.
- (2) Includes diesel fuel, heating oil, kerosene, and other middle distillates.

Buckeye provides pipeline transportation service in the following states: California, Colorado, Connecticut, Florida, Illinois, Indiana, Kansas, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, and Tennessee. The geographical location and description of these pipelines is as follows:

*Pennsylvania New York New Jersey*

Buckeye Pipe Line serves major population centers in Pennsylvania, New York, and New Jersey through approximately 928 miles of pipeline. Refined petroleum products are received at Linden, New Jersey from 17 major source points, including two refineries, six connecting pipelines and nine storage and terminalling facilities. Products are then transported through two lines from Linden, New Jersey to Macungie, Pennsylvania. From Macungie, the pipeline continues west through a connection with the Laurel pipeline to Pittsburgh, Pennsylvania (serving Reading, Harrisburg, Altoona/Johnstown and Pittsburgh, Pennsylvania) and north through eastern Pennsylvania into New York (serving Scranton/Wilkes-Barre, Pennsylvania and Binghamton, Syracuse, Utica, Rochester and, via a connecting carrier, Buffalo, New York). Buckeye leases capacity in one of the pipelines extending from Pennsylvania to upstate New York to a major oil pipeline company. Products received at Linden, New Jersey are also transported through one line to Newark Airport and through two additional lines to JFK Airport and LaGuardia Airport and to commercial refined petroleum products terminals at Long Island City and Inwood, New York. These pipelines supply JFK Airport, LaGuardia Airport and Newark Airport with substantially all of each airport's jet fuel requirements.

BPL Transportation's pipeline system delivers refined petroleum products from Valero Energy Corporation's (Valero) refinery located in Paulsboro, New Jersey to destinations in New Jersey, Pennsylvania, and New York. A portion of the pipeline system extends from Paulsboro, New Jersey to Malvern, Pennsylvania. From Malvern, a pipeline segment delivers refined products to locations in upstate New York, while another segment delivers products to central Pennsylvania. Two shorter pipeline segments connect Valero's refinery to the Colonial pipeline system and the Philadelphia International Airport, respectively.

The Laurel pipeline system transports refined petroleum products through a 345-mile pipeline extending westward from five refineries and a connection to the Colonial pipeline system in the Philadelphia area to Reading, Harrisburg, Altoona/Johnstown and Pittsburgh, Pennsylvania.

*Illinois Indiana Michigan Missouri Ohio*

Buckeye Pipe Line and NORCO Pipe Line Company, LLC (NORCO), a subsidiary of BPH, transport refined petroleum products through 2,025 miles of pipeline in northern Illinois, central Indiana, eastern Michigan, western and northern Ohio, and western Pennsylvania. A number of receiving lines and delivery lines connect to a central corridor which runs from Lima, Ohio through Toledo, Ohio to Detroit, Michigan. Refined petroleum products are received at a refinery and other pipeline connection points near Toledo, Lima, Detroit, and East Chicago, Indiana. Major market areas served include Peoria, Illinois; Huntington/Fort Wayne, Indianapolis, and South Bend, Indiana; Bay City, Detroit, and Flint, Michigan; Cleveland, Columbus, Lima, and Toledo, Ohio; and Pittsburgh, Pennsylvania.

Wood River owns six refined petroleum products pipelines with aggregate mileage of approximately 925 miles located in the midwestern United States. Refined petroleum products are received at ConocoPhillips Company's Wood River refinery in Illinois and transported to the Chicago area, to a terminal in the St. Louis, Missouri area, to the Lambert-St. Louis Airport, to receiving points across Illinois and Indiana and to Buckeye Pipe Line's pipeline in Lima, Ohio. At Buckeye's tank farm located in Hartford, Illinois, one of Wood River's pipelines also receives refined petroleum products from the Explorer pipeline, which are transported to Buckeye's 1.3 million barrel terminal located on the Ohio River in Mt. Vernon, Indiana. Wood River also owns an approximately 26-mile pipeline that extends from Marathon Pipe Line LLC's (Marathon) Wood River Station in southern Illinois to a third party terminal in the East St. Louis, Missouri area.

*Colorado Kansas*

Buckeye NGL transports natural gas liquids via an approximately 350-mile pipeline that extends generally from the Wattenberg, Colorado area to Bushton, Kansas.

Table of Contents

*Other Refined Products Pipelines*

Buckeye Pipe Line serves Connecticut and Massachusetts through an approximately 112-mile pipeline that carries refined petroleum products from New Haven, Connecticut to Hartford, Connecticut and Springfield, Massachusetts. This pipeline also serves Bradley International Airport in Windsor Locks, Connecticut.

Everglades transports primarily jet fuel through an approximately 37-mile pipeline from Port Everglades, Florida to Ft. Lauderdale-Hollywood International Airport and Miami International Airport. Everglades supplies Miami International Airport with substantially all of its jet fuel requirements.

WesPac Pipelines Reno LLC ( WesPac Reno ) owns an approximately 3.0-mile pipeline serving the Reno/Tahoe International Airport. WesPac San Diego owns an approximately 4.3-mile pipeline serving the San Diego International Airport. WesPac Pipelines Memphis LLC ( WesPac Memphis ) owns an approximately 11-mile pipeline and a related terminal facility that primarily serves Federal Express Corporation at the Memphis International Airport. WesPac Reno, WesPac San Diego and WesPac Memphis have terminal facilities with aggregate storage capacity of 0.5 million barrels. Each of WesPac Reno, WesPac San Diego and WesPac Memphis was originally created as a joint venture between BPH and Kealine. BPH currently owns 100% of WesPac Reno and WesPac San Diego. BPH has a 75% ownership interest in WesPac Memphis and Kealine owns the remaining portion of WesPac Memphis. As of December 31, 2008, Buckeye had provided \$46.7 million in intercompany financing to WesPac Memphis.

*Equity Investments*

BPH owns a 25% equity interest in West Shore Pipe Line Company ( West Shore ). West Shore owns an approximately 652-mile pipeline system that originates in the Chicago, Illinois area and extends north to Green Bay, Wisconsin and west and then north to Madison, Wisconsin. The pipeline system transports refined petroleum products to markets in northern Illinois and Wisconsin. The other equity holders of West Shore are major oil companies. The pipeline had been operated under contract by Citgo Pipeline Company, but since January 1, 2009 the pipeline is operated under contract by Buckeye.

BPH also owns a 20% equity interest in WT LPG. WT LPG owns an approximately 2,295-mile pipeline system that delivers raw mix natural gas liquids to Mont Belvieu, Texas for fractionation. The natural gas liquids are delivered to the WT LPG pipeline system from the Rocky Mountain region via connecting pipelines and from gathering fields and plants located in west, central and east Texas. The majority owner and the operator of WT LPG are affiliates of Chevron Corporation.

BPH also owns a 40% equity interest in Muskegon Pipeline LLC ( Muskegon ). The majority owner and operator of Muskegon is Marathon. Muskegon owns an approximately 170-mile pipeline that delivers petroleum products from Griffith, Indiana to Muskegon, Michigan.

Buckeye Pipe Line owns a 25% equity interest in Transport4, LLC ( Transport4 ). Transport4 provides an internet-based shipper information system that allows its customers, including shippers, suppliers, and tankage partners to access nominations, schedules, tickets, inventories,

invoices, and bulletins over a secure internet connection.

*Terminalling and Storage Segment*

The Terminalling and Storage segment owns 56 terminals that provided bulk storage and throughput services with respect to refined petroleum products and other renewable fuels and has an aggregate storage capacity of approximately 23.3 million barrels of products. Of Buckeye's 56 terminals in the Terminalling and Storage segment, 42 are connected to Buckeye's pipelines and 14 are not. The property on which the terminals are located is owned by one of the Operating Subsidiaries with the exception of Albany Terminal, which is located on leased property.

The Terminalling and Storage segment's terminals receive products from pipelines and, in certain cases, barges and railroads, and distribute them to third parties, who in turn deliver them to end-users and retail outlets. This segment's terminals play a key role in moving products to the end-user market by providing efficient product receipt, storage and distribution capabilities, inventory management, ethanol and biodiesel blending, and other ancillary services that include the injection of various additives. Typically, the Terminalling and Storage segment's terminal facilities consist of multiple storage tanks and are equipped with automated truck loading equipment that is available 24 hours a day.

The segment's terminals derive most of their revenues from various fees paid by customers. A throughput fee is charged for receiving products into the terminal and delivering them to trucks, barges, or pipelines. In addition to these throughput fees, revenues are generated by charging customers fees for blending with renewable fuels, injecting additives, and leasing terminal capacity to customers on either a short-term or long-term basis. The terminals also derive revenue from recovering and selling vapors emitted during truck loading.

Table of Contents

The table below sets forth the total average daily throughput for the Terminalling and Storage segment's products terminals in each of the years presented:

	Average Barrels Per Day Year Ended December 31,		
	2008	2007	2006
Products throughput	537,700	568,600	494,300

The following table sets forth the number of terminals and storage capacity in barrels by state for terminals reported in the Terminalling and Storage segment as of December 31, 2008:

State	Number of Terminals*	Storage Capacity
		(In thousands of barrels)
Connecticut	1	345
Illinois	7	2,779
Indiana	9	6,850
Massachusetts	1	106
Michigan	11	3,992
Missouri	2	345
New York	10	4,111
Ohio	8	2,871
Pennsylvania	4	1,131
Wisconsin	3	734
Total	56	23,264

\* Additionally, Buckeye has three terminals which are included in the Pipelines Operations segment for reporting purposes. There is a terminal in each of California (with storage capacity of 0.1 million barrels), Nevada (with storage capacity of 0.1 million barrels), and Tennessee (with storage capacity of 0.3 million barrels). Buckeye also has five terminals in Pennsylvania with an aggregate storage capacity of approximately 1.0 million barrels. These terminals are included in the Energy Services segment for reporting purposes (as discussed below).

***Natural Gas Storage Segment***

The acquisition of Lodi Gas provided Buckeye with an opportunity to enter into the natural gas storage industry in northern California. The operations of Lodi Gas are reported in a new operating segment referred to as Natural Gas Storage. The segment provides natural gas storage services through a facility located in northern California. Currently, the facility provides approximately 33 Bcf of natural gas storage capacity (including capacity provided pursuant to a nearly completed expansion project) and is connected to Pacific Gas and Electric's intrastate gas pipeline system that services natural gas demand in the San Francisco and Sacramento, California areas.

The original Lodi Gas facility is located approximately 20 miles south of Sacramento, California. Its two storage reservoirs have a working gas capacity of 17 Bcf and daily maximum injection and withdrawal capability of 400 million cubic feet per day ( MMcf/day ) and 500 MMcf/day, respectively, utilizing 15 wells and approximately 31 miles of pipeline. Thirty-one miles of pipeline links the facility to an interconnect with



## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Pacific Gas and Electric just north of Antioch, California. The original Lodi Gas facility has been in operation since January 2002.

In January 2007, Lodi Gas completed the Kirby Hills Phase I expansion. Kirby Hills is located approximately 30 miles west of Lodi in the Montezuma Hills, 9 miles southeast of Fairfield, California. The Kirby Hills Phase I expansion added an additional working gas capacity of 5 Bcf and maximum injection and withdrawal capability of 50 MMcf/day utilizing 6 wells and approximately 6 miles of pipeline. Six miles of pipeline links the facility to an interconnect with Pacific Gas and Electric approximately 6 miles west of Rio Vista, California.

Buckeye is near-completion of an expansion of Kirby Hills Phase I called Kirby Hills Phase II. Kirby Hills Phase II will add an additional 11 Bcf of working gas storage capacity and provide an additional 100,000 MMcf/day of firm injection and 200,000 MMcf/day of firm withdraw. Lodi Gas is projecting an in-service date for Kirby Hills Phase II of April 2009.

Table of Contents

Lodi Gas's operations are designed for an overall high deliverability natural gas storage service and have a proven track record of safe and reliable operations. Lodi Gas is regulated by the California Public Utility Commission. All services have been, and will continue to be, contracted under Lodi Gas's current California Public Utility Commission Tariff.

The Natural Gas Storage segment's revenues consist of lease revenues and hub services revenues. Lease revenues are charges for the reservation of storage space for natural gas. Generally customers inject natural gas in the fall and spring and withdraw it for winter and summer use. Title to the stored gas remains with the customer. Hub services revenues consist of a variety of other storage services under interruptible storage agreements. The Natural Gas Storage segment does not trade or market natural gas.

*Energy Services Segment*

The acquisition of Farm & Home's wholesale operations provided an opportunity for Buckeye to increase the utilization of Buckeye's existing pipeline and terminal system infrastructure by marketing refined petroleum products in areas served by that infrastructure. The wholesale operations of Farm & Home are reported in a new operating segment called Energy Services.

The Energy Services segment is a leading wholesale distributor of refined petroleum products in the northeastern United States. The segment's products include gasoline, propane, and petroleum distillates such as heating oil, diesel fuel, and kerosene. The segment has five terminals with aggregate storage capacity of approximately 1.0 million barrels. Each terminal is equipped with multiple storage tanks and automated truck loading equipment that is available 24 hours a day. The pipeline connections of these terminals allow the Energy Services segment to have direct access to the Philadelphia, New York, and Gulf Coast area supply points. The property on which the terminals are located is owned by an Operating Subsidiary.

The Energy Services segment's operations are segregated into three separate categories based on the type of fuel delivered and the delivery method:

- Wholesale Rack: liquid fuels and propane gas are delivered to distributors and large commercial customers. These customers take delivery of the products using the Energy Services segment's automated truck loading equipment to fill their own trucks.
- Wholesale Delivered: liquid fuels are delivered to commercial customers, construction companies, school districts, and trucking companies using the Energy Services segment's tractor trailers and third-party carriers.
- Branded Gasoline: the Energy Services segment delivers gasoline and on-highway diesel fuel to independently owned retail gas stations under many leading gasoline brands.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Since the operations of the Energy Services segment expose Buckeye to commodity price risk, the Energy Services segment enters into derivative instruments to mitigate the effect of commodity price fluctuations on the segment's inventory and fixed-priced sales contracts. The fair value of Buckeye's derivative instruments is recorded in Buckeye's consolidated balance sheet, with the change in fair value recorded in earnings. The derivative instruments the Energy Services segment uses consist primarily of futures contracts traded on the New York Mercantile Exchange for the purposes of hedging the outright price risk of its physical inventory and fixed-priced sales contracts. However, hedge accounting has not been elected for all of the Energy Services segment's derivative instruments. In the cases in which hedge accounting has not been elected, changes in the fair values of the derivative instrument, which are included in cost of product sales, generally are offset by changes in the values of the fixed-priced sales contracts which are also derivative instruments whose changes in value are recognized in earnings. The Energy Services segment records revenues when products are delivered.

### *Other Operations Segment*

The Other Operations segment consists primarily of performing pipeline operation and maintenance services and pipeline construction services for third parties. The Other Operations segment is a contract operator of pipelines owned in Louisiana, Ohio, and Texas by major chemical companies. At December 31, 2008, the Other Operations segment had performance obligations under 15 operations and maintenance contracts to operate and maintain approximately 2,400 miles of pipeline. Further, this segment owns an approximate 23-mile pipeline located in Texas and leases a portion of the pipeline to a third-party chemical company. The Other Operations segment also owns an approximate 63% interest in a crude butadiene pipeline between Deer Park and Port Arthur, Texas and owns and operates an ammonia pipeline located in Texas. In addition, the Other Operations segment provides engineering and construction management services to major chemical companies in the Gulf Coast area.

Table of Contents

**Competition and Customers**

*Competitive Strengths*

Buckeye believes that it has the following competitive strengths:

- It owns and operates high quality assets that are strategically located;
- It has stable, long-term relationships with its customers;
- It owns relatively predictable and stable fee-based businesses with opportunistic revenue generating capabilities;
- It maintains a conservative financial position with an investment-grade rating; and
- It has an experienced management team whose interests are aligned with those of Buckeye's unitholders.

*Pipeline Operations and Terminalling and Storage Segments*

Generally, pipelines are the lowest cost method for long-haul overland movement of refined petroleum products. Therefore, the Pipeline Operations segment's most significant competitors for large volume shipments are other pipelines, some of which are owned or controlled by major integrated oil companies. Although it is unlikely that a pipeline system comparable in size and scope to the Pipeline Operations segment's pipeline systems will be built in the foreseeable future, new pipelines (including pipeline segments that connect with existing pipeline systems) could be built to effectively compete with the Pipeline Operations segment in particular locations.

The Pipeline Operations segment competes with marine transportation in some areas. Tankers and barges on the Great Lakes account for some of the volume to certain Michigan, Ohio, and upstate New York locations during the approximately eight non-winter months of the year. Barges are presently a competitive factor for deliveries to the New York City area, the Pittsburgh area, Connecticut, locations on the Ohio River such as Mt. Vernon, Indiana and Cincinnati, Ohio, and locations on the Mississippi River such as St. Louis, Missouri.

Trucks competitively deliver refined products in a number of areas served by the Pipeline Operations segment. While their costs may not be competitive for longer hauls or large volume shipments, trucks compete effectively for smaller volumes in many local areas served by the Pipeline Operations segment. The availability of truck transportation places a significant competitive constraint on the ability of the Pipeline Operations segment to increase their tariff rates.

Privately arranged exchanges of refined petroleum products between marketers in different locations are another form of competition. Generally, such exchanges reduce both parties' costs by eliminating or reducing transportation charges. In addition, consolidation among refiners and marketers that has accelerated in recent years has altered distribution patterns, reducing demand for transportation services in some markets and increasing them in other markets.

Distribution of refined petroleum products depends to a large extent upon the location and capacity of refineries. However, because the Pipeline Operations segment's business is largely driven by the consumption of fuel in its delivery areas and the Pipeline Operations' pipelines have numerous source points, MainLine Management does not believe that the expansion or shutdown of any particular refinery is likely, in most instances, to have a material effect on the business of the Pipeline Operations segment. Certain of Wood River's pipelines emanate from a refinery owned by ConocoPhillips and located in the vicinity of Wood River, Illinois. While these pipelines are, in part, supplied by connecting pipelines, a temporary or permanent closure of the ConocoPhillips Wood River refinery would have a negative impact on volumes delivered through these pipelines and the effects of a decline in volumes could have a material adverse effect on the business of the Pipeline Operations segment.

Many of the general competitive factors discussed above, such as demand for refined petroleum products and competitive threats from methods of transportation other than pipelines, also impact Buckeye's Terminalling and Storage segment. In addition, the Terminalling and Storage segment generally competes with other terminals in the same geographic market. Many competitive terminals are owned by major integrated oil companies. These major oil companies may have the opportunity for product exchanges that are not available to the Terminalling and Storage segment's terminals. While the Terminalling and Storage segment's terminal throughput fees are not regulated, they are subject to price competition from competitive terminals and alternate modes of transporting refined petroleum products to end users such as retail gas stations.

Table of Contents

***Natural Gas Storage Segment***

The Natural Gas Storage segment competes with other storage providers, including local distribution companies ( LDCs ), utilities and affiliates of LDCs and other independent utilities in the northern California natural gas storage market. Certain major pipeline companies have existing storage facilities connected to their systems that compete with certain of the segment's facilities. Third-party construction of new capacity, which has been proposed in northern California, could have an adverse impact on the segment's competitive position.

***Energy Services Segment***

The Energy Services segment competes with pipeline companies, the major integrated oil companies, their marketing affiliates and independent gatherers, investment banks that have established a trading platform, and brokers and marketers of widely varying sizes, financial resources and experience. Some of these competitors have capital resources greater than the Energy Services segment, and control greater supplies of refined petroleum products.

***Other Operations***

The Other Operations segment competes with independent pipeline companies, engineering firms, major integrated oil companies and chemical companies to operate and maintain pipelines for third-party owners. In addition, in many instances it is more cost-effective for chemical companies to operate and maintain their own pipelines as opposed to contracting with the Other Operations segment to complete these tasks. Numerous engineering and construction firms compete with the Other Operations segment for pipeline construction business.

***Customers***

For the year ended December 31, 2008, no customer contributed more than 10% of consolidated revenue to Buckeye and, therefore, to BGH. However, in 2008 affiliates of Shell Oil Products U.S. ( Shell ) contributed 12% of the Pipeline Operations and Terminalling and Storage segments' combined revenue. Approximately 6% of this revenue was generated by Shell in each of the Pipeline Operations segment and in the Terminalling and Storage segment. In 2007 and 2006, Shell contributed 10% and 11% of consolidated revenue, respectively. Approximately 3% of 2007 consolidated revenue was generated by Shell in the Pipeline Operations segment and the remaining 7% of consolidated revenue was in the Terminalling and Storage segment. Approximately 5% of the 2006 consolidated revenue was generated by Shell in the Pipeline Operations segment and the remaining 6% of consolidated revenue was in the Terminalling and Storage segment.

***Seasonality***

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

The Pipeline Operations and Terminalling and Storage segments' mix and volume of products transported and stored tends to vary seasonally. Declines in demand for heating oil during the summer months are, to a certain extent, offset by increased demand for gasoline and jet fuel. Overall, these segments have been only moderately seasonal, with somewhat lower than average volumes being transported and stored during March, April and May and somewhat higher than average volumes being transported and stored in November, December and January.

The Energy Services segment's mix and volume of product sales tends to vary seasonally, with the fourth and first quarter volumes generally being higher than the second and third quarters, primarily due to the increased demand for home heating oil in the winter months.

### **Employees**

At December 31, 2008, BGH did not have any employees. Except as noted below, Buckeye's Operating Subsidiaries are managed and operated by employees of Buckeye Pipe Line Services Company, a Pennsylvania corporation (Services Company). At December 31, 2008, Services Company had approximately 1,000 full-time employees, 188 of whom were represented by two labor unions. Approximately 20 people are employed directly by Lodi Gas and 20 people are employed directly by a subsidiary of BPH. Services Company is reimbursed by the Operating Subsidiaries for the cost of providing those employee services pursuant to a services agreement. Services Company is reimbursed by the Operating Subsidiaries, pursuant to a services agreement, for the cost of providing employee services, provided, however, BGH reimburses Services Company for the compensation and benefit costs for the four highest salaried officers of Buckeye GP. The Operating Subsidiaries have never experienced any work stoppages or other significant labor problems.

### **Capital Expenditures**

Buckeye makes capital expenditures in order to maintain and enhance the safety and integrity of its pipelines, terminals, storage facilities and related assets, to expand the reach or capacity of its pipelines and terminals, to improve the efficiency of its operations

Table of Contents

and to pursue new business opportunities. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

During 2008, Buckeye made approximately \$122.4 million of capital expenditures, of which \$28.9 million related to sustaining capital projects and \$93.5 million related to expansion and cost reduction projects.

Buckeye expects to spend approximately \$75.0 million to \$100.0 million in capital expenditures in 2009, of which approximately \$20.0 million to \$30.0 million is expected to relate to sustaining capital expenditures and \$55.0 million to \$70.0 million is expected to relate to expansion and cost reduction projects. Sustaining capital expenditures include renewals and replacement of pipeline sections, tank floors and tank roofs and upgrades to station and terminalling equipment, field instrumentation and cathodic protection systems. Major expansion and cost reduction expenditures in 2009 will include the completion of the Kirby Hills Phase II expansion, the completion of the additional product storage tanks at Linden, New Jersey and the construction of a 4.7 mile pipeline in central Connecticut to connect Buckeye's pipeline in Connecticut to a third party's electric generation plant currently under construction.

BGH does not make significant capital expenditures.

**Regulation**

*General*

The Operating Subsidiaries are subject to extensive laws and regulations as well as regulatory oversight by numerous federal, state, and local departments and agencies, many of which are authorized by statute to issue rules and regulations binding on the pipeline industry, related businesses and individual participants. In some states, certain of the Operating Subsidiaries are subject to the jurisdiction of public utility commissions, which have authority over, among other things, intrastate tariffs, the issuance of debt and equity securities, transfers of assets, and pipeline safety. The failure to comply with such laws and regulations can result in substantial penalties. The regulatory burden on Buckeye's operations increases the Operating Subsidiaries' cost of doing business and, consequently, affects Buckeye's profitability. However, except for certain exemptions that apply to smaller companies, neither MainLine Management nor Buckeye GP believes that the Operating Subsidiaries are affected in a significantly different manner by these laws and regulations than are Buckeye's competitors.

Following is a discussion of certain laws and regulations affecting the Operating Subsidiaries. However, you should not rely on such discussion as an exhaustive review of all regulatory considerations affecting the Operating Subsidiaries operations.

*Rate Regulation*



## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Buckeye Pipe Line, Wood River, BPL Transportation, Buckeye NGL and NORCO operate pipelines subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission ( FERC ) under the Interstate Commerce Act and the Department of Energy Organization Act. FERC regulations require that interstate oil pipeline rates be posted publicly and that these rates be just and reasonable and not unduly discriminatory. FERC regulations also enforce common carrier obligations and specify a uniform system of accounts, among certain other obligations.

The generic oil pipeline regulations issued under the Energy Policy Act of 1992 rely primarily on an index methodology that allows a pipeline to change its rates in accordance with an index (currently the change in the Producer Price Index ( PPI ) plus 1.3%) that FERC believes reflects cost changes appropriate for application to pipeline rates. Under FERC's rules, as one alternative to indexed rates, a pipeline is also allowed to charge market-based rates if the pipeline establishes that it does not possess significant market power in a particular market. The final rules became effective on January 1, 1995.

The tariff rates of Wood River, BPL Transportation, Buckeye NGL and NORCO are governed by the generic FERC index methodology, and therefore are subject to change annually according to the index. If  $PPI + 1.3\%$  were to be negative, then Wood River, BPL Transportation, Buckeye NGL and NORCO could be required to reduce their rates if they exceed the new maximum allowable rate. For example, at December 31, 2008,  $PPI + 1.3\%$  was calculated to be 7.6%. Shippers may also file complaints against indexed rates as being unjust and unreasonable, subject to the FERC's standards.

Buckeye Pipe Line's rates are governed by an exception to the rules discussed above, pursuant to specific FERC authorization. Buckeye Pipe Line's market-based rate regulation program was initially approved by FERC in March 1991 and was subsequently extended in 1994. Under this program, in markets where Buckeye Pipe Line does not have significant market power, individual rate increases: (a) will not exceed a real (i.e., exclusive of inflation) increase of 15% over any two-year period, and (b) will be allowed to become effective without suspension or investigation if they do not exceed a trigger equal to the change in the Gross Domestic Product implicit price deflator since the date on which the individual rate was last increased, plus 2%. Individual rate decreases will

Table of Contents

be presumptively valid upon a showing that the proposed rate exceeds marginal costs. In markets where Buckeye Pipe Line was found to have significant market power and in certain markets where no market power finding was made: (i) individual rate increases cannot exceed the volume-weighted average rate increase in markets where Buckeye Pipe Line does not have significant market power since the date on which the individual rate was last increased, and (ii) any volume-weighted average rate decrease in markets where Buckeye Pipe Line does not have significant market power must be accompanied by a corresponding decrease in all of Buckeye Pipe Line's rates in markets where it does have significant market power. Shippers retain the right to file complaints or protests following notice of a rate increase, but are required to show that the proposed rates violate or have not been adequately justified under the market-based rate regulation program, that the proposed rates are unduly discriminatory, or that Buckeye Pipe Line has acquired significant market power in markets previously found to be competitive.

The Buckeye Pipe Line program was subject to review by FERC in 2000 when FERC reviewed the index selected in the generic oil pipeline regulations. FERC decided to continue the generic oil pipeline regulations with no material changes and did not modify or discontinue Buckeye Pipe Line's program. MainLine Management cannot predict the impact that any change to Buckeye Pipe Line's rate program would have on Buckeye Pipe Line's operations. Independent of regulatory considerations, it is expected that tariff rates will continue to be constrained by competition and other market factors.

**Laurel operates a pipeline in intrastate service across Pennsylvania, and its tariff rates are regulated by the Pennsylvania Public Utility Commission. Wood River operates a pipeline in intrastate service in Illinois, and tariff rates related to this pipeline are regulated by the Illinois Commerce Commission.**

Lodi Gas owns and operates a natural gas storage facility in northern California under a Certificate of Public Convenience and Necessity originally granted by the California Public Utilities Commission ( CPUC ) in 2000 and expanded in 2006 and 2008. Under the Hinshaw exemption to the Natural Gas Act, Lodi Gas is not subject to FERC rate regulation, but is regulated by the CPUC and other state and local agencies in California. Consistent with California regulatory policy, however, Lodi Gas is authorized to charge market-based rates and is not otherwise subject to rate regulation.

*Environmental Regulation*

The Operating Subsidiaries are subject to federal, state and local laws and regulations relating to the protection of the environment. Although MainLine Management believes that the operations of the Operating Subsidiaries comply in all material respects with applicable environmental laws and regulations, risks of substantial liabilities are inherent in pipeline operations, and there can be no assurance that material environmental liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly rigorous environmental laws, regulations and enforcement policies, and claims for damages to property or injuries to persons resulting from the operations of the Operating Subsidiaries, could result in substantial costs and liabilities to Buckeye. See Legal Proceedings and Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Environmental Matters.

The Oil Pollution Act of 1990 ( OPA ) amended certain provisions of the federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act ( CWA ), and other statutes, as they pertain to the prevention of and response to petroleum product spills into navigable waters. The OPA subjects owners of facilities to strict joint and several liability for all containment and clean-up costs and certain other damages arising from a spill. The CWA provides penalties for the discharge of petroleum products in reportable quantities and imposes substantial liability for the costs of removing a spill. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of releases of petroleum or its derivatives into surface waters or into the ground.

Contamination resulting from spills or releases of refined petroleum products sometimes occurs in the petroleum pipeline industry. The Operating Subsidiaries' pipelines cross numerous navigable rivers and streams. Although MainLine Management believes that the Operating Subsidiaries comply in all material respects with the spill prevention, control and countermeasure requirements of federal laws, any spill or other release of petroleum products into navigable waters may result in material costs and liabilities to Buckeye.

The Resource Conservation and Recovery Act ( RCRA ), as amended, establishes a comprehensive program of regulation of hazardous wastes. Hazardous waste generators, transporters, and owners or operators of treatment, storage and disposal facilities must comply with regulations designed to ensure detailed tracking, handling and monitoring of these wastes. RCRA also regulates the disposal of certain non-hazardous wastes. As a result of these regulations, certain wastes typically generated by pipeline operations are considered hazardous wastes. Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Any changes in the regulations could have a material adverse effect on Buckeye's maintenance capital expenditures and operating expenses.

Table of Contents

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ( CERCLA ), also known as Superfund, governs the release or threat of release of a hazardous substance. Releases of a hazardous substance, whether on or off-site, may subject the generator of that substance to joint and several liability under CERCLA for the costs of clean-up and other remedial action. Pipeline maintenance and other activities in the ordinary course of business generate hazardous substances. As a result, to the extent a hazardous substance generated by the Operating Subsidiaries or their predecessors may have been released or disposed of in the past, the Operating Subsidiaries may in the future be required to remediate contaminated property. Governmental authorities such as the Environmental Protection Agency ( EPA ), and in some instances third parties, are authorized under CERCLA to seek to recover remediation and other costs from responsible persons, without regard to fault or the legality of the original disposal. In addition to its potential liability as a generator of a hazardous substance, the property or right-of-way of the Operating Subsidiaries may be adjacent to or in the immediate vicinity of Superfund and other hazardous waste sites. Accordingly, the Operating Subsidiaries may be responsible under CERCLA for all or part of the costs required to cleanup such sites, which costs could be material.

The Clean Air Act, amended by the Clean Air Act Amendments of 1990 (the Amendments ), imposes controls on the emission of pollutants into the air. The Amendments required states to develop facility-wide permitting programs to comply with new federal programs. Existing operating and air-emission requirements like those currently imposed on the Operating Subsidiaries are being reviewed by appropriate state agencies in connection with the new facility-wide permitting program. It is possible that new or more stringent controls will be imposed on the Operating Subsidiaries through this program.

The Operating Subsidiaries are also subject to environmental laws and regulations adopted by the various states in which they operate. In certain instances, the regulatory standards adopted by the states are more stringent than applicable federal laws.

*Pipeline and Terminal Maintenance and Safety Regulation*

The pipelines operated by the Operating Subsidiaries are subject to regulation by the United States Department of Transportation ( DOT ) under the Hazardous Liquid Pipeline Safety Act of 1979 ( HLPSA ), which governs the design, installation, testing, construction, operation, replacement and management of pipeline facilities. HLPSA covers petroleum and petroleum products pipelines and requires any entity that owns or operates pipeline facilities to comply with applicable safety standards, to establish and maintain a plan of inspection and maintenance and to comply with such plans.

The Pipeline Safety Reauthorization Act of 1988 requires coordination of safety regulation between federal and state agencies, testing and certification of pipeline personnel, and authorization of safety-related feasibility studies. Buckeye has a drug and alcohol testing program that complies in all material respects with the regulations promulgated by the Office of Pipeline Safety and DOT.

HLPSA also requires, among other things, that the Secretary of Transportation consider the need for the protection of the environment in issuing federal safety standards for the transportation of hazardous liquids by pipeline. The legislation also requires the Secretary of Transportation to issue regulations concerning, among other things, the identification by pipeline operators of environmentally sensitive areas; the circumstances under which emergency flow restricting devices should be required on pipelines; training and qualification standards for personnel involved in maintenance and operation of pipelines; and the periodic integrity testing of pipelines in unusually sensitive and high-density population areas by internal inspection devices or by hydrostatic testing. Effective in August 1999, the DOT issued its Operator Qualification Rule, which required a written program by April 27, 2001, for ensuring operators are qualified to perform tasks covered by the pipeline safety rules. All persons performing covered tasks were required to be qualified under the program by October 28, 2002. Buckeye filed its written plan and has qualified its employees and contractors as required and requalified the employees under its plan in 2005. On March 31, 2001, DOT's rule for Pipeline Integrity Management in High Consequence Areas (Hazardous Liquid Operators with 500 or more Miles of Pipeline) became effective. This rule sets forth regulations that require pipeline operators to assess, evaluate, repair and validate the integrity of hazardous liquid pipeline segments that, in the event of a leak or failure, could affect populated areas, areas unusually sensitive to environmental damage or commercially navigable waterways. Under the rule, pipeline operators were required to identify line segments which could impact high consequence areas by December 31, 2001. Pipeline operators were required to develop Baseline Assessment Plans for evaluating the integrity of each pipeline segment by March 31, 2002 and to complete an assessment of the highest risk 50% of line segments by September 30, 2004, with full assessment of the remaining 50% by March 31, 2008. Pipeline operators are now required to re-assess each affected segment in intervals not to exceed five years. Buckeye has implemented an Integrity Management Program in compliance with the requirements of this rule.

In December 2002, the Pipeline Safety Improvement Act of 2002 ( PSIA ) became effective. The PSIA imposes additional obligations on pipeline operators, increases penalties for statutory and regulatory violations, and includes provisions prohibiting employers from taking adverse employment action against pipeline employees and contractors who raise concerns about pipeline safety within the company or with government agencies or the press. Many of the provisions of the PSIA are subject to regulations to be issued by the Department of Transportation. The PSIA also requires public education programs for residents, public officials and emergency responders and a measurement system to ensure the effectiveness of the public education program. Buckeye

Table of Contents

implemented a public education program that complies with these requirements and the requirements of the American Petroleum Institute Recommended Practice 1162.

The Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006 ( PIPES Act ), which became effective on December 24, 2006, among other things, reauthorized HLPESA, strengthened damage prevention measures designed to protect pipelines from excavation damage, removed the exemption from regulation of pipelines operating at less than 20 percent of maximum yield strength in rural areas, and required pipeline operators to manage human factors in pipeline control centers, including controller fatigue. While the PIPES Act imposed additional operating requirements on pipeline operators, MainLine Management does not believe that the costs of compliance with the PIPES Act are material, because many of the new requirements are already met in Buckeye s existing programs.

MainLine Management believes that the Operating Subsidiaries currently comply in all material respects with HLPESA, the PSIA, the PIPES Act and other pipeline safety laws and regulations. However, the industry, including Buckeye, will incur additional pipeline and tank integrity expenditures in the future, and Buckeye is likely to incur increased operating costs based on these and other government regulations. During 2008, Buckeye s integrity expenditures for these programs were approximately \$17.7 million, of which \$8.8 million was capitalized and \$8.9 million was expensed. Buckeye expects 2009 integrity expenditures for these programs to be approximately \$28.5 million, of which approximately \$10.8 million will be capitalized and \$17.7 million will be expense.

The Operating Subsidiaries are also subject to the requirements of the Occupational Safety and Health Act ( OSHA ) and comparable state statutes. MainLine Management believes that the Operating Subsidiaries operations comply in all material respects with OSHA requirements, including general industry standards, record-keeping, hazard communication requirements, training and monitoring of occupational exposure to benzene, asbestos and other regulated substances.

MainLine Management cannot predict whether or in what form any new legislation or regulatory requirements might be enacted or adopted or the costs of compliance. In general, any such new regulations could increase operating costs and impose additional capital expenditure requirements, but MainLine Management does not presently expect that such costs or capital expenditure requirements would have a material adverse effect on its results of operations or financial condition.

Buckeye Energy Services operates a fleet of trucks to transport refined petroleum products in connection with the Energy Services segment s refined petroleum product marketing activities. Buckeye Energy Services is licensed to perform both intrastate and interstate motor carrier services. As a motor carrier, Buckeye Energy Services is subject to certain safety regulations issued by the DOT. The trucking regulations cover, among other things, driver operations, maintaining log books, truck manifest preparations, the placement of safety placards on the trucks and trailer vehicles, drug and alcohol testing, safety of operation and equipment, and many other aspects of truck operations.

**Tax Considerations for Unitholders**

This section is a summary of material tax considerations that may be relevant to holders ( Unitholders ) of BGH s Common Units. It is based upon the Internal Revenue Code of 1986, as amended (the Internal Revenue Code ), regulations promulgated thereunder and current administrative rulings and court decisions, all of which are subject to change. Subsequent changes in such authorities may cause the tax consequences to vary substantially from the consequences described below.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting BGH or the Unitholders. Moreover, the discussion focuses on Unitholders who are individuals and who are citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other Unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts, REITs or mutual funds. **UNITHOLDERS ARE URGED TO CONSULT, AND SHOULD DEPEND ON, THEIR OWN TAX ADVISORS IN ANALYZING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE OWNERSHIP OR DISPOSITION OF COMMON UNITS.**

*Characterization of BGH for Tax Purposes*

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, partners are required to take into account their respective allocable share of items of income, gain, loss and deduction of the partnership in computing their federal income tax liability, regardless of whether distributions are made. Distributions of cash by a partnership to a partner are generally not taxable unless the amount of cash distributed to a partner is in excess of the partner's tax basis in his partnership interest. Allocable shares of partnership tax items are generally determined by a partnership agreement. However, the IRS may disregard such an agreement in certain instances and re-determine the tax consequences of partnership operations to the partners.



Table of Contents

Section 7704 of the Internal Revenue Code provides that publicly traded partnerships (such as BGH) will, as a general rule, be taxed as corporations. However, an exception, referred to as the Qualifying Income Exception, exists with respect to publicly traded partnerships of which 90% or more of its gross income for each taxable year consists of qualifying income. Qualifying income includes interest (other than interest generated by a financial or insurance business), dividends, real property rents, gains from the sale or disposition of real property, and most importantly for Unitholders income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy and timber), and gain from the sale or disposition of capital assets that produce such income. BGH's share of any such income from Buckeye also would constitute qualifying income to BGH.

Buckeye is engaged primarily in the refined petroleum products transportation business. BGH believes that at least 90% or more of Buckeye's current gross income constitutes, and has constituted, qualifying income and, accordingly, that Buckeye will continue to be classified as a partnership and not as a corporation for federal income tax purposes. BGH's only cash generating asset is its ownership interest in Buckeye GP, which owns general partner interests and incentive distributions rights in Buckeye and general partner interests in certain of Buckeye's operating subsidiaries. BGH believes that at least 90% or more of its current gross income constitutes, and has constituted, qualifying income and, accordingly, that BGH will continue to be classified as a partnership and not as a corporation for federal income tax purposes.

If BGH fails to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery, BGH will be treated as if it had transferred all of its assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which it fails to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to its Unitholders in liquidation of their interests in BGH. This contribution and liquidation should be tax-free to Unitholders and BGH so long as BGH, at that time, does not have liabilities in excess of the tax basis of its assets. Thereafter, BGH would be treated as a corporation for federal income tax purposes.

If BGH were taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, BGH's items of income, gain, loss and deduction would be reflected only on BGH's tax return rather than being passed through to the Unitholders, and BGH's net income would be taxed to it at corporate rates. Moreover, if Buckeye were taxable as a corporation in any taxable year, BGH's share of Buckeye's items of income, gain, loss and deduction would not be passed through to BGH, and Buckeye would pay tax on its income at corporate rates. If BGH or Buckeye were taxable as corporations, losses recognized by Buckeye would not flow through to BGH and losses recognized by BGH would not flow through to BGH's Unitholders, as the case may be. In addition, any distribution made by BGH to a Unitholder (or by Buckeye to BGH) would be treated as either taxable dividend income, to the extent of current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the Unitholder's tax basis in his Common Units (or BGH's tax basis in BGH's aggregate interest in Buckeye), or taxable capital gain, after the Unitholder's tax basis in his Common Units (or BGH's tax basis in BGH's aggregate interest in Buckeye) is reduced to zero. Accordingly, taxation of either BGH or Buckeye as a corporation would result in a material reduction in a Unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the Common Units.

***Flow-Through of Taxable Income***

BGH will not pay any federal income tax. Instead, each Unitholder will be required to report on his income tax return his share of BGH's income, gains, losses and deductions without regard to whether corresponding cash distributions are received by him. Consequently, BGH may allocate income to a Unitholder even if he has not received a cash distribution. Each Unitholder will be required to include in income his allocable share of BGH's income, gains, losses and deductions for BGH's taxable year ending with or within his taxable year. BGH's taxable year ends on December 31.

*Potential U.S. Tax Legislation Change*

In response to recent public offerings of interests in the management operations of private equity funds and hedge funds, members of Congress have considered substantive changes to the definition of qualifying income under Section 7704(d) of the Internal Revenue Code and changing the characterization of certain types of income received from partnerships. In particular, one proposal would have recharacterized certain income and gain received with respect to investment services partnership interests as ordinary income for the performance of services, which may not be treated as qualifying income for publicly traded partnerships. As such proposal is currently interpreted, a significant portion of BGH's interests in Buckeye may be viewed as an investment services partnership interest. Although MainLine Management is unable to predict whether the recently considered legislation, or any other proposals, will ultimately be enacted, the enactment of any such legislation could negatively impact the value of BGH's Common Units.

Table of Contents

***Treatment of BGH's Distributions***

BGH's distributions generally will not be taxable to a Unitholder for federal income tax purposes to the extent that the distributions do not exceed the tax basis of a Unitholder's Common Units immediately before the distribution. BGH's cash distributions in excess of a Unitholder's tax basis generally will be considered to be a gain from the sale or exchange of the Common Units. Any reduction in a Unitholder's share of BGH's liabilities for which no partner, including MainLine Management, bears the economic risk of loss, known as nonrecourse liabilities, will be treated as a distribution of cash to that Unitholder. To the extent BGH's distributions cause a Unitholder's at risk amount to be less than zero at the end of any taxable year, the Unitholder must recapture any losses deducted in previous years.

A decrease in a Unitholder's percentage interest in BGH because of BGH's issuance of additional Common Units will decrease such Unitholder's share of BGH's nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. This deemed distribution may constitute a non-pro rata distribution. A non-pro rata distribution of money or property may result in ordinary income to a Unitholder, regardless of his tax basis in his Common Units, if the distribution reduces the Unitholder's share of BGH's unrealized receivables, including depreciation recapture, and/or substantially appreciated inventory items, both as defined in the Internal Revenue Code, and collectively, Section 751 Assets. To that extent, the Unitholder will be treated as having been distributed his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the Unitholder's realization of ordinary income, which will equal the excess of (1) the non-pro rata portion of that distribution over (2) the Unitholder's tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

***Basis of Common Units***

A Unitholder will have an initial tax basis for its Common Units equal to the amount paid for the Common Units plus its share of BGH's liabilities. A Unitholder's tax basis will be increased by his share of BGH's income and by any increase in his share of BGH's liabilities. A Unitholder's basis will be decreased, but not below zero, by its share of BGH's distributions, by its share of BGH's losses, by any decrease in its share of BGH's liabilities and by its share of BGH's expenditures that are not deductible in computing BGH's taxable income and are not required to be capitalized.

***Loss Limitations***

The deduction by a Unitholder of his share of BGH's losses will be limited to the tax basis in his Common Units and, in the case of an individual Unitholder or a corporate Unitholder, if more than 50% of the value of the corporate Unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the Unitholder is considered to be at risk with respect to BGH's activities, if that is less than his tax basis. A Unitholder must recapture losses deducted in previous years to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a Unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction to the extent that his at-risk amount is subsequently increased, provided such losses do not exceed such Unitholder's tax basis in his Common Units. Upon the taxable disposition of a Common Unit, any gain recognized by a Unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

In general, a Unitholder will be at risk to the extent of the tax basis of his Common Units, excluding any portion of that basis attributable to his share of BGH's nonrecourse liabilities, reduced by (i) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or other similar arrangement and (ii) any amount of money he borrows to acquire or hold his Common Units, if the lender of those borrowed funds owns an interest in BGH, is related to the Unitholder or can look only to the Common Units for repayment. A Unitholder's at risk amount will increase or decrease as the tax basis of the Unitholder's Common Units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of BGH's nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally corporate or partnership activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those activities. The passive loss limitations are applied separately with respect to each publicly traded partnership. However, the application of the passive loss limitations to tiered publicly traded partnerships is uncertain. BGH will take the position that any passive losses BGH generates that are reasonably allocable to BGH's investment in Buckeye will only be available to offset BGH's passive income generated in the future that is reasonably allocable to BGH's investment in Buckeye and will not be available to offset income from other passive activities or investments, including other investments in private businesses or investments BGH may make in other publicly traded partnerships, such as Buckeye, or salary or active business income. Further, a Unitholder's share of BGH's net income may be offset by any suspended passive losses from the Unitholder's investment in BGH, but may not be offset by the Unitholder's current

Table of Contents

or carryover losses from other passive activities, including those attributable to other publicly traded partnerships. Passive losses that are not deductible because they exceed a Unitholder's share of income BGH generates may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party.

The IRS could take the position that for purposes of applying the passive loss limitation rules to tiered publicly traded partnerships, such as Buckeye and BGH, the related entities are treated as one publicly traded partnership. In that case, any passive losses generated by BGH would be available to offset income from a Unitholder's investment in Buckeye. However, passive losses that are not deductible because they exceed a Unitholder's share of income generate by BGH would not be deductible in full until a Unitholder disposes of his entire investment in both BGH and Buckeye in a fully taxable transaction with an unrelated party.

The passive loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

*Deductibility of Interest Expense*

The Internal Revenue Code generally provides that investment interest expense is deductible only to the extent of a non-corporate taxpayer's net investment income. Investment interest expense includes:

- interest on indebtedness properly allocable to property held for investment;
- BGH's interest expense attributed to portfolio income; and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a Unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment. The IRS has indicated that net passive income earned by a publicly traded partnership will be treated as investment income to its Unitholders. In addition, the Unitholder's share of BGH's portfolio income will be treated as investment income.

*Entity Level Collections*

If BGH is required or elects under applicable law to pay any federal, state, local or foreign income tax on behalf of any Unitholder or its general partner or any former Unitholder, BGH is authorized to pay those taxes from BGH's funds. That payment, if made, will be treated as a distribution of cash to the Unitholder on whose behalf the payment was made. If the payment is made on behalf of a person whose identity

cannot be determined, BGH is authorized to treat the payment as a distribution to all current Unitholders. BGH is authorized to amend its partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of the Common Units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under its partnership agreement is maintained as nearly as is practicable. Payments by BGH as described above could give rise to an overpayment of tax on behalf of an individual Unitholder in which event the Unitholder would be required to file a claim in order to obtain a credit or refund.

***Allocation of Income, Gain, Loss and Deduction***

In general, if BGH has a net profit, its items of income, gain, loss and deduction will be allocated among BGH's Unitholders in accordance with their percentage interests in BGH. If BGH has a net loss for the entire year, that loss will be allocated first to the Unitholders in accordance with their percentage interests in BGH to the extent of their positive capital accounts and, second, to BGH's general partner, MainLine Management.

Specified items of BGH's income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of BGH's assets at the time of the initial offering of its Common Units, referred to in this discussion as Contributed Property. The effect of these allocations to a Unitholder purchasing Common Units will be essentially the same as if the tax basis of BGH's assets were equal to their fair market value at the time of the initial offering of the Common Units. In addition, items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some Unitholders. Finally, although BGH does not expect that its operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of its income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

Table of Contents

An allocation of items of BGH's income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's book capital account, credited with the fair market value of Contributed Property, and tax capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the Book-Tax Disparity, will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a Unitholder's share of an item will be determined on the basis of his interest in BGH, which will be determined by taking into account all the facts and circumstances, including:

- his relative contributions to BGH;
- the interests of all the Unitholders in profits and losses;
- the interest of all the Unitholders in cash flow; and
- the rights of all the Unitholders to distributions of capital upon liquidation.

*Treatment of Short Sales*

A Unitholder whose Common Units are loaned to a short seller to cover a short sale of Common Units may be considered as having disposed of those Common Units. If so, the Unitholder would no longer be treated for tax purposes as a partner for those Common Units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- any of BGH's income, gain, loss or deduction with respect to those units would not be reportable by the Unitholder;
- any cash distributions received by the Unitholder as to those Common Units would be fully taxable; and
- all of these distributions would appear to be ordinary income.

Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their Common Units. The IRS has announced that it is studying issues relating to the tax treatment of short sales of partnership interests.

*Alternative Minimum Tax*

Each Unitholder will be required to take into account his distributive share of any items of BGH's income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Unitholders are urged to consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

***Tax Rates***

In general, the highest effective United States federal income tax rate for an individual is currently 35% and the maximum United States federal income tax rate for net capital gains of an individual is currently 15% (such rate to be increased to 20% for taxable years beginning after December 31, 2010) if the asset disposed of was held for more than 12 months at the time of disposition.

***Section 754 Election***

BGH has made the election permitted by Section 754 of the Internal Revenue Code. This election is irrevocable without the consent of the IRS. The election will generally permit BGH to adjust a Common Unit purchaser's tax basis in BGH's assets (inside basis) under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply to a person who purchases Common Units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other Unitholders. For purposes of this discussion, a Unitholder's inside basis in BGH's assets will be considered to have two components: (1) his share of BGH's tax basis in BGH's assets (common basis) and (2) his Section 743(b) adjustment to that basis.

A Section 754 election is advantageous if the transferee's tax basis in his Common Units is higher than the Common Units' share of the aggregate tax basis of BGH's assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation and depletion deductions and his share of any gain or loss on a sale of BGH's assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his Common Units is lower than those Common Units' share of the aggregate tax basis of BGH's assets immediately prior to the transfer. A basis adjustment is required regardless of whether a Section 754 election is made in the case of a transfer of an interest in BGH if BGH has a substantial built-in loss immediately after the transfer, or if BGH distributes property and has a substantial basis reduction. Generally a built-in loss or a basis reduction is substantial if it exceeds \$250,000.



Table of Contents

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of BGH's assets and other matters. There is no assurance that the determinations made by BGH will prevail if challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether.

***Accounting Method and Taxable Year***

BGH uses the year ending December 31 as its taxable year and the accrual method of accounting for federal income tax purposes. Each Unitholder will be required to include in income his share of BGH's income, gain, loss and deduction for its taxable year ending within or with the Unitholder's taxable year. In addition, a Unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his Common Units following the close of BGH's taxable year but before the close of the Unitholder's taxable year must include his share of BGH's income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of BGH's income, gain, loss and deduction.

***Tax Treatment of Operations***

BGH uses the adjusted tax basis of its various assets for purposes of computing depreciation and cost recovery deductions and gain or loss on any disposition of such assets. If BGH or Buckeye disposes of depreciable property, all or a portion of any gain may be subject to the recapture rules and taxed as ordinary income rather than capital gain.

The costs incurred in selling BGH's units (i.e., syndication expenses) must be capitalized and cannot be deducted by BGH currently, ratably or upon BGH's termination. Uncertainties exist regarding the classification of costs as organization expenses, which may be amortized, and as syndication expenses, which may not be amortized, but underwriters' discounts and commissions are treated as syndication costs.

***Valuation of Properties***

The federal income tax consequences of the ownership and disposition of Common Units will depend in part on BGH's estimates of the relative fair market values, and the initial tax bases, of BGH's assets and Buckeye's assets. Although BGH may from time to time consult with professional appraisers regarding valuation matters, BGH will make many of the relative fair market value estimates itself. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by Unitholders might change, and Unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

***Disposition of Common Units***

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

A Unitholder will recognize gain or loss on a sale of Common Units equal to the difference between the amount realized and the Unitholder's tax basis in the Common Units sold. A Unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his share of BGH's nonrecourse liabilities. Because the amount realized includes a Unitholder's share of BGH's nonrecourse liabilities, the gain recognized on the sale of Common Units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from BGH in excess of cumulative net taxable income for a Common Unit that decreased a Unitholder's tax basis in that Common Unit will, in effect, become taxable income if the Common Unit is sold at a price greater than the Unitholder's tax basis in that Common Unit, even if the price received is less than the Unitholder's original cost.

Except as noted below, gain or loss recognized by a Unitholder, other than a dealer in Common Units, on the sale or exchange of a Common Unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual Unitholder on the sale of Common Units held for more than 12 months will generally be taxed at a maximum rate of 15% (such rate to be increased to 20% for taxable years beginning after December 31, 2010). However, a portion of this gain or loss will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture or other unrealized receivables or to inventory items of BGH or Buckeye. The term unrealized receivables includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a Common Unit and may be recognized even if there is a net taxable loss realized on the sale of a Common Unit. Thus, a Unitholder may recognize both ordinary income and a capital loss upon a sale of Common Units. Net capital losses may offset

Table of Contents

capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an equitable apportionment method. Treasury Regulations under Section 1223 of the Internal Revenue Code allow a selling Unitholder who can identify Common Units transferred with an ascertainable holding period to elect to use the actual holding period of the Common Units transferred. Thus, according to the ruling, a Unitholder will be unable to select high or low basis Common Units to sell as would be the case with corporate stock, but, according to the Treasury Regulations, may designate specific Common Units sold for purposes of determining the holding period of units transferred. A Unitholder electing to use the actual holding period of Common Units transferred must consistently use that identification method for all subsequent sales or exchanges of Common Units. A Unitholder considering the purchase of additional Common Units or a sale of Common Units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and application of the Treasury Regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an appreciated partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

- a short sale;
- an offsetting notional principal contract; or
- a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

*Allocations Between Transferors and Transferee*

In general, BGH's taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the Unitholders in proportion to the number of Common Units owned by each of them as of the opening of the applicable exchange on the first business day of the month (the Allocation Date). However, gain or loss realized on a sale or other disposition of BGH's assets other than in the ordinary course of business will be allocated among the Unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a Unitholder transferring Common Units may be allocated income, gain, loss and deduction realized after the date of transfer.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Although simplifying conventions are contemplated by the Internal Revenue Code and most publicly traded partnerships use similar simplifying conventions, the use of this method may not be permitted under existing Treasury Regulations. If this method is not allowed under the Treasury Regulations, or only applies to transfers of less than all of the Unitholder's interest, BGH's taxable income or losses might be reallocated among the Unitholders. BGH is authorized to revise its method of allocation between Unitholders, as well as Unitholders whose interests vary during a taxable year, to conform to a method permitted under future Treasury Regulations.

A Unitholder who owns Common Units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of BGH's income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

### *Notification Requirements*

A Unitholder who sells any of its Common Units is generally required to notify BGH in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A purchaser of such Common Units who purchases the Common Units from another Unitholder is also generally required to notify BGH in writing of that purchase within 30 days after the purchase. Upon receiving such notifications, BGH is required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Failure to notify BGH of a purchase may, in some cases, lead to the imposition of penalties. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker who will satisfy such requirements.

Table of Contents

*Constructive Termination*

BGH will be considered to have been terminated for federal tax purposes if there is a sale or exchange of 50% or more of the total interests in BGH's capital and profits within a twelve-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same unit will be counted only once. A constructive termination results in the closing of BGH's taxable year for all Unitholders. In the case of a Unitholder reporting on a taxable year other than BGH's taxable year, the closing of BGH's taxable year may result in more than twelve months of BGH's taxable income or loss being includable in his taxable income for the year of termination. A constructive termination could result in an increase in the amount of taxable income to be allocated to BGH's Unitholders if the termination results in a termination of Buckeye. BGH would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code, and a termination could result in a deferral of BGH's deductions for depreciation. A termination could also result in penalties if BGH were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject BGH to, any tax legislation enacted before the termination.

*Withholding*

If BGH was required or elected under applicable law to pay any federal, state or local income tax on behalf of any Unitholder, BGH is authorized to pay those taxes from its funds. Such payment, if made, will be treated as a distribution of cash to the Unitholder on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, BGH is authorized to treat the payment as a distribution to a current Unitholder.

*Unrelated Business Taxable Income*

Certain entities otherwise exempt from federal income taxes (such as individual retirement accounts, pension plans and charitable organizations) are nevertheless subject to federal income tax on net unrelated business taxable income and each such entity must file a tax return for each year in which it has more than \$1,000 of gross income from unrelated business activities. MainLine Management believes that substantially all of BGH's gross income will be treated as derived from an unrelated trade or business and taxable to such entities. The tax-exempt entity's share of BGH's deductions directly connected with carrying on such unrelated trade or business are allowed in computing the entity's taxable unrelated business income. **ACCORDINGLY, TAX-EXEMPT ENTITIES SUCH AS INDIVIDUAL RETIREMENT ACCOUNTS, PENSION PLANS AND CHARITABLE TRUSTS ARE ENCOURAGED TO CONSULT THEIR PROFESSIONAL TAX ADVISORS REGARDING THE TAX IMPLICATIONS OF THEIR OWNERSHIP OF COMMON UNITS.**

*Foreign Unitholders*

Non-resident aliens and foreign corporations, trusts or estates that own Common Units will be considered to be engaged in business in the United States on account of the ownership of Common Units. As a consequence, they will be required to file U.S. federal tax returns to report

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

their share of BGH's income, gain, loss or deduction and pay U.S. federal income tax at regular rates on their share of BGH's net income or gain. Moreover, under rules applicable to publicly traded partnerships, BGH withholds at the highest applicable effective tax rate from cash distributions made quarterly to foreign Unitholders. Each foreign Unitholder must obtain a taxpayer identification number from the IRS and submit that number to BGH's transfer agent on a Form W-8BEN or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require BGH to change these procedures.

In addition, because a foreign corporation that owns Common Units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of BGH's income and gain, as adjusted for changes in the foreign corporation's U.S. net equity, which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate Unitholder is a qualified resident. In addition, this type of Unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

In a published ruling, the IRS has taken the position that gain realized by a foreign partner who sells or otherwise disposes of a limited partner unit will be treated as effectively connected with a United States trade or business of the foreign partner, and thus subject to federal income tax, to the extent that such gain is attributable to appreciated personal property used by the limited partnership in a United States trade or business. Moreover, a foreign partner is subject to federal income tax on gain realized on the sale or disposition of a Common Unit to the extent that such gain is attributable to appreciated United States real property interests; however, a foreign Unitholder will not be subject to federal income tax under this rule unless such foreign Unitholder has owned more than 5% in value of BGH's Common Units during the five-year period ending on the date of the sale or disposition, provided the Common Units are regularly traded on an established securities market at the time of the sale or disposition.

Table of Contents

***Regulated Investment Companies***

A regulated investment company, or mutual fund, is required to derive 90% or more of its gross income from specific sources including interest, dividends and gains from the sale of stocks or securities, foreign currency or specified related sources, and net income derived from the ownership of an interest in a qualified publicly traded partnership. MainLine Management expects that BGH will meet the definition of a qualified publicly traded partnership.

**Available Information**

BGH files annual, quarterly, and current reports and other documents with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934. The public can obtain any documents that BGH files with the SEC at <http://www.sec.gov>. BGH also makes available free of charge its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such materials with, or furnishing such materials to, the SEC, on or through BGH's Internet website, [www.buckeyegp.com](http://www.buckeyegp.com). BGH is not including the information contained on its website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

You can also find information about BGH at the offices of the New York Stock Exchange (NYSE), 20 Broad Street, New York, New York 10005 or at the NYSE's Internet site at [www.nyse.com](http://www.nyse.com). The NYSE requires the chief executive officer of each listed company to certify annually that he is not aware of any violation by the company of the NYSE corporate governance listing standards as of the date of the certification, qualifying the certification to the extent necessary. The Chief Executive Officer of MainLine Management provided such certification to the NYSE in 2008 without qualification. In addition, the certifications of MainLine Management's Chief Executive Officer and Chief Financial Officer required by Sections 302 and 906 of the Sarbanes-Oxley Act have been included as exhibits to BGH's Annual Report on Form 10-K.

***Item 1A. Risk Factors***

In this Item 1A, references to *we*, *us* and *our* mean Buckeye GP Holdings L.P., and its consolidated subsidiaries. References to *Buckeye* mean Buckeye Partners, L.P. and its consolidated subsidiaries.

**Risks Inherent in our Dependence on Distributions from Buckeye**

**Our primary cash-generating assets are our general partner interests in Buckeye, which consist primarily of general partner units and the incentive distribution rights in Buckeye. Our cash flow is, therefore, directly dependent upon the ability of Buckeye to make cash distributions to its partners.**

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

The amount of cash that Buckeye can distribute to its partners each quarter, including the amount of incentive distributions, principally depends upon the amount of cash Buckeye generates from its operations, which will fluctuate from quarter to quarter based on, among other things:

- fluctuations in prices for refined petroleum and natural gas products and overall demand for such products in the United States in general, and in Buckeye's service areas in particular (economic activity, weather, alternative energy sources, conservation and technological advances may affect petroleum product prices and demand);
- changes in laws and regulations, including environmental, safety and tax laws and regulations and the regulation of Buckeye's tariff rates;
- liability for environmental claims;
- availability and cost of insurance on Buckeye's assets and operations;
- shut-downs or cutbacks at major refineries that supply petroleum products transported on Buckeye's pipelines or stored in Buckeye's terminals;
- deterioration in Buckeye's labor relations;
- prevailing economic conditions; and



Table of Contents

- disruptions to the air travel system.

In addition, the actual amount of cash Buckeye will have available for distribution will depend on other factors, some of which are beyond its control, including:

- the level of capital expenditures it makes;
- the availability, if any, and cost of acquisitions;
- debt service requirements;
- fluctuations in working capital needs;
- restrictions on distributions contained in Buckeye's credit facility and senior notes;
- Buckeye's ability to borrow under its revolving credit facility; and
- the amount, if any, of cash reserves established by Buckeye's general partner, Buckeye GP, in its discretion for the proper conduct of Buckeye's business.

Because of these factors, Buckeye may not have sufficient available cash each quarter to continue to pay distributions at the level of its most recent quarterly distribution of \$0.8875 per limited partner unit ( LP Units ), or any other amount. You should also be aware that the amount of cash that Buckeye has available for distribution depends primarily upon its cash flow, including cash flow from financial reserves and working capital borrowings, and is not solely a function of profitability, which will be affected by non-cash items. As a result, Buckeye may be able to make cash distributions during periods when Buckeye records losses and may not be able to make cash distributions during periods when Buckeye records net income. Please read Risk Factors Risks Inherent in Buckeye's Business for a discussion of risks affecting Buckeye's ability to generate cash flow.

**A reduction in Buckeye's distributions will disproportionately affect the amount of cash distributions to which we are currently entitled.**

Our ownership of the incentive distribution rights in Buckeye entitles us to receive specified percentages of the amount of cash distributions made by Buckeye to its limited partners. Most of the cash we receive from Buckeye is attributable to our ownership of the incentive distribution rights. Accordingly, any reduction in quarterly cash distributions from Buckeye would have the effect of disproportionately reducing the amount of the distributions that we receive from Buckeye.

**Our right to receive incentive distributions will terminate if Buckeye's general partner is removed.**

Our right to receive incentive distributions will terminate if Buckeye GP is removed as general partner of Buckeye, effective upon the date of such removal.

**Buckeye may issue additional LP Units or other equity securities, which may increase the risk that Buckeye will not have sufficient available cash to maintain or increase its cash distribution level per LP Unit.**

Because Buckeye distributes to its partners most of the cash generated by its operations, it relies primarily upon external financing sources, including debt and equity issuances, to fund its acquisitions and expansion capital expenditures. Accordingly, Buckeye has wide latitude to issue additional LP Units on terms and conditions established by Buckeye GP. We receive cash distributions from Buckeye and its subsidiary operating partnerships on the general partner interests and incentive distribution rights that we own. Because most of the cash we receive from Buckeye is attributable to our ownership of the incentive distribution rights, payment of distributions on additional LP Units may increase the risk that Buckeye will be unable to maintain or increase its quarterly cash distribution per LP Unit, which in turn may reduce the amount of incentive distributions we receive and the available cash that we have to distribute to our Unitholders.

**In the future, we may not have sufficient cash to maintain the level of our quarterly distributions.**

Because our primary source of operating cash flow consists of cash distributions from Buckeye, the amount of distributions we are able to make to our Unitholders may fluctuate based on the level of distributions Buckeye makes to its partners, including us.

Table of Contents

Buckeye may not continue to make quarterly distributions at its current level of \$0.8875 per LP Unit, or may not distribute any other amount, or increase its quarterly distributions in the future. In addition, while we would expect to increase or decrease distributions to our Unitholders if Buckeye increases or decreases distributions to us, the timing and amount of such changes in our distributions, if any, will not necessarily be comparable to the timing and amount of any changes in distributions made by Buckeye. Factors such as reserves established by the board of directors of our general partner for our estimated general and administrative expenses of being a public company as well as other operating expenses, reserves to satisfy our debt service requirements, if any, and reserves for future distributions by us may affect the distributions we make to our Unitholders. Prior to making any distributions to our Unitholders, we will reimburse our general partner and its affiliates for all direct and indirect expenses incurred by them on our behalf. Our general partner will determine the amount of these reimbursed expenses. The reimbursement of these expenses, in addition to the other factors listed above, could reduce the amount of available cash that we have to make distributions to our Unitholders.

**Buckeye's practice of distributing all of its available cash may limit its ability to grow, which could impact distributions to us and the available cash that we have to distribute to our Unitholders.**

Because our primary cash-generating assets are general partner interests in Buckeye, including the incentive distribution rights, our growth will be dependent upon Buckeye's ability to increase its quarterly cash distributions. Buckeye has historically distributed to its partners most of the cash generated by its operations. As a result, it relies primarily upon external financing sources, including debt and equity issuances, to fund its acquisitions and expansion capital expenditures. Accordingly, to the extent Buckeye is unable to finance growth externally, its ability to grow will be impaired because it distributes substantially all of its available cash. Also, if Buckeye incurs additional indebtedness to finance its growth, the increased interest expense associated with such indebtedness may reduce the amount of available cash that we can distribute to you.

**Restrictions in Buckeye's credit facility could limit its ability to make distributions to us.**

Buckeye's credit facility contains covenants limiting its ability to incur indebtedness, grant liens, engage in transactions with affiliates and make distributions to us. The facility also contains covenants requiring Buckeye to maintain certain financial ratios. Buckeye is prohibited from making any distribution to Unitholders if such distribution would cause an event of default or otherwise violate a covenant under this facility. Please read Management's Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources for more information about Buckeye's credit facility.

**Risks Inherent in Buckeye's Business**

Because we are directly dependent on the distributions we receive from Buckeye, risks to Buckeye's operations are also risks to us. We have set forth below risks to Buckeye's business and operations, the occurrence of which could negatively impact Buckeye's financial performance and decrease the amount of cash it is able to distribute to us.

**Changes in refined petroleum products demand and distribution may adversely affect Buckeye's business.**

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Demand for the services provided by Buckeye's Operating Subsidiaries depends upon the demand for refined petroleum products in the regions served. Prevailing economic conditions, price and weather affect the demand for refined petroleum products. Changes in transportation and travel patterns in the areas served by Buckeye's pipelines also affect the demand for refined petroleum products because a substantial portion of the refined petroleum products transported by Buckeye's pipelines and throughput at its terminals is ultimately used as fuel for motor vehicles and aircraft. If these factors result in a decline in demand for refined petroleum products, the business of Buckeye's Operating Subsidiaries would be particularly susceptible to adverse effects because they operate without the benefit of either exclusive franchises from government entities or long-term contracts.

In addition, in December 2007, Congress enacted the Energy Independence and Security Act of 2007, which, among other provisions, mandated annually increasing levels for the use of renewable fuels such as ethanol, commencing in 2008 and escalating for 15 years, as well as increasing energy efficiency goals, including higher fuel economy standards for motor vehicles, among other steps. These statutory mandates may have the impact over time of offsetting projected increases or reducing the demand for refined petroleum products in certain markets, particularly gasoline. The increased production and use of biofuels may also create opportunities for additional pipeline transportation and additional blending opportunities within the terminals division, although that potential cannot be quantified at present. Other legislative changes may similarly alter the expected demand and supply projections for refined petroleum products in ways that cannot be predicted.

Energy conservation, changing sources of supply, structural changes in the oil industry and new energy technologies also could adversely affect Buckeye's business. We cannot predict or control the effect of these factors on Buckeye or us.

Table of Contents

Economic conditions worldwide have from time to time contributed to slowdowns in the oil and gas industry, as well as in the specific segments and markets in which Buckeye operates, resulting in reduced demand and increased price competition for Buckeye's products and services. Buckeye's operating results may also be affected by uncertain or changing economic conditions with certain regions, including the challenges that are currently affecting economic conditions in the entire United States. If global economic and market conditions (including volatility in commodity markets), or economic conditions in the United States, remain uncertain or persist, spread or deteriorate further, Buckeye may experience material impacts on its business, financial condition and results of operations.

**Competition could adversely affect Buckeye's operating results.**

Generally, pipelines are the lowest cost method for long-haul overland movement of refined petroleum products. Therefore, Buckeye's most significant competitors for large volume shipments are other existing pipelines, some of which are owned or controlled by major integrated oil companies. In addition, new pipelines (including pipeline segments that connect with existing pipeline systems) could be built to effectively compete with Buckeye in particular locations. For example, Buckeye is aware of a proposed pipeline system in the Rocky Mountain region that would compete directly with Buckeye NGL's pipeline transportation services. This competition could ultimately reduce the volumes of natural gas liquids that are transported by Buckeye NGL if the proposed pipeline system becomes operational.

Buckeye competes with marine transportation in some areas. Tankers and barges on the Great Lakes account for some of the volume to certain Michigan, Ohio and upstate New York locations during the approximately eight non-winter months of the year. Barges are presently a competitive factor for deliveries to the New York City area, the Pittsburgh area, Connecticut and locations on the Ohio River such as Mt. Vernon, Indiana and Cincinnati, Ohio, and locations on the Mississippi River such as St. Louis, Missouri.

Trucks competitively deliver refined petroleum products in a number of areas that Buckeye serves. While their costs may not be competitive for longer hauls or large-volume shipments, trucks compete effectively for incremental and marginal volumes in many areas that Buckeye serves. The availability of truck transportation places a significant competitive constraint on Buckeye's ability to increase its Operating Subsidiaries tariff rates.

Privately arranged exchanges of refined petroleum products between marketers in different locations are another form of competition. Generally, these exchanges reduce both parties' costs by eliminating or reducing transportation charges. In addition, consolidation among refiners and marketers that has accelerated in recent years has altered distribution patterns, reducing demand for transportation services in some markets and increasing them in other markets.

Additionally, Buckeye's Lodi natural gas storage facility competes primarily with other storage facilities in the storage of natural gas. Some of Buckeye's competitors may have greater financial resources and access to greater supplies of natural gas than Buckeye's Lodi facility does. Some of these competitors may expand or construct transportation and storage systems that would create additional competition for the services Buckeye provides to its customers. Increased competition could reduce the volumes of natural gas stored by Buckeye and could adversely affect Buckeye's ability to renew or replace existing contracts at rates sufficient to maintain current revenues and cash flows.

Finally, Buckeye's Energy Services segment buys and sells refined petroleum products in connection with its marketing activities, and must compete with the major integrated oil companies, their marketing affiliates, and independent brokers and marketers of widely varying sizes,

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

financial resources and experience. Some of these companies have superior access to capital resources, which could affect Buckeye's ability to effectively compete with them.

All of these competitive pressures could have a material adverse effect on Buckeye's business, financial condition, results of operations, and cash flows, thereby reducing Buckeye's ability to make distributions to its Unitholders, including us.

**Mergers among Buckeye's customers and competitors could result in lower volumes being shipped on Buckeye's pipelines and stored in Buckeye's terminals, thereby reducing the amount of cash Buckeye generates.**

Mergers between existing Buckeye customers could provide strong economic incentives for the combined entities to utilize their existing pipeline and terminal systems instead of Buckeye's. As a result, Buckeye could lose some or all of the volumes and associated revenues from these customers and Buckeye could experience difficulty in replacing those lost volumes and revenues. Because most of Buckeye's operating costs are fixed, a reduction in volumes would result in not only a reduction of revenues, but also a decline in net income and cash flow of a similar magnitude, which would reduce Buckeye's ability to meet its financial obligations and pay cash distributions to us.

Table of Contents

**Buckeye may incur liabilities related to assets Buckeye has acquired. These costs and liabilities may not be covered by indemnification rights that Buckeye may have against the sellers of the assets.**

Some of the assets Buckeye has acquired have been used for many years to distribute, store or transport petroleum products. Releases of petroleum products into the environment that require remediation may have occurred prior to Buckeye's acquisition from terminals or along pipeline rights-of-way. In addition, releases may have occurred in the past that have not yet been discovered, which could require costly future remediation. If a significant release or event occurred in the past, the liability for which was not retained by the seller or for which indemnification from the seller is not available, it could adversely affect Buckeye's financial position, results of operations, and cash flows.

**A decline in production at the ConocoPhillips Wood River refinery could materially reduce the volume of refined petroleum products Buckeye transports.**

A majority of the refined petroleum products transported on Wood River's pipeline system is produced at ConocoPhillips's Wood River refinery. A decline in production at the ConocoPhillips Wood River refinery could materially reduce the volume of refined petroleum products Buckeye transports on certain of the pipelines owned by Wood River. As a result, Buckeye's revenues and, therefore, Buckeye's ability to pay cash distributions to us could be adversely affected. The ConocoPhillips Wood River refinery could partially or completely shut down its operations, temporarily or permanently, due to factors affecting its ability to produce refined petroleum products such as unscheduled maintenance or catastrophes, labor difficulties, environmental proceedings or other litigation, loss of significant downstream customers, or legislation or regulation that adversely impacts the economics of refinery operations.

**Potential future acquisitions and expansions, if any, may affect Buckeye's business by substantially increasing the level of Buckeye's indebtedness and contingent liabilities and may increase Buckeye's risks of being unable to effectively integrate these new operations.**

From time to time, Buckeye evaluates and acquires assets and businesses that Buckeye believes complement its existing assets and businesses. Acquisitions may require substantial capital or the incurrence of substantial indebtedness. If Buckeye consummates any future acquisitions, Buckeye's capitalization and results of operations may change significantly.

Acquisitions and business expansions involve numerous risks, including difficulties in the assimilation of the assets and operations of the acquired businesses, inefficiencies and difficulties that arise because of unfamiliarity with new assets and the businesses associated with them and new geographic areas and the diversion of management's attention from other business concerns. Further, unexpected costs and challenges may arise whenever businesses with different operations or management are combined, and Buckeye may experience unanticipated delays in realizing the benefits of an acquisition. Following an acquisition, Buckeye may discover previously unknown liabilities associated with the acquired business for which Buckeye has no recourse under applicable indemnification provisions.

**Certain of Buckeye's pipeline operations charge tariff rates which are subject to regulation and change by FERC.**

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Buckeye Pipe Line, Wood River, BPL Transportation, Buckeye NGL and NORCO are interstate common carriers regulated by the FERC under the Interstate Commerce Act and the Department of Energy Organization Act. The FERC's primary ratemaking methodology is price indexing. In the alternative, a pipeline is allowed to charge market-based rates if the pipeline establishes that it does not possess significant market power in a particular market.

The indexing methodology is used to establish rates on the pipelines owned by Wood River, BPL Transportation, Buckeye NGL and NORCO. The indexing method presently allows a pipeline to increase its rates by a percentage equal to the change in the annual producer price index for finished goods (PPI) plus 1.3%. If the change in PPI +1.3% were to be negative, Buckeye could be required to reduce the rates charged by Wood River, BPL Transportation, Buckeye NGL and NORCO if they exceed the new maximum allowable rate. In addition, changes in the PPI might not fully reflect actual increases in the costs associated with these pipelines, thus hampering Buckeye's ability to recover its costs. Shippers may also file complaints against indexed rates as being unjust and unreasonable, subject to the FERC's standards.

Buckeye Pipe Line presently is authorized to charge rates set by market forces, subject to limitations, rather than by reference to costs historically incurred by the pipeline, in 15 regions and metropolitan areas. The Buckeye Pipe Line program is an exception to the generic oil pipeline regulations the FERC issued under the Energy Policy Act of 1992. The generic rules rely primarily on the index methodology described above.



Table of Contents

The Buckeye Pipe Line rate program was reevaluated by the FERC in July 2000, and was allowed to continue with no material changes. We cannot predict the impact, if any, that a change in the FERC's method of regulating Buckeye Pipe Line would have on Buckeye's operations, financial condition, results of operations, or cash flows.

**Buckeye's partnership status may be a disadvantage to it in calculating cost of service for rate-making purposes.**

In the past, the FERC ruled that pass-through entities, like Buckeye, may not claim an income tax allowance for income attributable to non-corporate limited partners in justifying the reasonableness of their rates that are based on their cost of service. Further, in a July 2004 decision involving an unrelated pipeline limited partnership, the United States Court of Appeals for the District of Columbia Circuit overruled a prior FERC decision allowing a limited partnership to claim a partial income tax allowance. On May 4, 2005, the FERC adopted a new policy providing that all entities owning public utility assets—oil and gas pipelines and electric utilities—would be permitted to include an income tax allowance in their cost-of-service rates to reflect the actual or potential income tax liability attributable to their public utility income, regardless of the form of ownership. The FERC determined that any pass-through entity seeking an income tax allowance in a rate proceeding must establish that its partners have an actual or potential income tax obligation on the entity's public utility income. The amount of any income tax allowance will be reduced accordingly to the extent that any of the partners do not have an actual or potential income tax obligation. This reduction will be reflected in the weighted income tax liability of the entity's partners. Whether a pipeline's ultimate owners have actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although this new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails risk due to the case-by-case review requirement. This policy was applied by the FERC in June 2005 with an order involving an unrelated pipeline limited partnership (2005 Policy Statement). The FERC concluded that the pipeline should be afforded an income tax allowance on all of its partnership interests to the extent that the owners of those interests had an actual or potential income tax obligation during the periods at issue. In December 2005, the FERC reaffirmed its new income tax allowance policy as it applied to that pipeline. On May 29, 2007, the United States Court of Appeals for the District of Columbia Circuit issued a decision affirming the FERC's 2005 Policy Statement, and on August 20, 2007, denied requests for rehearing. On December 26, 2007, the FERC issued an order on remand reaffirming and clarifying its 2005 Policy Statement. In orders concurrently issued, the FERC further found that complaints against oil pipeline rates challenging its income tax policy, as clarified, would not be considered.

A shipper or FERC could cite these decisions in a protest or complaint challenging indexed rates maintained by certain of Buckeye's Operating Subsidiaries. Whether a pipeline's ultimate owners have actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails risk due to the case-by-case review requirement. If a challenge were brought and the FERC were to find that some of the indexed rates exceed levels justified by the cost of service, the FERC could order a reduction in the indexed rates and could require reparations. As a result, Buckeye's results of operations could be adversely affected.

**Environmental regulation may impose significant costs and liabilities on Buckeye.**

Buckeye's Operating Subsidiaries are subject to federal, state and local laws and regulations relating to the protection of the environment. Risks of substantial environmental liabilities are inherent in Buckeye's operations, and Buckeye cannot make any assurances that Buckeye's Operating Subsidiaries will not incur material environmental liabilities. Additionally, Buckeye's costs could increase significantly and Buckeye could face substantial liabilities, if, among other developments:

- environmental laws, regulations and enforcement policies become more rigorous; or

- claims for property damage or personal injury resulting from the operations of the Operating Subsidiaries are filed.

**Existing or future state or federal government regulations relating to certain chemicals or additives in gasoline or diesel fuel could require capital expenditures or result in lower pipeline volumes and thereby adversely affect Buckeye's results of operations and cash flows, thereby reducing Buckeye's ability to make distributions to Unitholders, including us.**

Changes made to governmental regulations governing the components of refined petroleum products may necessitate changes to Buckeye's pipelines and terminals which may require significant capital expenditures or result in lower pipeline volumes. For example, the increasing use of ethanol as a fuel additive, which is blended with gasoline at product terminals, may lead to reduced pipeline volumes and revenue which may not be totally offset by increased terminal blending fees Buckeye may receive at its terminals.

Table of Contents

**Department of Transportation regulations may impose significant costs and liabilities on Buckeye.**

Buckeye's pipeline operations are subject to regulation by the United States Department of Transportation. These regulations require, among other things, that pipeline operators engage in a regular program of pipeline integrity testing to assess, evaluate, repair and validate the integrity of their pipelines, which, in the event of a leak or failure, could affect populated areas, unusually sensitive environmental areas, or commercially navigable waterways. In response to these regulations, Buckeye's Operating Subsidiaries conduct pipeline integrity tests on an ongoing and regular basis. Depending on the results of these integrity tests, Buckeye's Operating Subsidiaries could incur significant and unexpected capital and operating expenditures, not accounted for in anticipated capital or operating budgets, in order to repair such pipelines to ensure their continued safe and reliable operation.

**Buckeye's business is exposed to credit risk, against which Buckeye may not be able to adequately protect.**

Buckeye's businesses are subject to the risks of nonpayment and nonperformance by its customers. Buckeye manages its exposure to credit risk through credit analysis and monitoring procedures, and sometimes use letters of credit, prepayments and guarantees. However, these procedures and policies cannot fully eliminate customer credit risk, and to the extent Buckeye's policies and procedures prove to be inadequate, it could negatively affect Buckeye's financial condition and results of operations. Some of our customers, counterparties and suppliers may be highly leveraged and subject to their own operating and regulatory risks and, even if our credit review and analysis mechanisms work properly, we may experience financial losses in our dealings with such parties. In addition, volatility in commodity prices might have an impact on many of our customers, which in turn could have a negative impact on their ability to meet their obligations to us.

The marketing business in Buckeye's Energy Services segment enters into sales contracts pursuant to which customers agree to buy refined petroleum products from Buckeye at a fixed-price on a future date. Given the recent drop in refined petroleum product prices, certain of Buckeye's fixed-price sales contract customers have obligations to purchase refined petroleum products from Buckeye at prices that are above current market prices. If Buckeye's customers have not hedged their exposure to reductions in petroleum product prices, then they could have a significant loss upon settlement of their fixed-price sales contracts with Buckeye, which could increase the risk of their nonpayment or nonperformance. In addition, Buckeye generally has entered into futures contracts to hedge its exposure under these fixed-price sales contracts to increases in petroleum product prices. If current price levels remain lower than when Buckeye entered into these futures contracts, then Buckeye will be required to make payments upon the settlement thereof. Ordinarily, this settlement payment would be offset by the payment received from the customer pursuant to the associated fixed price sales contract. Buckeye will, however, be required to make the settlement payment under the futures contract even if a fixed-price sales contract customer does not perform. Nonperformance under fixed-price sales contracts by a significant number of Buckeye's customers could have a material adverse effect on Buckeye's financial condition and results of operations.

**Terrorist attacks could adversely affect Buckeye's business.**

Since the attacks of September 11, 2001, the United States government has issued warnings that energy assets, specifically our nation's pipeline infrastructure, may be the future target of terrorist organizations. These developments have subjected Buckeye's operations to increased risks. Any future terrorist attack on Buckeye's facilities, those of Buckeye's customers and, in some cases, those of other pipelines, refineries or terminals, could significantly disrupt Buckeye's operations, require substantial expenditures for replacement and repair of pipelines, refineries or terminals or otherwise have a material adverse effect on Buckeye's business.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

During 2007, the Department of Homeland Security promulgated the Chemical Facility Anti-Terrorism Standards ( CFATS ) to regulate the security of facilities considered to have high risk chemicals. Buckeye has submitted to the Department of Homeland Security certain required information concerning its facilities in compliance with CFATS and, as a result, several of Buckeye s facilities have been determined to be initially tiered as high risk by the Department of Homeland Security. Due to this determination, Buckeye is required to prepare a security vulnerability assessment and possibly develop and implement site security plans required by CFATS. At this time, BGH does not believe that compliance with CFATS will have a material effect on Buckeye s business.

**Buckeye s operations are subject to operational hazards and unforeseen interruptions for which Buckeye may not be insured.**

Buckeye s operations are subject to operational hazards and unforeseen interruptions such as natural disasters, adverse weather, accidents, fires, explosions, hazardous materials releases, and other events beyond Buckeye s control. These events might result in a loss of equipment or life, injury, or extensive property damage, as well as an interruption in Buckeye s operations. Buckeye s Operating Subsidiaries operations are currently covered by property, casualty, workers compensation and environmental insurance policies. In the future, however, Buckeye may not be able to maintain or obtain insurance of the type and amount desired

Table of Contents

at reasonable rates. As a result of market conditions, premiums and deductibles for certain insurance policies have increased substantially, and could escalate further. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. For example, insurance carriers are now requiring broad exclusions for losses due to war risk and terrorist acts. If Buckeye were to incur a significant liability for which it was not fully insured, it could have a material adverse effect on Buckeye's financial position, thereby reducing Buckeye's ability to make distributions to its Unitholders, including us.

**Buckeye may not realize the expected benefits from the acquisitions of Lodi Gas and Farm & Home.**

Buckeye's estimates regarding earnings, operating cash flow and capital expenditures resulting from the Lodi Gas or Farm & Home acquisitions may prove to be incorrect. Additionally, Buckeye may encounter difficulties in the assimilation of the new businesses, Buckeye may experience unanticipated inefficiencies or costs, and Buckeye may lose customers or key employees. In addition, both the gas storage business of Lodi Gas and the wholesale business of Farm & Home expand Buckeye's operations and the types of businesses in which Buckeye engages, posing additional challenges in the integration of these new businesses.

**Buckeye's natural gas storage business depends on third party pipelines to transport natural gas.**

Buckeye depends on Pacific Gas and Electric's intrastate gas pipelines to move its customers' natural gas to and from the Lodi facility. Any interruption of service or decline in utilization on the pipelines or adverse change in the terms and conditions of service for the pipelines could have a material adverse effect on the ability of Buckeye's customers to transport natural gas to and from the Lodi facility, and could have a corresponding material adverse effect on Buckeye's storage revenues. In addition, the rates charged by the interconnected pipelines for transportation to and from Buckeye's facilities could affect the utilization and value of Buckeye's storage services.

**A significant decrease in the production of natural gas could have a significant financial impact on Buckeye's operations and cash flows.**

Buckeye's profitability is materially affected by the volume of natural gas stored by Buckeye. A material change in the supply or demand of natural gas could result in a decline in the volume of natural gas delivered to the Lodi facility for storage, thereby decreasing Buckeye's revenues and operating income, and as a result, reducing Buckeye's ability to make distributions to its Unitholders.

**Buckeye's results could be adversely affected by volatility in the price of refined petroleum products and the value of natural gas storage services. In addition, Buckeye's risk management policies cannot eliminate all commodity risk and any noncompliance with our risk management policies could result in significant financial losses.**

Buckeye's Energy Services segment buys and sells refined petroleum products in connection with its marketing activities. Buckeye's Natural Gas Storage segment stores natural gas for, and loans natural gas to, its customers for fixed periods of time. If the values of refined petroleum products or natural gas storage services change in a direction or manner that Buckeye does not anticipate, Buckeye could experience financial losses from these activities. Furthermore, when prices increase rapidly and dramatically, Buckeye may be unable to promptly pass its additional costs to its customers, resulting in lower margins for Buckeye which could adversely affect its results of operations. Although Buckeye's Natural

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Gas Storage segment does not purchase or sell natural gas, the value of natural gas storage services generally changes based on changes in the relative prices of natural gas over different delivery periods. Buckeye's Energy Services segment follows risk management practices that are designed to minimize its commodity risk and Buckeye's Natural Gas Storage segment has adopted risk management policies that are designed to manage the risks associated with its storage business. These practices and policies cannot, however, eliminate all price and price-related risks.

With respect to Buckeye's Energy Services segment, it is Buckeye's practice to maintain a position that is substantially balanced between commodity purchases, on the one hand, and expected commodity sales or future delivery obligations, on the other hand. Through these transactions, Buckeye seeks to establish a margin for the commodity purchased by selling the same commodity for physical delivery to third party users, such as wholesalers or retailers. While Buckeye's hedging policies are designed to minimize commodity risk, some degree of exposure to unforeseen fluctuations in market conditions remains. For example, any event that disrupts Buckeye's anticipated physical supply could expose Buckeye to risk of loss resulting from price changes if Buckeye is required to obtain alternative supplies to cover these sales transactions. In addition, Buckeye is also exposed to basis risks in its hedging activities that arise when a commodity, such as ultra low sulfur diesel, is purchased at one pricing index but must be hedged against another commodity type, such as heating oil, because of limitations in the markets for derivative products. Buckeye is also susceptible to basis risk created when Buckeye hedges a commodity based on prices at a certain location, such as the New York Harbor, and enters into a sale or exchange of that commodity at another location, such as Macungie, Pennsylvania,

Table of Contents

where prices and price changes might differ from the prices and price changes at the location upon which the hedging instrument is based.

Buckeye's natural gas storage and petroleum product marketing activities also involve the risk of non-compliance with Buckeye's risk management practices and policies. Buckeye cannot make any assurances that it will detect and prevent all violations of its risk management practices and policies, particularly if deception or other intentional misconduct is involved. Any violations of these practices or policies by Buckeye's employees or agents could result in significant financial losses.

**Risks Inherent in Ownership of Our Common Units**

**Cost reimbursements due our general partner, MainLine Management, may be substantial and will reduce our cash available for distribution to our Unitholders.**

Prior to making any distribution on our units, we will reimburse our general partner for expenses it incurs on our behalf. The reimbursement of expenses could reduce the amount of cash we have to make distributions to our Unitholders. Our general partner will determine the amount of these expenses. In addition, our general partner and its affiliates may perform other services for us for which we will be charged fees as determined by our general partner.

**Our Unitholders do not elect our general partner or vote on our general partner's directors. An affiliate of our general partner owns a sufficient number of Common Units to allow it to block any attempt to remove our general partner.**

Unlike the holders of common stock in a corporation, our Unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Our public Unitholders did not elect our general partner or the directors of our general partner and will have no right to elect our general partner or the directors of our general partner on an annual or other continuing basis in the future.

Furthermore, if our public Unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. Our general partner may not be removed except upon the vote of the holders of at least 80% of the outstanding common and management units voting together as a single class. Because affiliates of our general partner own more than 20% of our outstanding units, our general partner currently cannot be removed without the consent of our general partner and its affiliates.

Our Unitholders' voting rights are further restricted by the provision in our partnership agreement providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner and its affiliates, cannot be voted on any matter. In addition, our partnership agreement contains provisions limiting the ability of our Unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting our

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Unitholders' ability to influence the manner or direction of our management. Additionally, our partnership agreement provides that our general partner, in its sole discretion, may at any time adopt a unitholder rights plan similar to a shareholder rights plan for corporations.

As a result of these provisions, the price at which our Common Units will trade may be lower because of the absence or reduction of a takeover premium in the trading price.

**BGH GP owns a controlling interest in us and owns our general partner and can determine the outcome of all matters voted upon by our Unitholders.**

BGH GP owns approximately 61.88% of our limited partner interests and owns our general partner. As a result, BGH GP is able to control the outcome of any matter that comes before a Unitholder vote.

**The control of our general partner may be transferred to a third party, and that party could replace our current management team, in each case, without unitholder consent.**

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our Unitholders. Furthermore, the owner of our general partner may transfer its ownership interest in our general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of our general partner and to control the decisions taken by the board of directors and officers.



Table of Contents

**Increases in interest rates may cause the market price of our Common Units to decline.**

An increase in interest rates may cause a corresponding decline in demand for equity investments in general, and in particular for yield-based equity investments such as our Common Units. Any such increase in interest rates or reduction in demand for our Common Units may cause the trading price of our Common Units to decline.

**If in the future we cease to manage and control Buckeye through our ownership of the general partner interests in Buckeye, we may be deemed to be an investment company under the Investment Company Act of 1940.**

If we cease to manage and control Buckeye and are deemed to be an investment company under the Investment Company Act of 1940, we would either have to register as an investment company under the Investment Company Act of 1940, obtain exemptive relief from the Securities and Exchange Commission or modify our organizational structure or our contract rights to fall outside the definition of an investment company. Registering as an investment company could, among other things, materially limit our ability to engage in transactions with affiliates, including the purchase and sale of certain securities or other property to or from our affiliates, restrict our ability to borrow funds or engage in other transactions involving leverage and require us to add additional directors who are independent of us and our affiliates, and reduce the price of our Common Units.

**You may not have limited liability if a court finds that Unitholder action constitutes control of our business.**

Under Delaware law, you could be held liable for our obligations to the same extent as a general partner if a court determined that the right or the exercise of the right by our Unitholders as a group to remove or replace our general partner, to approve some amendments to the partnership agreement or to take other action under our partnership agreement constituted participation in the control of our business. Additionally, the limitations on the liability of holders of limited partner interests for the liabilities of a limited partnership have not been clearly established in many jurisdictions.

Our general partner generally has unlimited liability for our obligations, such as our debts and environmental liabilities, except for those contractual obligations that are expressly made without recourse to our general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a Unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution.

**We are directly dependent on Buckeye for our growth. As a result of the fiduciary obligations of Buckeye's general partner, which is our wholly owned subsidiary, to the Unitholders of Buckeye, our ability to pursue business opportunities independently may be limited.**

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

We currently intend to grow primarily through the growth of Buckeye. While we are not precluded from pursuing business opportunities independent of Buckeye, Buckeye's general partner, which is our wholly owned subsidiary, has fiduciary duties to Buckeye's Unitholders which could make it difficult for us to engage in any business activity that is competitive with Buckeye. Those fiduciary duties are applicable to us because we control the general partner through our ability to elect all of its directors. Accordingly, we may be unable to diversify our sources of revenue in order to increase cash distributions to you.

### **Our credit agreement contains operating and financial restrictions that may limit our business and financing activities.**

The operating and financial restrictions and covenants in our credit agreement could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our credit agreement restricts our ability to:

- make distributions if any default or event of default occurs;
- incur additional indebtedness or guarantee other indebtedness;
- grant liens or make certain negative pledges;
- make certain loans or investments;
- make any material change to the nature of our business, including consolidations, liquidations and dissolutions; or

Table of Contents

- enter into a merger, consolidation, sale and leaseback transaction or sale of assets.

If we violate any of the restrictions, covenants, ratios or tests in our credit agreement, a significant portion of our indebtedness may become immediately due and payable, and our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Our member interests in Buckeye GP are pledged to secure our obligations under our credit agreement. If we default in the performance of those obligations, our lenders may foreclose upon and take control of our member interests in Buckeye GP.

**Risks Related to Conflicts of Interest**

**Buckeye GP owes fiduciary duties to Buckeye and Buckeye's Unitholders, which may conflict with our interests.**

Conflicts of interest exist and may arise in the future as a result of the relationships between us and our affiliates, including Buckeye's general partner, on one hand, and Buckeye and its limited partners, on the other hand. The directors and officers of Buckeye GP have fiduciary duties to manage Buckeye in a manner beneficial to us, Buckeye GP's owner. At the same time, Buckeye GP has a fiduciary duty to manage Buckeye in a manner beneficial to Buckeye and its limited partners. The board of directors of Buckeye GP may resolve any such conflict of interest and has broad latitude to consider the interests of all parties to the conflict. The resolution of these conflicts may not always be in our best interest or that of our Unitholders.

For example, conflicts of interest may arise in the following situations:

- the allocation of shared overhead expenses to Buckeye and us;
- the interpretation and enforcement of contractual obligations between us and our affiliates, on one hand, and Buckeye, on the other hand;
- the determination of the amount of cash to be distributed to Buckeye's partners and the amount of cash to be reserved for the future conduct of Buckeye's business;
- the determination of whether Buckeye should make acquisitions and on what terms;

- the determination of whether Buckeye should use cash on hand, borrow or issue equity to raise cash to finance acquisitions or expansion capital projects, repay indebtedness, meet working capital needs, pay distributions or otherwise; and
- any decision we make in the future to engage in business activities independent of Buckeye.

**The fiduciary duties of our general partner may conflict with the fiduciary duties of Buckeye's general partner.**

Conflicts of interest may arise because of the relationships among Buckeye GP, Buckeye and us. Our general partner has fiduciary duties to manage our business in a manner beneficial to us and our Unitholders and the owner of our general partner. Simultaneously, certain of our general partner's directors and all of its officers are also directors and officers of Buckeye GP, which has fiduciary duties to manage the business of Buckeye in a manner beneficial to Buckeye and Buckeye's Unitholders. Our partnership agreement contains various provisions modifying and restricting the fiduciary duties that might otherwise be owed by our general partner. The resolution of these conflicts may not always be in our best interest or that of our Unitholders.

**Potential conflicts of interest may arise among our general partner, its affiliates and us. Our general partner has limited fiduciary duties to us and our Unitholders, which may permit it to favor its own interests to the detriment of us and our Unitholders.**

Affiliates of our general partner, together with the executive officers of our general partner, own an approximately 63% limited partner interest in us, represented by common and management units. In addition, BGH GP owns our general partner. Conflicts of interest may arise among our general partner and its affiliates, on the one hand, and us and our Unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our Unitholders. These conflicts include, among others, the following situations:

Table of Contents

Conflicts Relating to Control:

- our general partner is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our Unitholders;
- our general partner determines whether or not we incur debt and that decision may affect our or Buckeye's credit ratings;
- our general partner has limited its liability and has reduced its fiduciary duties under our partnership agreement, while also restricting the remedies available to our Unitholders for actions that, without these limitations and reductions, might constitute breaches of fiduciary duty. As a result of purchasing units, our Unitholders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;
- our general partner controls the enforcement of obligations owed to us by it and its affiliates;
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us; and
- our partnership agreement gives our general partner broad discretion in establishing financial reserves for the proper conduct of our business. These reserves also will affect the amount of cash available for distribution.

Conflicts relating to costs:

- our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is available to be distributed to our Unitholders;
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us; and

- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

**Our reimbursement of expenses of our general partner will limit our cash available for distribution.**

Our general partner may make expenditures on our behalf for which it will seek reimbursement from us. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated to reimburse or indemnify it. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments could reduce the amount of cash available for distribution to our Unitholders and cause the value of our Common Units to decline.

**Our partnership agreement contains provisions that reduce the remedies available to Unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner. It will be difficult for a Unitholder to challenge a resolution of a conflict of interest by our general partner or by its audit committee.**

Whenever our general partner makes a determination or takes or declines to take any action in its capacity as our general partner, it will be obligated to act in good faith, which means it must reasonably believe that the determination or other action is in our best interests. Whenever a potential conflict of interest exists between us and our general partner, the board of directors of our general partner may resolve such conflict of interest. If the board of directors of our general partner determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our general partner, then it shall be presumed that in making this determination, our general partner acted in good faith. A Unitholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation of Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

Furthermore, if our general partner obtains the approval of its audit committee, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our general partner of any duties it may owe to us or our Unitholders. This is different from the situation of Delaware corporations, where a conflict resolution by a committee consisting solely of independent

Table of Contents

directors would merely shift the burden of demonstrating unfairness to the plaintiff. As a result, Unitholders will effectively not be able to challenge a decision by the audit committee.

**Our general partner's affiliates may compete with us.**

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner and those activities incidental to its ownership of interests in us. Affiliates of our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. As a result, Buckeye may compete directly with entities in which BGH GP or its affiliates have an interest for acquisition opportunities throughout the United States and potentially will compete with one or more of these entities for new business or extensions of the existing services provided by Buckeye's Operating Subsidiaries, creating actual and potential conflicts of interest between Buckeye and our affiliates.

**Our executive officers face conflicts in the allocation of their time to our business.**

Our general partner shares administrative personnel with Buckeye's general partner to operate both our business and Buckeye's business. Our general partner's officers, who are also the officers of Buckeye's general partner, have responsibility for overseeing the allocation of time spent by administrative personnel on our behalf and on behalf of Buckeye. These officers face conflicts regarding these time allocations which may adversely affect our or Buckeye's results of operations, cash flows, and financial condition. These allocations may not necessarily be the result of arms-length negotiations between Buckeye's general partner and our general partner.

**Our general partner may cause us to issue additional Common Units or other equity securities without your approval, which would dilute your ownership interests.**

Our general partner may cause us to issue an unlimited number of additional Common Units or other equity securities of equal rank with the Common Units, without Unitholder approval. The issuance of additional Common Units or other equity securities of equal rank will have the following effects:

- our Unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each Common Unit may decrease;
- the relative voting strength of each previously outstanding Common Unit may be diminished; and

- the market price of the Common Units may decline.

**Our general partner has a call right that may require you to sell your Common Units at an undesirable time or price.**

If at any time more than 90% of the outstanding Common Units are owned by our general partner and its affiliates, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the remaining Common Units held by unaffiliated persons at a price equal to the greater of (x) the average of the daily closing prices of the Common Units over the 20 trading days preceding the date three days before notice of exercise of the call right is first mailed and (y) the highest price paid by our general partner or any of its affiliates for Common Units during the 90 day period preceding the date such notice is first mailed. As a result, you may be required to sell your Common Units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your Common Units. Our general partner and its affiliates currently own approximately 63% of the Common and Management Units.

#### **Tax Risks to Common Unitholders**

Unitholders are urged to read the section entitled "Tax Considerations for Unitholders" for a more complete discussion of the expected material federal income tax consequences of owning and disposing of Common Units.

**BGH's and Buckeye's tax treatment depends on their status as a partnership for federal income tax purposes as well as not being subject to a material amount of entity-level taxation by individual states. If the IRS were to treat either BGH or Buckeye as a corporation for federal income tax purposes or they were to become subject to additional amounts of entity-level taxation for state tax purposes, then BGH's cash available for distribution to you would be substantially reduced.**



Table of Contents

The value of our investment in Buckeye depends largely on Buckeye being treated as a partnership for federal income tax purposes, which requires that 90% or more of Buckeye's gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Code. Buckeye may not meet this requirement or current law may change so as to cause, in either event, Buckeye to be treated as a corporation for federal income tax purposes or otherwise be subject to federal income tax. Moreover, the anticipated after-tax economic benefit of an investment in our Common Units depends largely on BGH being treated as a partnership for federal income tax purposes. BGH has not requested, and does not plan to request, a ruling from the IRS as to BGH's or Buckeye's treatment as a partnership for federal income tax purposes.

Despite the fact that each of BGH and Buckeye is a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as BGH or Buckeye to be treated as a corporation for federal income tax purposes. Although BGH does not believe based upon the current operations of BGH and Buckeye that either BGH or Buckeye is so treated, a change in BGH's or Buckeye's business (or a change in current law) could cause them to be treated as a corporation for federal income tax purposes or otherwise subject them to taxation as an entity.

If either BGH or Buckeye were treated as a corporation for federal income tax purposes, they would pay federal income tax on their taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to BGH from Buckeye would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to BGH. Further, distributions to you would generally be taxed again as corporate distributions as well, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon BGH as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of either BGH or Buckeye as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our holders of Common Units, likely causing a substantial reduction in the value of our Common Units.

Current law may change so as to cause BGH or Buckeye to be treated as a corporation for federal income tax purposes or otherwise subject BGH or Buckeye to entity-level taxation. At the federal level, legislation has been proposed that would eliminate partnership tax treatment for certain publicly traded partnerships. Although such legislation would not apply to BGH or Buckeye as currently proposed, it could be amended prior to enactment in a manner that does apply to BGH or Buckeye. BGH is unable to predict whether any of these changes or other proposals will ultimately be enacted. Moreover, any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Any such changes could negatively impact the value of an investment in our Common Units. At the state level, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, Buckeye is required to pay Texas franchise tax at a maximum effective rate of 0.7% of Buckeye's gross income apportioned to Texas in the prior year. Imposition of such a tax on BGH or Buckeye by any other state will reduce the cash available for distribution to you.

**If the IRS contests the federal income tax positions that BGH or Buckeye take, the market for our Common Units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution to you.**

BGH has not requested a ruling from the IRS with respect to BGH's treatment as a partnership for federal income tax purposes or certain other matters that affect BGH. Moreover, Buckeye has not requested any ruling from the IRS with respect to its treatment as a partnership for federal income tax purposes or any other matter that affects Buckeye. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions taken by BGH or Buckeye. A court may not agree with some or all of the positions BGH or Buckeye take. Any contest with the IRS may materially and adversely impact the market for BGH's Common Units and Buckeye's limited partnership units and the prices at which they trade. In addition, the cost of any contest between Buckeye and the IRS will result in a reduction in cash available for distribution to BGH and the costs of any contest between BGH and the IRS will be borne indirectly by BGH's Unitholders and its general partner because the costs will reduce BGH's cash available for distribution.

**You will be required to pay taxes on your share of BGH's income even if you do not receive any cash distributions from BGH.**

Because BGH's Unitholders will be treated as partners to whom BGH will allocate taxable income which could be different in amount than the cash BGH distributes, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of BGH's taxable income even if you receive no cash distributions from BGH. You may not receive cash distributions from BGH equal to your share of BGH's taxable income or even equal to the actual tax liability that results from that income.

Table of Contents

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

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

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

Investment in Common Units by tax-exempt entities, such as employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of BGH's income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income. If you are a tax exempt entity or a non-U.S. person, you should consult your tax advisor before investing in Common Units.

**BGH will treat each purchaser of Common Units as having the same tax benefits without regard to the actual Common Units purchased. The IRS may challenge this treatment, which could adversely affect the value of the Common Units.**

Because BGH cannot match transferors and transferees of Common Units and because of other reasons, BGH has adopted depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of Common Units and could have a negative impact on the value of Common Units or result in audit adjustments to your tax returns.

**BGH prorates items of income, gain, loss and deduction between transferors and transferees of Common Units each month based upon the ownership of Common Units on the first day of each month, instead of on the basis of the date a particular Common Unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among BGH Unitholders.**

BGH prorates items of income, gain, loss and deduction between transferors and transferees of Common Units each month based upon the ownership of Common Units on the first day of each month, instead of on the basis of the date a particular Common Unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. If the IRS were to challenge this method or new Treasury Regulations were issued, BGH may be required to change the allocation of items of income, gain, loss and deduction among BGH's Unitholders.

**A Unitholder whose Common Units are loaned to a short seller to cover a short sale of Common Units may be considered as having disposed of those Common Units. If so, the Unitholder would no longer be treated for tax purposes as a partner with respect to those Common Units during the period of the loan and may recognize gain or loss from the disposition.**

Because a Unitholder whose Common Units are loaned to a short seller to cover a short sale of Common Units may be considered as having disposed of the loaned Common Units, the Unitholder may no longer be treated for tax purposes as a partner with respect to those Common Units during the period of the loan to the short seller and the Unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of BGH's income, gain, loss or deduction with respect to those Common Units may not be reportable by the Unitholder and any cash distributions received by the Unitholder as to those Common Units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their Common Units.

**BGH will adopt certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the Unitholders. The IRS may challenge this treatment, which could adversely affect the value of Common Units.**

When BGH issues additional Common Units or engages in certain other transactions, BGH will determine the fair market value of its assets and allocate any unrealized gain or loss attributable to BGH's assets to the capital accounts of its Unitholders and its general partner. BGH's methodology may be viewed as understating the value of BGH's assets. In that case, there may be a

Table of Contents

shift of income, gain, loss and deduction between certain Unitholders and the general partner, which may be unfavorable to such Unitholders. Moreover, under BGH's valuation methods, subsequent purchasers of Common Units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to BGH's tangible assets and a lesser portion allocated to BGH's intangible assets. The IRS may challenge BGH's valuation methods, or BGH's allocation of the Section 743(b) adjustment attributable to BGH's tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our Unitholders. A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to BGH's Unitholders. It also could affect the amount of gain from BGH's Unitholders' sale of Common Units and could have a negative impact on the value of the Common Units or result in audit adjustments to BGH's Unitholders' tax returns without the benefit of additional deductions.

**The sale or exchange of 50% or more of BGH's capital and profits interests during any twelve-month period will result in the termination of BGH's partnership for federal income tax purposes.**

BGH will be considered to have terminated as a partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in BGH's capital and profits within a twelve-month period. A termination would, among other things, result in the closing of BGH's taxable year for all Unitholders, which would result in BGH filing two tax returns (and each Unitholder could receive two Schedules K-1 from BGH) for one fiscal year and could result in a significant deferral of depreciation deductions allowable in computing BGH's taxable income for the year in which the termination occurs. In the case of a Unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of BGH's taxable year may also result in more than twelve months of BGH's taxable income or loss being includable in the Unitholder's taxable income for the year of termination. A termination currently would not affect BGH's classification as a partnership for federal income tax purposes, but instead, BGH would be treated as a new partnership for tax purposes. If treated as a new partnership, BGH must make new tax elections and could be subject to penalties if BGH is unable to determine that a termination occurred.

**As a result of investing in Common Units, you may become subject to state and local taxes and return filing requirements in jurisdictions where Buckeye operates or owns or acquires property.**

In addition to federal income taxes, you will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which Buckeye conducts business or owns property now or in the future, even if you do not live in any of those jurisdictions. You will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. Buckeye owns property and conducts business in a number of states in the United States. Most of these states impose an income tax on individuals, corporations and other entities. As Buckeye makes acquisitions or expands its business, Buckeye may own assets or conduct business in additional states or foreign jurisdictions that impose a personal income tax. It is your responsibility to file all United States foreign, federal, state and local tax returns.

**Buckeye has a subsidiary that is treated as a corporation for federal income tax purposes and subject to corporate-level income taxes.**

Buckeye conducts a portion of our operations through a subsidiary that is a corporation for federal income tax purposes. Buckeye may elect to conduct additional operations in corporate form in the future. The corporate subsidiary will be subject to corporate-level tax, which will reduce the cash available for distribution to Buckeye and, in turn, impact Buckeye's cash available for distribution. If the IRS were to successfully assert that the corporate subsidiary has more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, Buckeye's cash available for distribution to its Unitholders, including us, would be further reduced.

**Item 1B.**     *Unresolved Staff Comments*

None.

**Item 2.**     *Properties*

BGH and Buckeye are managed primarily from two leased commercial business offices located in Breinigsville, Pennsylvania and Houston, Texas that are approximately 75,000 and 20,000 square feet in size, respectively.

In general, Buckeye's pipelines are located on land owned by others pursuant to rights granted under easements, leases, licenses and permits from railroads, utilities, governmental entities and private parties. Like other pipelines, certain of the Operating Subsidiaries' rights are revocable at the election of the grantor or are subject to renewal at various intervals, and some require

Table of Contents

periodic payments. The Operating Subsidiaries have not experienced any revocations or lapses of such rights which were material to their business or operations, and Buckeye GP has no reason to expect any such revocation or lapse in the foreseeable future. Most delivery points, pumping stations and terminal facilities are located on land owned by the Operating Subsidiaries. Buckeye has leases for subsurface underground gas storage rights and surface rights in connection with its operations in the Natural Gas Storage segment.

See Item 1 for a description of the location and general character of the Operating Subsidiaries' material property. BGH owns an insignificant amount of property.

MainLine Management and Buckeye GP believe that the Operating Subsidiaries have sufficient title to their material assets and properties, possess all material authorizations and revocable consents from state and local governmental and regulatory authorities and have all other material rights necessary to conduct their business substantially in accordance with past practice. Although in certain cases the Operating Subsidiaries' title to assets and properties or their other rights, including their rights to occupy the land of others under easements, leases, licenses and permits, may be subject to encumbrances, restrictions and other imperfections, none of such imperfections are expected by MainLine Management or Buckeye GP to interfere materially with the conduct of the Operating Subsidiaries' businesses.

**Item 3.      *Legal Proceedings***

BGH, Buckeye and the Operating Subsidiaries, in the ordinary course of business, are involved in various claims and legal proceedings, some of which are covered in whole or in part by insurance. Neither MainLine Management nor Buckeye GP are able to predict the timing or outcome of these claims and proceedings.

With respect to environmental litigation, certain Operating Subsidiaries (or their predecessors) have been named in the past as defendants in lawsuits, or have been notified by federal or state authorities that they are potentially responsible parties ( PRPs ) under federal laws or a respondent under state laws relating to the generation, disposal or release of hazardous substances into the environment. In connection with actions brought under CERCLA and similar state statutes, the Operating Subsidiary is usually one of many PRPs for a particular site and its contribution of total waste at the site is usually de minimis.

Although there is no material environmental litigation pending against BGH, Buckeye or the Operating Subsidiaries at this time, claims may be asserted in the future under various federal and state laws, and the amount of any potential liability associated with such claims cannot be estimated.

In March 2007, Buckeye was named as a defendant in an action entitled *Madigan v. Buckeye Partners, L.P.* filed in the U.S. District Court for the Central District of Illinois. The action was brought by the State of Illinois Attorney General acting on behalf of the Illinois Environmental Protection Agency. The complaint alleges that Buckeye violated various Illinois state environmental laws in connection with a product release from Buckeye's terminal located in Harristown, Illinois on or about June 11, 2006 and various other product releases from Buckeye's terminals and pipelines in the State of Illinois during the period of 2001 through 2006. The complaint seeks to recover state oversight costs, damages, and civil penalties and seeks injunctive action requiring Buckeye to remediate the environmental contamination resulting from the product releases. Buckeye believes it has meritorious defenses to the allegations set forth in the complaint.

**Item 4.**      *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of the holders of Common Units during the fourth quarter of the fiscal year ended December 31, 2008.



Table of Contents**PART II****Item 5. *Market for the Registrant's Common Units, Related Unitholder Matters, and Issuer Purchases of Common Units***

BGH's Common Units are listed and traded on the New York Stock Exchange. The high and low sales prices of the Common Units in 2008 and 2007, as reported in the New York Stock Exchange Composite Transactions, were as follows:

Quarter	2008		2007	
	High	Low	High	Low
First	\$ 29.92	\$ 21.65	\$ 21.44	\$ 16.45
Second	26.44	18.00	33.37	20.22
Third	22.70	13.35	39.89	27.45
Fourth	18.72	9.51	30.00	26.10

BGH has gathered tax information from its known Common and Management Unitholders and from brokers/nominees and, based on the information collected, BGH estimates its number of beneficial Common and Management Unitholders to be approximately 2,400 at December 31, 2008.

Cash distributions paid to Unitholders during 2007 and 2008 were as follows:

Record Date	Payment Date	Amount Per Common Unit
February 6, 2007	February 28, 2007	\$ 0.225
May 7, 2007	May 31, 2007	0.240
August 6, 2007	August 31, 2007	0.250
November 5, 2007	November 30, 2007	0.265
February 5, 2008	February 29, 2008	0.285
May 9, 2008	May 30, 2008	0.300
August 8, 2008	August 29, 2008	0.310
November 7, 2008	November 28, 2008	0.320

On February 2, 2009, the Board of Directors of MainLine Management approved a quarterly distribution of \$0.33 per Common Unit that was paid on February 27, 2009, to Unitholders of record on February 12, 2009. Total cash distributed to Unitholders on February 27, 2009 was approximately \$9.3 million.

**Item 6. *Selected Financial Data***

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

The following table presents summary historical consolidated financial data for BGH as of December 31, 2008, 2007, 2006, 2005 and 2004 and for the years ended December 31, 2008, 2007, 2006 and 2005 and the period from May 4, 2004 through December 31, 2004, along with such information for Glenmoor Ltd. ( Glenmoor ), as the predecessor of MainLine L.P. ( MainLine ), for the period from January 1, 2004 through May 4, 2004. BGH's predecessor, MainLine, acquired the general partner interests of Buckeye on May 4, 2004. Prior to May 4, 2004, Buckeye's general partner interests were owned by Glenmoor. The information in the table for all periods is derived from the audited financial statements of BGH or Glenmoor, as appropriate.

Because BGH owns and controls the general partner of Buckeye, the statements reflect BGH's ownership interest in Buckeye on a consolidated basis, which means that Buckeye's financial results are consolidated with BGH's financial results. The financial statements of Services Company, which employs the employees who manage and operate BGH and Buckeye, are also consolidated into BGH's financial statements. BGH has no separate operating activities apart from those conducted by Buckeye, and its cash flows consist primarily of incentive distributions from Buckeye with respect to the partnership interests that BGH owns. Accordingly, the summary historical consolidated financial data set forth in the following table primarily reflects the operating activities and results of operations of Buckeye. The limited partner interests in Buckeye not owned by BGH or its affiliates are reflected as a liability on BGH's balance sheet and the non-affiliated partners' share of income from Buckeye is reflected as an expense in BGH's results of operations.

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Table of Contents

The summary historical consolidated financial data for the periods presented reflects the effect of the asset acquisitions Buckeye made during these periods from the date of each acquisition, but not on a pro forma or full period basis.

	Buckeye GP Holdings L.P.					Glenmoor (1)
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005	May 4 to December 31, 2004	January 1 to May 4, 2004
	(In thousands, except per unit amounts)					
<b>Income Statement Data:</b>						
Revenue (2)	\$ 1,896,652	\$ 519,347	\$ 461,760	\$ 408,446	\$ 226,014	\$ 97,529
Depreciation and amortization	50,834	40,236	39,629	32,408	15,158	6,388
Operating income (2)	246,492	195,353	164,873	155,869	80,765	35,088
Interest and debt expense	75,410	51,721	60,702	55,366	28,212	9,756
Premium paid on retirement of debt (3)						3,531
Non-controlling interest expense (2)	154,146	129,754	103,066	99,704	55,310	22,830
Net income	26,477	22,921	8,734	6,986	1,203	1,124
Net income from Aug. 9 to Dec. 31, 2006			2,599			
Units outstanding - diluted	28,300	28,300	28,300			
Net income per unit - diluted (4)	\$ 0.94	\$ 0.81	\$ 0.09			
Distributions per unit	\$ 1.22	\$ 0.98	\$ 0.13			

	Buckeye GP Holdings L.P.				
	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
	(In thousands)				
<b>Balance Sheet Data:</b>					
Total assets (2)	\$ 3,263,097	\$ 2,354,326	\$ 2,212,585	\$ 2,040,832	\$ 1,747,758
Total debt, including current portion	1,555,719	869,463	1,020,449	1,104,660	1,015,225
Total partners' capital or equity	232,060	238,330	240,617	80,442	67,980

(1) BGH's predecessor, MainLine, acquired the general partner interests of Buckeye, and commenced operations, on May 4, 2004. Financial information for Glenmoor includes that of the general partner of Buckeye and its subsidiaries for the periods presented prior to their acquisition by MainLine.

(2) Substantial increases in revenue, operating income, non-controlling interest expense, and total assets resulted from the acquisitions of Lodi Gas and Farm & Home in 2008. See Note 3 to BGH's consolidated financial statements for a further discussion.

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

- (3) Net income for the period of January 1 to May 4, 2004 includes an expense of \$3.5 million related to a yield maintenance premium paid on the retirement of Glenmoor's term loan which was repaid on May 4, 2004.
- (4) Net income per unit - diluted is presented only for the period since August 9, 2006, the date BGH became a public company.

Table of Contents

*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion provides an analysis of the financial condition and results of operations for Buckeye GP Holdings L.P. ( BGH ) and each of BGH's operating segments, including an overview of its liquidity and capital resources and other related matters. This discussion and analysis should be read in conjunction with Item 1 and the consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2008.

BGH owns and controls Buckeye GP LLC ( Buckeye GP ), which is the general partner of Buckeye Partners, L.P. ( Buckeye ), a publicly traded limited partnership. BGH is managed by its general partner, MainLine Management LLC ( MainLine Management ). BGH's only cash-generating assets are its partnership interests in Buckeye, comprised primarily of the following:

- the incentive distribution rights in Buckeye;
- the indirect ownership of the general partner interests in certain of Buckeye's operating subsidiaries (representing an approximate 1% interest in each of such operating subsidiaries );
- the general partner interests in Buckeye (representing 243,914 general partner units (the GP Units ), or an approximate 0.5% interest in Buckeye); and
- 80,000 Buckeye limited partner units ( LP Units ).

The incentive distribution rights noted above entitle BGH to receive amounts equal to specified percentages of the incremental amount of cash distributed by Buckeye to the holders of LP Units (each, a Unitholder ) when target distribution levels for each quarter are exceeded. The 2,573,146 LP Units originally issued to Buckeye's Employee Stock Ownership Plan are excluded for the purpose of calculating incentive distributions. The target distribution levels begin at \$0.325 and increase in steps to the highest target distribution level of \$0.525 per eligible LP Unit. When Buckeye makes quarterly distributions above this level, the incentive distributions include an amount equal to 45% of the incremental cash distributed to each eligible Unitholder for the quarter, or approximately 29.5% of total incremental cash distributed by Buckeye above \$0.525 per LP Unit.

BGH's earnings and cash flows are, therefore, directly dependent upon the ability of Buckeye and its operating subsidiaries to make cash distributions to Buckeye's Unitholders. The actual amount of cash that Buckeye will have available for distribution will depend primarily on Buckeye's ability to generate earnings and cash flows beyond its working capital requirements.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

The following table summarizes BGH's cash received for the years ended December 31, 2008, 2007 and 2006 as a result of its partnership interests in Buckeye:

	2008	Year Ended December 31, 2007 (In thousands)	2006
Incentive payments from Buckeye	\$ 38,895	\$ 29,978	\$ 24,866
Distributions from the indirect 1% ownership in certain of Buckeye's operating subsidiaries	1,131	1,292	1,348
Distributions from the ownership of 243,914 of Buckeye's GP Units	835	786	738
Distributions from the ownership of 80,000 of Buckeye's LP Units	274	258	242
	\$ 41,135	\$ 32,314	\$ 27,194

On August 9, 2006, in connection with BGH's initial public offering of its common units ( Common Units ), Buckeye and Buckeye GP amended and restated their incentive compensation agreement. On or about the same time, Buckeye GP also entered into an amended and restated partnership agreement for Buckeye. These amendments assigned Buckeye's incentive distribution payments to Buckeye GP and recharacterized those same payments as capital distributions from Buckeye rather than incentive distribution expense to Buckeye.

None of these changes impaired the amount or timing of cash distributions or incentive distributions from Buckeye to Buckeye GP. Buckeye's criteria for determining the amount of cash distributions and its policies regarding the timing of such cash

Table of Contents

distributions remain unchanged. Commencing with the fourth quarter of 2006, Buckeye ceased recording incentive compensation payable to Buckeye GP as an expense and instead recorded such payments as distributions from partners' capital.

Prior to these amendments, BGH recognized its share of Buckeye's income as the sum of (i) the incentive compensation payments received (to which BGH was contractually entitled and which were recorded as an expense in Buckeye's financial statements), (ii) its proportionate share of Buckeye's remaining net income based on its ownership of the general partner interest in Buckeye, 80,000 of Buckeye's LP Units that it owns and its general partner interests in certain of Buckeye's operating subsidiaries and (iii) the senior administrative charge. Commencing with these amendments, BGH recognizes its share of Buckeye's income as the sum of (i) the amount of incentive compensation BGH would have received had only Buckeye's net income for the period been entirely distributed (which income, commencing with the fourth quarter of 2006 now includes the incentive compensation payments previously recorded by Buckeye as an expense) and (ii) its proportionate share of the remaining net income of Buckeye and Buckeye's operating subsidiaries.

If these changes had been in effect for all of 2006, the net income for 2006 would have been reduced by approximately \$10.8 million. Of this amount, \$1.2 million relates to the senior administrative charge and \$9.6 million relates to the difference between income recognition for incentive compensation after the amendments of the incentive compensation agreement and the partnership agreement compared to the amount that was recognized prior to such amendments.

*Buckeye Partners, L.P.*

Buckeye's primary business strategies are to generate stable cash flows, increase pipeline and terminal throughput and pursue strategic cash-flow accretive acquisitions that complement Buckeye's existing asset base, improve operating efficiencies, and allow increased cash distributions to its unitholders.

Buckeye's principal line of business is the transportation, terminalling and storage of petroleum products in the United States for major integrated oil companies, large refined petroleum product marketing companies and major end users of petroleum products on a fee basis through facilities owned and operated by Buckeye. Buckeye also operates pipelines owned by third parties under contracts with major integrated oil and chemical companies, and performs certain construction activities, generally for the owners of those third-party pipelines.

On January 18, 2008, Buckeye acquired Lodi Gas Storage, L.L.C. ( Lodi Gas ). Lodi Gas owns and operates a natural gas storage facility in northern California. Lodi Gas currently provides approximately 33 billion cubic feet ( Bcf ) of natural gas storage capacity (including capacity provided pursuant to a nearly completed expansion project) and is connected to Pacific Gas and Electric's intrastate gas pipelines that service natural gas demand in the San Francisco and Sacramento areas.

On February 8, 2008, Buckeye acquired Farm & Home Oil Company LLC ( Farm & Home ), a seller of refined petroleum products on a wholesale basis, principally in eastern and central Pennsylvania. When Farm & Home was acquired, it also had retail operations, but Buckeye sold those operations to a wholly owned subsidiary of Inergy, L.P. on April 15, 2008. The assets and liabilities and results of operations of Farm & Home's retail operations were determined to be discontinued operations effective on the Farm & Home acquisition date of February 8, 2008. On July 31, 2008, Farm & Home was merged with and into its wholly owned subsidiary, Buckeye Energy Services LLC ( BES ), with BES continuing as the surviving entity. This merger did not impact the operations of Buckeye.

With the acquisitions of Lodi Gas and Farm & Home, Buckeye determined that it had two additional reportable segments: Natural Gas Storage and Energy Services. Effective in the first quarter of 2008, Buckeye conducts business in five reportable operating segments: Pipeline Operations; Terminalling and Storage; Natural Gas Storage; Energy Services; and Other Operations. See Note 26 for a more detailed discussion of Buckeye's operating segments.

Major items impacting Buckeye's results and, therefore, BGH's results in 2008 include:

*Income Statement*

- Contributions from Buckeye's Lodi Gas and Farm & Home acquisitions in January and February 2008, respectively, as well as five additional terminal acquisitions in the Terminalling and Storage and Pipeline Operations segments in 2008. Buckeye also made three terminal acquisitions in the Terminalling and Storage segment during 2007;
- An increase in costs and expenses primarily associated with additional operations resulting from internal growth projects and acquisitions; and
- A reduction in Pipeline Operations product transportation volumes of 4.5% in 2008 as compared to 2007.



Table of Contents

*Balance Sheet and Capital Structure*

- Buckeye's completion of the seven acquisitions in 2008 as set forth above for aggregate consideration of approximately \$667.5 million that were financed with a combination of debt and equity;
- Buckeye's capital expenditures for internal growth projects of \$93.5 million;
- Buckeye's sale of \$300.0 million aggregate principal amount of 6.05% Notes due 2018 for net proceeds of \$298.0 million;
- Buckeye's sale of approximately 2.6 million limited partner units in 2008 for net proceeds of approximately \$113.1 million; and
- Buckeye's replacement of an existing working capital facility assumed in the Farm & Home acquisition with a new \$175.0 million working capital facility that matures in May 2011.

**Results of Operations**

The results of operations discussed below principally reflect the activities of Buckeye. Because the accompanying consolidated financial statements of BGH include the consolidated results of Buckeye, BGH's consolidated statements are substantially similar to Buckeye's except as noted below:

- Interest of non-controlling partners in Buckeye: BGH's consolidated balance sheet includes a non-controlling interest liability that reflects the proportion of Buckeye owned by its partners other than BGH. Similarly, the ownership interests in Buckeye held by its partners other than BGH are reflected in BGH's consolidated income statement as non-controlling interest expense. These non-controlling interest liabilities and expenses are not reflected in Buckeye's consolidated financial statements.
- BGH's capital structure: In addition to incorporating the assets and liabilities of Buckeye, BGH's consolidated balance sheet includes BGH's own indebtedness and related debt placement costs, and the partners' capital on BGH's consolidated balance sheet represents BGH's partners' capital as opposed to the capital reflected in Buckeye's balance sheet, which reflects the ownership interest of all its partners, including its owners other than BGH. Consequently, BGH's income statement reflects additional interest expense, interest income and debt amortization expense that is not reflected in Buckeye's consolidated financial statements.

- **Inclusion of Buckeye Pipe Line Services Company** The financial statements of Services Company are consolidated into BGH's financial statements. The consolidated financial statements of Buckeye do not include the financial statements of Services Company.
- **BGH's G&A expenses** BGH incurs general and administrative expenses that are independent from Buckeye's operations and are not reflected in Buckeye's consolidated financial statements.
- **Elimination of Intercompany Transactions** Intercompany obligations and payments between Buckeye and its consolidated subsidiaries and BGH and Services Company are reflected in Buckeye's consolidated financial statements but are eliminated in BGH's consolidated financial statements.

*Consolidated Summary*

BGH's revenues, operating income and net income increased in 2008 compared to 2007, and 2007 compared to 2006, primarily due to the expansion of Buckeye's operations through acquisitions and to increases in interstate pipeline tariff rates and terminalling throughput fees. Overall pipeline volumes have declined by 4.5% in 2008 as compared to 2007 and 0.2% in 2007 as compared to 2006.

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Table of Contents

Summary operating results for BGH were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Revenue	\$ 1,896,652	\$ 519,347	\$ 461,760
Costs and expenses	1,650,160	323,994	296,887
Operating income	246,492	195,353	164,873
Other income (expenses)	(73,857)	(50,231)	(59,292)
Income before equity income and non-controlling interest expense	172,635	145,122	105,581
Equity income	7,988	7,553	6,219
Non-controlling interest expense	(154,146)	(129,754)	(103,066)
Net income	\$ 26,477	\$ 22,921	\$ 8,734

*Segment Results*

Revenues, operating income, total costs and expenses and depreciation and amortization by operating segment for each of the three years ended December 31, 2008, 2007 and 2006 were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
<i>Revenues:</i>			
Pipeline Operations	\$ 387,267	\$ 379,345	\$ 350,909
Terminalling and Storage	119,155	103,782	81,267
Natural Gas Storage	61,791		
Energy Services	1,295,925		
Other Operations	43,498	36,220	29,584
Intersegment	(10,984)		
Total	\$ 1,896,652	\$ 519,347	\$ 461,760
<i>Operating Income:</i>			
Pipeline Operations	\$ 149,349	\$ 146,878	\$ 133,039
Terminalling and Storage	52,133	40,581	25,879
Natural Gas Storage	32,235		
Energy Services	5,905		
Other Operations	6,870	7,894	5,955
Total	\$ 246,492	\$ 195,353	\$ 164,873
<i>Total costs and expenses (including depreciation and amortization):</i>			
Pipeline Operations	\$ 237,918	\$ 232,468	\$ 217,870
Terminalling and Storage	67,022	63,200	55,388
Natural Gas Storage	29,556		
Energy Services	1,290,020		
Other Operations	36,628	28,326	23,629
Intersegment	(10,984)		
Total	\$ 1,650,160	\$ 323,994	\$ 296,887

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

*Deprecation and amortization:*

Pipeline Operations	\$	35,188	\$	32,996	\$	32,809
Terminalling and Storage		6,051		5,610		5,180
Natural Gas Storage		4,599				
Energy Services		3,386				
Other Operations		1,610		1,630		1,640
Total	\$	50,834	\$	40,236	\$	39,629

Table of Contents*2008 Compared to 2007*

Total revenues for the year ended December 31, 2008 were \$1,896.7 million, approximately \$1,377.3 million greater than total revenue for the same period in 2007. Of the \$1,377.3 million increase, \$61.8 million and \$1,295.9 million resulted from the operations of the Natural Gas Storage and Energy Services segments, respectively. The balance of the revenue improvement was attributable to the remaining reporting segments as discussed below.

*Revenues*

## Pipeline Operations:

Revenues from Pipeline Operations were \$387.3 million in 2008, which is an increase of \$7.9 million or 2.1% from the corresponding period in 2007. This increase was primarily the result of:

- An increase in incidental revenues of \$4.7 million principally related to a product supply arrangement along with an increase of \$1.5 million relating to additional construction management and rental revenues; and
- Transportation revenue increased by \$1.2 million in 2008 compared to 2007 primarily as a result of tariff increases implemented on May 1, 2008 and July 1, 2008. The benefit of the tariff increases were substantially offset by reduced product volumes in 2008 as compared to 2007. Management believes the reduced volumes in the 2008 fiscal year were caused primarily by reduced demand for gasoline resulting from higher retail gasoline prices, reduced production at ConocoPhillips Wood River Refinery due to maintenance activities, and the continued introduction of ethanol into retail gasoline products as well as reduced demand for distillates resulting from higher retail distillate prices and the slowdown in the U.S. economy. Total product volumes declined by 4.5% in 2008 compared to 2007.

Product volumes transported for each of the three years ended December 31 were as follows:

Product	Average Barrels Per Day		
	2008	2007	2006
Gasoline	673,500	717,900	722,300
Distillate	304,200	320,100	324,200
Jet Fuel	354,700	362,700	351,300
LPG s	17,500	19,300	22,500
Natural gas liquids	20,900	20,400	19,800
Other products	11,400	7,000	10,200

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Total	1,382,200	1,447,400	1,450,300
-------	-----------	-----------	-----------

Terminalling and Storage:

Revenue from the Terminalling and Storage segment was \$119.2 million in 2008, which is an increase of \$15.4 million or 14.8% from the corresponding period in 2007. This increase was primarily the result of:

- Incremental revenue of \$6.5 million due to the acquisitions of the Niles, Michigan, Ferrysburg, Michigan, Wethersfield, Connecticut, and Albany, New York terminals in 2008 (see Note 3 to Buckeye's consolidated financial statements), combined with the effect of having a full year of revenue in 2008 from the six terminals that were acquired at various times in the first quarter of 2007;
- An approximate \$6.1 million increase in revenue primarily related to increases in blending fees for product additives and product recoveries from vapor recovery units, which were offset by an approximately 5.4% decline in throughput volumes, caused in part by increased commodity prices, in 2008 compared to 2007; and
- \$2.8 million from the settlement of a dispute with a customer regarding product handling charges.

Average daily throughput for all refined petroleum products terminals for the three years ended December 31 was as follows:

Table of Contents

	<b>Average Barrels Per Day Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Products throughput	537,700	568,600	494,300

Natural Gas Storage:

Revenue from the Natural Gas Storage segment was \$61.8 million in 2008. Approximately 70.2% of this revenue represented firm storage revenues and 29.8% represented hub services revenues. Substantially all of this revenue was derived from Lodi Gas's operations, which Buckeye acquired on January 18, 2008.

Energy Services:

Revenue from the Energy Services segment was \$1,295.9 million in 2008. Substantially all of this revenue was derived from Farm & Home's legacy wholesale operations, which Buckeye acquired on February 8, 2008. During 2008, approximately 13.1 million barrels of products were sold. Products sold include gasoline, propane, and petroleum distillates such as heating oil, diesel fuel, and kerosene.

Other Operations:

Revenue from the Other Operations segment was \$43.5 million in 2008, which is an increase of \$7.3 million or 20.1% compared to 2007. The revenue increase in 2008 was primarily the result of an increase of \$7.0 million in construction management revenue related to construction contracts that were substantially completed at December 31, 2008. These construction activities are principally conducted on a time and material basis.

*Operating Expenses*

Costs and expenses for the years ended December 31, 2008, 2007 and 2006 were as follows:

	<b>2008</b>	<b>Costs and Expenses 2007 (In thousands)</b>	<b>2006</b>
Cost of product sales	\$ 1,274,135	\$ 10,473	\$ 9,637
Payroll and payroll benefits	110,976	97,824	91,886
Depreciation and amortization	50,834	40,236	39,629
Outside services	44,651	39,666	34,543

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Operating power	30,256	31,317	28,967
Property and other taxes	24,722	22,766	21,251
Insurance and casualty losses	18,042	14,396	11,543
Construction management	16,725	11,007	8,390
Supplies	9,939	11,099	7,888
Rentals	20,170	11,730	10,295
All other	49,710	33,480	32,858
Total	\$ 1,650,160	\$ 323,994	\$ 296,887

Cost of product sales was \$1,274.1 million in 2008, which is an increase over 2007 of \$1,263.7 million. Approximately \$1,260.5 million of the increase was attributable to products sold by the Energy Services segment. The remaining increase is principally associated with fuel purchases related to a product supply arrangement in Buckeye's Pipeline Operations segment.

Payroll and payroll benefits were \$111.0 million in 2008, an increase of \$13.2 million compared to 2007. The Natural Gas Storage and Energy Services segments added \$4.1 million and \$7.3 million of payroll and payroll benefits expense in 2008, respectively, and an additional increase of \$0.8 million was due to the acquisitions of certain terminals in 2008. Increases in salaries, wages, and incentive compensation of \$4.4 million in 2008 resulted primarily from an increase in the number of employees due to Buckeye's expanded operations. These increases were offset by various reductions in payroll benefits of approximately \$2.5 million. BGH's payroll expense increased by \$1.0 million due to accruals related to executive compensation paid by BGH and charges for the equity incentive plan of BGH GP Holdings, LLC (BGH GP). ESOP related costs decreased by \$2.6 million in 2008 as compared to 2007.



## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

### Table of Contents

Depreciation and amortization expense was \$50.8 million in 2008, which is an increase of \$10.6 million over 2007. The operations of the Natural Gas Storage and the Energy Services segments added \$5.0 million and \$3.7 million of depreciation and amortization expense in 2008, respectively. The remaining increase in depreciation and amortization expense resulted from Buckeye's ongoing expansion capital program.

Outside services costs were \$44.7 million in 2008, which is an increase of \$5.0 million over 2007. The operations of the Natural Gas Storage and the Energy Services segments added \$4.2 million and \$1.1 million of outside services costs in 2008, respectively. Of the Natural Gas Storage segment's \$4.2 million of outside services costs, approximately \$3.2 million related to well work-over costs. Another approximately \$2.4 million is due to increases in activity on operations and maintenance contracts. The increase in outside services costs were offset by a \$2.9 million decrease in pipeline and terminal maintenance activities compared to 2007, when Buckeye experienced a particularly large concentration of these expenses. Outside services costs consist principally of third-party contract services for pipeline and terminal maintenance activities.

Operating power costs were \$30.3 million for 2008, which is a decrease of \$1.1 million from 2007. The decrease is primarily due to lower volumes transported. Operating power consists primarily of electricity required to operate pipeline pumping facilities.

Property and other taxes were \$24.7 million in 2008, an increase of \$2.0 million compared to 2007. The operations of the Natural Gas Storage and the Energy Services segments added \$2.4 million and \$0.7 million, respectively, in 2008. These increases were offset by a decrease of \$0.6 million due to refunds received for property tax settlements and the phasing out of personal property taxes in Ohio.

Insurance and casualty losses were \$18.0 million for 2008, which is an increase of \$3.6 million from 2007. Insurance costs increased by \$0.7 million, which is primarily due to the operations of the Natural Gas Storage and Energy Services segments. Casualty losses increased by \$3.0 million in 2008, which is due to an increase of \$2.5 million in the cost of remediating environmental incidents compared to 2007, as well as \$0.5 million related to a product contamination incident that occurred in the third quarter of 2008.

Construction management costs were \$16.7 million in 2008, which is an increase of \$5.7 million over 2007. The increase in 2008 was primarily the result of an increase in construction contracts that were substantially completed at December 31, 2008.

Supplies expense was \$9.9 million for 2008, which is a decrease of \$1.2 million from 2007. The decrease is primarily due to a decrease in terminal additive expense related to decreased throughput volumes at Buckeye's terminals.

Rental expense was \$20.2 million in 2008, which is an increase of \$8.4 million from 2007. The operations of the Natural Gas Storage and Energy Services segments added \$7.3 million and \$0.6 million of rental expense in 2008, respectively. Approximately \$4.6 million of the 2008 rental expense is a non-cash charge.

All other costs were \$49.7 million in 2008, an increase of \$16.2 million compared to the same period in 2007. The operations of the Natural Gas Storage and Energy Services segments added \$3.6 million and \$6.8 million of other costs, respectively, in 2008. Professional fees increased by \$2.5 million due to corporate expenses associated with the integration of Buckeye's acquisitions throughout the 2008 fiscal year. The remainder of the increases related to various other pipeline operating costs. Professional fees at BGH increased by \$1.6 million due to fees incurred in

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

connection with the tender offer for the outstanding BGH Common Units made by BGH GP in the latter part of 2008, which tender offer was subsequently withdrawn.

Costs and expenses attributable to Buckeye, Services Company and BGH were as follows:

	2008	Year Ended December 31, 2007	2006
		(In thousands)	
Attributable to Buckeye	\$ 1,643,031	\$ 317,267	\$ 284,693
Elimination of Buckeye deferred charge	(4,698)	(4,698)	(4,698)
Elimination of Buckeye senior administrative charge			(1,154)
Net effect of ESOP charges	2,517	5,069	5,997
Attributable to BGH	9,310	6,356	12,049
Total	\$ 1,650,160	\$ 323,994	\$ 296,887

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

### Table of Contents

Amounts attributable to BGH consist of the following:

	2008	Year Ended December 31, 2007 (In thousands)	2006
Payroll and payroll benefits	\$ 5,000	\$ 3,975	\$ 7,370
Professional fees	3,172	1,485	3,633
Other	1,138	896	1,046
Total	\$ 9,310	\$ 6,356	\$ 12,049

Payroll and benefits costs include salaries and benefits for the four highest paid executives performing services on behalf of Buckeye, which is the responsibility of BGH pursuant to an Exchange Agreement, as well as allocations of the cost of Buckeye personnel performing administrative services directly for BGH. Effective January 1, 2009, Buckeye and its subsidiaries have agreed to pay for all the executive compensation and benefits of the four highest paid executives in return for an annual fixed payment from BGH in the amount of \$3.6 million. BGH's payroll expense increased by \$1.0 million due to accruals related to executive compensation and charges for BGH GP's equity incentive plan. Non-recurring professional fees in 2008 include approximately \$1.6 million due to fees incurred in connection with the tender offer for outstanding BGH Common Units made by BGH GP in the latter part of 2008, which tender offer was subsequently withdrawn. Other costs include certain state franchise taxes, insurance costs, depreciation and miscellaneous other expenses.

Other income (expense) for the years ended December 31, 2008, 2007 and 2006 was as follows:

	2008	Year Ended December 31, 2007 (In thousands)	2006
Investment income	\$ 1,553	\$ 1,490	\$ 1,410
Interest and debt expense	(75,410)	(51,721)	(60,702)
Total	\$ (73,857)	\$ (50,231)	\$ (59,292)

Investment income for 2008 was consistent with investment income generated during 2007. Interest and debt expense was \$75.4 million for 2008, which is an increase of \$23.7 million from 2007. Approximately \$17.7 million of the increase was attributable to expenses associated with Buckeye's 6.05% Notes due 2018 (the "6.05% Notes") which were issued by Buckeye in January 2008. The remainder of the increase is due to interest expense related to working capital requirements of the Energy Services segment and amounts outstanding under Buckeye's Credit Facility, as defined below.

### **2007 Compared to 2006**

Total revenues for the year ended December 31, 2007 were \$519.3 million, an increase of \$57.5 million, or 12.5%, as compared to revenue of \$461.8 million for the same period in 2006. The improvement in revenue in 2007 as compared to 2006 resulted from increased revenue in Pipeline Operations of \$28.4 million, or 8.1%, increased revenues in Terminalling and Storage of \$22.5 million, or 27.7%, and increased revenues in Other Operations of \$6.6 million, or 22.4%.

*Revenues*

Pipeline Operations:

Revenue from Pipeline Operations was \$379.3 million in 2007 compared to \$350.9 million in 2006. The revenue increase in Pipeline Operations in 2007 of \$28.4 million or 8.1% was primarily the result of:

- An approximate \$21.1 million net increase in base transportation revenue caused primarily by an indexed-based tariff increase of approximately 4.3% implemented on July 1, 2007, a market-based tariff increase of approximately 4.5% implemented on May 1, 2007, and an increase of 3.3% in jet fuel volumes delivered;
- Incremental revenue of approximately \$4.0 million in 2007 compared to 2006 resulting from the commissioning of the terminal and pipeline at the Memphis International Airport in April 2006;

Table of Contents

- An approximate \$2.3 million reduction in revenue representing the settlement of overages and shortages on product deliveries;
- Recognition and collection of approximately \$1.8 million in revenue in the first quarter of 2007 from the resolution of a product measurement issue with a customer; and
- Incremental revenue of \$1.7 million for the entire 2007 fiscal year from a natural gas liquids pipeline as compared to eleven months of revenue in 2006 from a natural gas liquids pipeline which was acquired by Buckeye on January 31, 2006.

Terminalling and Storage:

Revenue from Terminalling and Storage was \$103.8 million for the year ended December 31, 2007 compared to \$81.3 million for the year ended December 31, 2006. The revenue increase in Terminalling and Storage of \$22.5 million or 27.7% was primarily the result of:

- An approximate \$11.4 million increase in base revenue primarily related to increases in throughput volumes, charges for product additives and product recoveries from vapor recovery units in 2007 compared to 2006;
- Additional revenue of \$6.7 million in 2007 compared to 2006 primarily due to the acquisition of six terminals in 2007, as more fully described in Note 4 to the accompanying consolidated financial statements; and
- Additional revenue of \$2.0 million in 2007 compared to 2006 due to the commencement of certain butane blending agreements in the latter part of 2006 that continued through the entire 2007 fiscal year.

Other Operations:

Revenue from Other Operations was \$36.2 million for the year ended December 31, 2007 compared to \$29.6 million in 2006. The revenue increase in Other Operations of \$6.6 million or 22.3% was primarily the result of:

- An increase of \$2.9 million in pipeline maintenance and operating revenue related to additional operating contracts signed in the latter part of 2006;
- An increase of \$2.8 million in construction management revenue related to additional services requested by customers during 2007; and
- An increase of \$0.9 million in incidental revenue due to the sale of miscellaneous equipment in 2007.

*Operating Expenses*

Cost of product sales was \$10.5 million in 2007, which is an increase over 2006 of \$0.8 million. The increase was associated with fuel purchases related to a product supply arrangement in Buckeye's Pipeline Operations segment.

Payroll and payroll benefits were \$97.8 million for the year ended December 31, 2007, an increase of \$5.9 million compared to the same period in 2006. Increases in salaries and wages of \$7.0 million were attributed to an increase in the number of employees and overtime pay due to Buckeye's expanded operations and higher wage rates. In 2007, Buckeye experienced an increase of \$2.4 million in employee incentive compensation expense. Payroll and payroll benefits also increased due to a decrease in capitalized payroll and payroll benefits of \$1.3 million. Approximately \$1.1 million of payroll and payroll benefit expense related to recent acquisitions. Buckeye experienced an increase of \$0.9 million in major medical costs in 2007. In addition, BGH's payroll expense also increased by \$0.6 million due to non-cash unit based compensation expense related to BGH GP's compensation plan. These increases were offset by a decrease of \$3.9 million in payroll benefits due to lower employee benefits costs resulting from an amendment to Services Company's postretirement health care and life insurance benefits plan. Payroll and payroll benefits costs further decreased by \$2.4 million due to a decrease in non-cash unit based compensation due to the vesting of its Management Units in connection with BGH's initial public offering of BGH's Common Units (IPO). BGH expensed \$1.1 million and \$3.5 million related to its Management Units in 2007 and 2006, respectively. In 2006, BGH paid one-time bonuses of \$2.0 million to executives in connection with the completion of BGH's IPO.

Depreciation and amortization expense was \$40.2 million in 2007, an increase of \$0.6 million over 2006, which is primarily due to recent acquisitions and depreciation expense for the entire 2007 fiscal year related to the terminal and pipeline at the Memphis International Airport in April 2006.

Table of Contents

Outside services costs were \$39.7 million in 2007, or \$5.1 million greater than the same period in 2006. Approximately \$0.7 million of the increase is related to recent acquisitions. Approximately \$0.6 million of the increase is related to corporate development and investor relations initiatives. An additional \$1.2 million of this increase is due to an annual senior administrative charge that is paid by Buckeye to affiliates of its general partner for certain management functions supplied by those affiliates. Prior to BGH's IPO, this senior administrative charge was recognized as income by BGH. In connection with the IPO, Buckeye pays the senior administrative charge directly to BGH's general partner, MainLine Management, which resulted in an increase in outside service costs during 2007. The remaining increase of approximately \$2.6 million is due to additional pipeline and tank inspections and maintenance work that occurred during 2007.

Operating power costs of \$31.3 million for the year ended December 31, 2007 were \$2.4 million higher than the same period in 2006. The increase is primarily due to higher power supply additive expense of \$0.9 million. The remaining increase of \$1.5 million is due to power rate increases offset by a slight reduction in pipeline volumes. Operating power consists primarily of electricity required to operate pipeline pumping facilities.

Property and other taxes increased by \$1.5 million from \$21.3 million in 2006 to \$22.8 million for the same period in 2007. Approximately \$0.6 million of the increase is related to recent acquisitions. The remainder of the increase is due to higher real property assessments over the same period in 2006.

Insurance costs and casualty losses were \$14.4 million in 2007, which is an increase of \$2.9 million over the comparable period in 2006. Approximately \$2.4 million of the increase is due to higher insurance premiums. Recent acquisitions added additional insurance expense of \$0.3 million in 2007.

Construction management costs were \$11.0 million for the year ended December 31, 2007, which is an increase of \$2.6 million from the prior year, which was due to an increase in construction activity.

Supplies expense was \$11.1 million in 2007, an increase of \$3.2 million from 2006. Approximately \$2.2 million of the increase is due an increase in use of terminal additives as a result of increased activity at Buckeye's terminals. The remainder of the increase is due to higher consumption of other supplies needed to operate Buckeye's pipelines and terminals in general.

Rental expense increased by \$1.4 million from \$10.3 million for the year ended December 31, 2006 to \$11.7 million for the same period in 2007. Approximately \$0.8 million of the increase is related to higher office rent due to Buckeye's relocation of its corporate offices in 2006. The remainder of the increase is principally due to increases in rights of way expense for Buckeye's pipelines and terminals.

All other costs were \$33.5 million, an increase of \$0.6 million, in 2007 compared to 2006. The increase is primarily related to \$1.9 million of various other pipeline operating costs resulting from Buckeye's expanded operations. Approximately \$0.9 million of the increase is due to costs related to recent acquisitions of Buckeye. These increases were offset by \$2.1 million of non-recurring professional fees in 2006 for legal, accounting and tax fees related to planning for BGH's IPO in 2006.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Interest and debt expense was \$51.7 million in 2007, a decrease of \$9.0 million compared to 2006. The decrease is primarily due to \$7.0 million of interest expense associated with BGH's prior term loan which was extinguished in conjunction with the IPO in 2006. The remainder of the decrease is due to a decrease in interest expense on Buckeye's credit facility resulting from lower balances outstanding in 2007 as compared to 2006.

### **Liquidity and Capital Resources**

Until BGH's IPO on August 9, 2006, BGH's only capital requirement, apart from Buckeye's capital requirements, was its debt service under its term loan. Concurrent with BGH's IPO, the term loan was repaid in full. Buckeye's capital requirements consist of maintenance and capital expenditures, expenditures for acquisitions and debt service requirements.

As noted in Overview above, BGH's only cash-generating asset is its ownership interest in Buckeye GP. BGH's cash flow is, therefore, directly dependent upon the ability of Buckeye and its operating subsidiaries to make cash distributions to Buckeye's partners. The actual amount of cash that Buckeye will have available for distribution depends primarily on Buckeye's ability to generate cash beyond its working capital requirements. Buckeye's primary future sources of liquidity are operating cash flow, proceeds from borrowings under Buckeye's revolving credit facility and proceeds from the issuance of Buckeye's LP Units and notes.

During 2007 and continuing in 2008, the capital markets have been increasingly affected by overall macroeconomic, liquidity, credit and recessionary concerns. These concerns culminated in the third and fourth quarters of 2008 with a financial credit crisis,



Table of Contents

with sources of additional external financing either unavailable or available only on unfavorable economic terms. Prior to this credit crisis, Buckeye issued additional LP Units, debt securities and made additional borrowings under the Credit Facility in order to fund the Lodi Gas and Farm & Home acquisitions, make expansion capital expenditures and fund short-term working capital needs. In conjunction with the acquisition of Farm & Home, Buckeye assumed Farm & Home's existing working capital facility, but subsequently replaced this facility with the BES Credit Agreement. Since these financings, Buckeye has continued to access the Credit Facility to fund its short-term working capital needs and to fund expansion capital expenditures, while BES continues to access the BES Credit Agreement in order to fund its working capital needs.

Because current economic conditions make it more difficult to obtain funding in either the debt or equity markets, and such funding will likely be more expensive, Buckeye has taken steps to preserve its liquidity position including maintaining increased cash balances, reducing discretionary capital expenditures and appropriately managing operating and administrative expenditures in order to lower costs and improve profitability. As a result of Buckeye's actions to minimize external financing requirements and the fact that no debt facilities mature prior to 2011, BGH believes that availabilities under Buckeye's credit facilities, coupled with ongoing cash flows from operations, will be sufficient to fund Buckeye's operations for 2009. Buckeye will continue to evaluate a variety of financing sources, including the debt and equity markets, throughout 2009. However, continuing volatility in the debt and equity markets will make the timing and cost of any such potential financing uncertain.

BGH's principal use of cash is the payment of its operating expenses and distributions to its Unitholders. BGH generally makes quarterly cash distributions of substantially all of its available cash, generally defined as consolidated cash receipts less consolidated cash expenditures and such retentions for working capital, anticipated cash expenditures and contingencies as MainLine Management deems appropriate. In 2008, BGH paid cash distributions of \$0.285 per unit on February 29, 2008, \$0.30 per unit per unit on May 30, 2008, \$0.31 per unit on August 29, 2008 and \$0.32 per unit on November 28, 2008. Total cash distributed to BGH Unitholders in 2008 was approximately \$34.4 million.

***Debt***

***BGH***

On August 9, 2006, BGH entered into a five-year, \$10.0 million unsecured revolving credit facility with SunTrust Bank, as both administrative agent and lender (the "BGH Credit Agreement"). The credit facility may be used for working capital and other partnership purposes. BGH has pledged all of the limited liability company interests in Buckeye GP as security for its obligations under the BGH Credit Agreement. Borrowings under the BGH Credit Agreement bear interest under one of two rate options, selected by BGH, equal to either (i) the greater of (a) the federal funds rate plus 0.5% and (b) SunTrust Bank's prime commercial lending rate; or (ii) LIBOR, plus a margin which can range from 0.40% to 1.40%, based on the ratings assigned by Standard & Poor's Rating Services and Moody's Investor Services to the senior unsecured non-credit enhanced long-term debt of BGH. BGH did not have amounts outstanding under the BGH Credit Agreement at December 31, 2008 and 2007.

The BGH Credit Agreement requires BGH to maintain leverage and funded debt coverage ratios. The leverage ratio covenant requires BGH to maintain, as of the last day of each fiscal quarter, a ratio of the total funded indebtedness of BGH and its Restricted Subsidiaries, measured as of the last day of each fiscal quarter, to the aggregate dividends and distributions received by BGH and its Restricted Subsidiaries from Buckeye, plus all other cash received by BGH and the Restricted Subsidiaries, measured for the preceding twelve months, less expenses, of not more than 2.50 to 1.00. The BGH Credit Agreement defines "Restricted Subsidiaries" as certain of BGH's wholly-owned subsidiaries. The funded debt coverage ratio covenant requires BGH to maintain, as of the last day of each fiscal quarter, a ratio of total consolidated funded debt of BGH and all of its subsidiaries to the consolidated EBITDA, as defined in the BGH Credit Agreement, of BGH and all of its subsidiaries, measured for the

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

preceding twelve months, of not more than 5.25 to 1.00, subject to a provision for increases to 5.75 to 1.00 in connection with future acquisitions. At December 31, 2008, BGH's funded debt coverage ratio was 4.94 to 1.00.

The BGH Credit Agreement contains other covenants, including but not limited to, prohibiting BGH from declaring dividends or distributions if any default or event of default has occurred or would result from such a declaration and limiting BGH's ability to incur additional indebtedness, to create negative pledges and liens, to make loans, acquisition and grant liens, to make material changes to the nature of BGH and its Restricted Subsidiaries' business and to enter into a merger, consolidation or sale of assets. At December 31, 2008, BGH was not aware of any instances of noncompliance with the covenants under the BGH Credit Agreement.

### *Services Company*

Services Company had total debt outstanding of \$14.0 million and \$20.3 million at December 31, 2008 and 2007, respectively, consisting of 3.60% Senior Secured Notes (the 3.60% ESOP Notes) due March 28, 2011 payable by the ESOP to a third-party lender. The 3.60% ESOP Notes were issued on May 4, 2004. The 3.60% ESOP Notes are collateralized by Services Company's common stock and are guaranteed by Services Company. In addition, Buckeye has committed that, in the event that the

Table of Contents

value of Buckeye's LP Units owned by Services Company falls below 125% of the balance payable under the 3.60% ESOP Notes, Buckeye will fund an escrow account with sufficient assets to bring the value of the total collateral (the value of Buckeye's LP Units owned by Services Company and the escrow account) up to the 125% minimum. Amounts deposited in the escrow account are returned to Buckeye when the value of Buckeye's LP Units owned by Services Company's returns to an amount that exceeds the 125% minimum. At December 31, 2008, the value of Buckeye's LP Units owned by Services Company exceeded the 125% requirement.

*Buckeye Note*

On January 11, 2008, Buckeye sold \$300.0 million aggregate principal amount of 6.05% Notes in an underwritten public offering. Proceeds from this offering, after underwriters' fees and expenses, were approximately \$298.0 million and were used to partially pre-fund the Lodi Gas acquisition. In connection with this debt offering, Buckeye settled the two forward-starting interest rates swaps, as discussed below, which resulted in a settlement payment by Buckeye of \$9.6 million that is being amortized as interest expense over the ten year term of the 6.05% Notes.

*Buckeye Credit Facility*

Buckeye has a borrowing capacity of \$600.0 million under its unsecured revolving credit agreement (the Credit Facility), which may be expanded up to \$800.0 million subject to certain conditions and upon further approval of the lenders. The Credit Facility requires Buckeye to maintain a specified ratio (the Funded Debt Ratio) of no greater than 5.0 to 1.0 subject to a provision that allows for increases to 5.5 to 1.0 in connection with certain future acquisitions. The Funded Debt Ratio is calculated by dividing consolidated debt by annualized EBITDA, which is defined in the Credit Facility as earnings before interest, taxes, depreciation, depletion and amortization, in each case excluding the income of certain majority-owned subsidiaries and equity investments (but including distributions from those majority-owned subsidiaries and equity investments). At December 31, 2008, Buckeye's Funded Debt Ratio was 4.6 to 1.0. At December 31, 2008, Buckeye had committed \$1.3 million in support of letters of credit. The obligations for letters of credit are not reflected as debt on Buckeye's consolidated balance sheet. The weighted average interest rate for borrowing outstanding under the Credit Facility was 2.4% at December 31, 2008.

In addition, the Credit Facility contains other covenants including, but not limited to, covenants limiting Buckeye's ability to incur additional indebtedness, to create or incur certain liens on its property, to dispose of property material to its operations, and to consolidate, merge, or transfer assets. At December 31, 2008, Buckeye was not aware of any instances of noncompliance with the covenants under its Credit Facility.

See Note 13 to BGH's consolidated financial statements for more information about the terms of the Credit Facility.

Lehman Brothers, FSB, an affiliate of Lehman Brothers, has committed, as a lender, 3.3%, or \$20.0 million, of Buckeye's \$600.0 million borrowing capacity under the Credit Facility but recently has not honored that commitment. See below for a further discussion of Buckeye's relationships with Lehman Brothers.

*BES Credit Agreement*

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

On May 20, 2008, Farm & Home and BES entered into a credit agreement, which was subsequently amended on July 18, 2008 and September 15, 2008 (the BES Credit Agreement ). On July 31, 2008, Farm & Home was merged with and into BES, leaving BES as the sole borrower under the BES Credit Agreement. The credit facility provided by the BES Credit Agreement provides for borrowings of up to \$175.0 million, which amount may be increased to \$250.0 million subject to customary conditions, including procurement of the requisite lender commitments.

The BES Credit Agreement requires BES to meet certain financial covenants, which are summarized below (in millions except for leverage ratio):

<b>Borrowings outstanding on BES Credit Agreement</b>	<b>Minimum Consolidated Tangible Net Worth</b>	<b>Minimum Consolidated Net Working Capital</b>	<b>Maximum Consolidated Leverage Ratio</b>
\$150	\$40	\$30	7.0 to 1.0
Above \$150 up to \$200	50	40	7.0 to 1.0
Above \$200 up to \$250	60	50	7.0 to 1.0

At December 31, 2008, BES's Consolidated Tangible Net Worth (as defined in the BES Credit Agreement) and Consolidated Net Working Capital (as defined in the BES Credit Agreement) were \$113.5 million and \$64.2 million, respectively, and the Consolidated Leverage Ratio (as defined in the BES Credit Agreement) was 1.62 to 1.0. The weighted average interest rate for

Table of Contents

borrowing outstanding under the BES Credit Agreement was 2.6% at December 31, 2008.

In addition, the BES Credit Agreement contains other covenants, including, but not limited to, covenants limiting BES's ability to incur additional indebtedness, to create or incur certain liens on its property, to consolidate, merge or transfer its assets, to make dividends or distributions, to dispose of its property, to make investments, to modify its risk management policy, or to engage in business activities materially different from those presently conducted. At December 31, 2008, BES was not aware of any instances of noncompliance with the covenants under the BES Credit Agreement.

See Note 13 to BGH's consolidated financial statements for more information about the terms of the BES Credit Agreement.

Derivatives

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk - Market Risk - Non Trading Instruments for a discussion of commodity derivatives used by Buckeye's Energy Services segment.

In January 2008, Buckeye terminated two forward-starting interest rate swap agreements associated with the 6.05% Notes and made a payment of \$9.6 million in connection with the termination. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), Buckeye has recorded such amount in other comprehensive income and will amortize the amount of the payment into interest expense over the ten-year term of the 6.05% Notes. Interest expense increased by \$0.9 million for the year ended December 31, 2008 as a result of the amortization of the termination payment.

In October 2008, Buckeye borrowed approximately \$50 million under the Credit Facility. In order to hedge its variable interest rate risk with respect to the amount borrowed, Buckeye concurrently entered into an interest rate swap agreement for a notional amount of \$50 million. Under the swap agreement, Buckeye will pay a fixed interest rate of interest of 3.15% for 180 days and, in exchange, will receive a series of six monthly payments to be calculated based on the 30-day London Interbank Offered Rate (LIBOR) rate in effect at the beginning of each monthly period. The amounts received by Buckeye will correspond to the 30-day LIBOR rates Buckeye expects to pay on the \$50 million borrowed under the Credit Facility. The swap will settle on the maturity date of the last 30-day LIBOR period. Buckeye designated the swap agreement as a cash flow hedge on December 3, 2008 with changes in value between the trade date and the designation date recognized in earnings. As of December 31, 2008, \$0.3 million was recognized in earnings related to the differences in the trade and designation date and the ineffectiveness for the hedge period.

In January 2009, Buckeye entered into an additional interest rate swap agreement to hedge its variable rate risk on an additional \$50 million in borrowing under the Credit Facility. Under the swap agreement, Buckeye will pay a fixed interest rate of 0.81% for 180 days and, in exchange, will receive a series of six monthly payments to be calculated based on the 30-day LIBOR rate in effect at the beginning of each monthly period. The amounts received by Buckeye will correspond to the 30-day LIBOR rates Buckeye expects to pay on the additional \$50 million borrowed under the Credit Facility. The swap will settle on the maturity date of the last 30-day LIBOR period. Buckeye designated the swap agreement as a cash flow hedge at inception.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

For both interest rate swap agreements, Buckeye expects the changes in value of the interest rate swap agreements to be highly correlated with the changes in value of the underlying borrowing.

Buckeye's financial strategy is to maintain an investment-grade credit rating, which involves, among other things, the issuance of additional LP Units in connection with Buckeye's acquisitions and internal growth activities in order to maintain acceptable financial ratios, including total debt to total capital. From 2004 through 2008, Buckeye has raised net proceeds of approximately \$853 million from the issuance of its LP Units in support of its acquisition and growth strategies. Buckeye may issue additional LP Units in 2009 and beyond to partially fund acquisitions and internal growth activities, market conditions permitting. Buckeye is subject, however, to changes in the equity markets for its LP Units, and there can be no assurance Buckeye will be able or willing to access the public or private markets for its LP Units in the future. If Buckeye were unable to issue additional LP Units, Buckeye would be required to either restrict potential future acquisitions or pursue other debt financing alternatives, some of which could involve higher costs.

### Relationships with Lehman Brothers

On September 15, 2008, it was reported that Lehman Brothers filed for protection under Chapter 11 of the federal Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. An affiliate of Lehman Brothers owned a direct interest in BGH GP, affiliates of Lehman Brothers had provided investment and commercial banking and financial advisory services to Buckeye, an affiliate of Lehman Brothers was a lender under the Credit Facility, and an affiliate of Lehman Brothers was a customer of Lodi Gas. BGH has considered its relationship with Lehman Brothers and its affiliates, and for the reasons set forth below, believe the Lehman Brothers bankruptcy and the possible resulting effects on affiliates of Lehman Brothers

Table of Contents

will not have a direct material adverse effect on BGH. The BGH GP interest owned by an affiliate of Lehman Brothers was a passive investment that did not entitle its holder to any management or other control rights with respect to BGH GP, MainLine Management, BGH, Buckeye GP, or Buckeye. Consequently, BGH believes that if the interest in BGH GP is or has been transferred in connection with Lehman Brothers bankruptcy, such transfer will not adversely impact BGH. An affiliate of Barclays PLC has acquired and is operating the investment banking business and certain financial services businesses of Lehman Brothers and its affiliates in North America and, as a result, management does not expect any disruption with respect to these services that Lehman Brothers and its affiliates have provided to Buckeye. Lehman Brothers, FSB, an affiliate of Lehman Brothers, has committed, as a lender, 3.3%, or \$20.0 million, of Buckeye's \$600.0 million borrowing capacity under Buckeye's Credit Facility, but recently has not honored that commitment. BGH does not believe that the reduction in capacity under Buckeye's Credit Facility resulting from the unavailability of Lehman Brothers, FSB's commitment will have any impact on BGH's ability to meet its liquidity needs. Finally, in October 2008, Lehman Brothers sold the Lehman Brothers affiliate that is a customer of Lodi Gas to a third party not affiliated with Lehman Brothers.

Ammonia Contract Contingencies

On November 30, 2005, Buckeye Gulf Coast Pipe Lines, L.P. ( BGC ), a subsidiary of Buckeye, purchased an ammonia pipeline and other assets from El Paso Merchant Energy-Petroleum Company ( EPME ), a subsidiary of El Paso Corporation ( El Paso ). As part of the transaction, BGC assumed the obligations of EPME under several contracts involving monthly purchases and sales of ammonia. EPME and BGC agreed, however, that EPME would retain the economic risks and benefits associated with those contracts until their expiration at the end of 2012. To effectuate this agreement, BGC passes through to EPME both the cost of purchasing ammonia under a supply contract and the proceeds from selling ammonia under three sales contracts. For the vast majority of monthly periods since the closing of the pipeline acquisition, the pricing terms of the ammonia contracts have resulted in ammonia costs exceeding ammonia sales proceeds. The amount of the shortfall generally increases as the market price of ammonia increases.

EPME has informed BGC that, notwithstanding the parties' agreement, it will not continue to pay BGC for shortfalls created by the pass-through of ammonia costs in excess of ammonia revenues. EPME encouraged BGC to seek payment by invoking the \$40.0 million guaranty made by El Paso which guaranteed EPME's obligations to BGC. If EPME fails to reimburse BGC for these shortfalls for a significant period during the remainder of the term of the ammonia agreements, then such unreimbursed shortfalls could exceed the \$40.0 million cap on El Paso's guaranty. To the extent the unreimbursed shortfalls significantly exceed the \$40.0 million cap, the resulting costs incurred by BGC could adversely affect Buckeye's financial position, results of operations, and cash flows. Given the uncertainty of future ammonia prices and EPME's future actions, Buckeye is unable to estimate the amount of any such losses. Accordingly, Buckeye has recorded no provision for losses in the accompanying consolidated financial statements because it is unable to determine whether or not a loss has been incurred or, if a loss has been incurred, a reasonable estimate or range of estimates of the amount of such losses. Buckeye is currently assessing its options, including potential recourse against EPME and El Paso, with respect to this matter.

*Cash Flows from Operations*

The components of cash flows from operations for the years ended December 31, 2008, 2007 and 2006 were as follows:

	2008	Cash Flow from Operations		2006
		2007		
		(In thousands)		
Income from continuing operations	\$ 26,477	\$ 22,921	\$	8,734

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Value of ESOP shares released	2,202	4,470	4,077
Depreciation and amortization	50,834	40,236	39,629
Non-controlling interest	154,146	128,926	103,066
Net changes in fair value of derivatives	(24,228)		
Changes in current assets and liabilities	(6,366)	(1,895)	(8,310)
Changes in non-current assets and liabilities	(874)	(4,984)	3,568
Other	6,366	2,062	4,428
Total	\$ 208,557	\$ 191,736	\$ 155,192

Cash flows from operations were \$208.6 million for 2008, which is an increase of \$16.8 million compared to 2007. The primary cause of this increase was the improvement in net income in 2008 compared to 2007 offset by cash used for working capital of \$6.4 million.



Table of Contents

In 2008, cash used for working capital resulted primarily from an increase in prepaid and other current assets of \$27.7 million, a decrease in accounts payable of \$10.6 million, an increase in construction and pipeline relocation receivables of \$8.9 million, and an increase in inventories of \$4.4 million. These cash uses were offset by a decrease in trade receivables of \$36.1 million and an increase in accrued and other current liabilities of \$9.2 million.

The increase in prepaid and other current assets is primarily due to an increase in a receivable related to ammonia purchases as well as additional margin deposits associated with liabilities for derivative instruments. The decrease in accounts payable is due to activity within the Energy Services segment since the acquisition of Farm & Home. The increase in construction and pipeline relocation receivables is due to an increase in construction activity in the latter part of 2008. The increase in inventories was due to inventory purchases within the Energy Services segment. The reduction of trade receivables is due to an increase in collections within the Energy Services segment since the acquisition of Farm & Home. The increase in accrued and other current liabilities is primarily due to increases in accrued taxes, environmental liabilities, and interest expense.

The net change in fair values of derivatives resulted from the significant increase in value related to fixed-price sales contracts compared to a lower level of opposite fluctuations in futures contracts purchased to hedge such fluctuations. Buckeye did not hedge a portion of the fixed-price sales contracts because it had purchased inventory to fulfill a portion of those commitments.

Cash flows from operations were \$191.7 million in 2007, compared to \$155.2 million in 2006, an increase of \$36.5 million. The primary causes of this increase were the increases in BGH's net income of \$14.2 million and non-controlling interest of \$26.7 million in 2007, which were partially offset by an increase in non-current assets and liabilities of \$5.0 million and an increase in working capital requirements in 2007 as compared to 2006 of \$1.9 million

In 2007, cash used for working capital resulted primarily from a reduction in accounts payable of \$6.3 million which was offset by reductions in trade receivables of \$3.4 million and prepaid and other current assets of \$1.5 million and an increase in accrued and other current liabilities of \$0.7 million. The reduction in accounts payable is due to the timing of the payment of invoices at year end in 2007 as compared to 2006. The reduction in trade receivables is due to improvements in the timing of collections. The reduction in prepaid and other current assets is a result of decreases in insurance receivables from insurance companies related to environmental remediation expenditures and prepaid insurance which were partially offset by increases in prepaid taxes and excise tax receivables. The increase in accrued and other current liabilities is due to increases in accrued taxes and benefit accruals offset by a reduction in environmental liabilities.

***Cash Flows from Investing Activities***

Net cash used in investing activities for the years ended December 31, 2008, 2007 and 2006, all of which were incurred by Buckeye, were as follows:

	2008	Investing Activities 2007 (In thousands)	2006
Capital expenditures	\$ 120.5	\$ 67.9	\$ 92.8

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Acquisitions and equity investments		667.5		40.7		94.3
Other		(52.2)				(6.6)
Total	\$	735.8	\$	108.6	\$	180.5

In 2008, Buckeye expended \$438.8 million for Lodi Gas, \$143.3 million for Farm & Home, and an aggregate of \$75.6 million for the acquisitions of four terminals in Albany, New York, Niles and Ferrysburg, Michigan, and Wethersfield, Connecticut and the acquisition of the remaining 50% member interest in Wespac Pipelines - San Diego LLC that Buckeye did not already own. Buckeye also invested an additional \$9.8 million in West Texas LPG Pipeline Limited Partnership. See Note 3 to BGH's consolidated financial statements for a further discussion.

In 2007, Buckeye expended \$39.8 million primarily for the acquisition of six terminals and related assets and \$0.9 million for an additional investment in West Texas LPG Pipeline Limited Partnership. See Note 3 to BGH's consolidated financial statements for a further discussion.

In 2006, Buckeye paid \$94.3 million related to acquisitions, including \$79.3 million related to the NGL Pipeline, \$12.5 million related to the acquisition of the Niles, Michigan terminal and approximately \$2.5 million for miscellaneous asset acquisitions. The primary source of other cash of \$6.6 million in 2006 relates to the liquidation of restricted cash of \$5.1 million as a result of the repayment of the term loan in conjunction with BGH's IPO.

Table of Contents

Capital expenditures are summarized below:

	2008	Capital Expenditures 2007 (In millions)	2006
Sustaining capital expenditures:			
Operating infrastructure	\$ 20.1	\$ 22.6	\$ 20.6
Pipeline and tank refurbishments	8.8	11.2	9.6
Total sustaining	28.9	33.8	30.2
Expansion and cost reduction	93.5	34.1	62.6
Total	\$ 122.4	\$ 67.9	\$ 92.8

In 2008, Buckeye incurred \$28.9 million of sustaining capital expenditures and \$93.5 million of expansion and cost reduction expenditures. Expansion and cost reduction projects in 2008 included ethanol and butane blending projects at certain of Buckeye's terminals, the construction of three additional product storage tanks with a capacity of 0.4 million barrels in Linden, New Jersey, and an expansion project, known as Kirby Hills Phase II, at Buckeye's natural gas storage facility in California. Construction costs for Kirby Hills Phase II in 2008 totaled approximately \$49.6 million.

Buckeye expects to spend approximately \$75.0 million to \$100.0 million in capital expenditures in 2009, of which approximately \$20.0 million to \$30.0 million is expected to relate to sustaining capital expenditures and \$55.0 million to \$70.0 million is expected to relate to expansion and cost reduction projects. Sustaining capital expenditures include renewals and replacement of tank floors and roofs and upgrades to station and terminalling equipment, field instrumentation and cathodic protection systems. Major expansion and cost reduction expenditures in 2009 will include the completion of the Kirby Hills Phase II expansion, the completion of the additional product storage tanks at Linden, New Jersey and the construction of a 4.7 mile pipeline in central Connecticut to connect Buckeye's pipeline in Connecticut to a third party's electric generation plant currently under construction.

In 2007, Buckeye incurred \$33.8 million of sustaining capital expenditures and \$34.1 million of expansion and cost reduction expenditures. Expansion and cost reduction projects in 2007 included a capacity expansion project in Illinois to handle additional liquified petroleum gas volumes as well as ongoing capacity improvements at facilities serving the Memphis International Airport.

In 2006, Buckeye incurred \$30.2 million of sustaining capital expenditures and \$62.5 million of expansion and cost reduction expenditures. Expansion projects in 2006 included \$12.4 million to complete an approximate 11-mile pipeline and related terminal facilities to serve the Memphis International Airport, \$12.1 million for the addition of pipelines, tankage and equipment to meet new handling requirements for ultra-low sulfur diesel, and \$11.9 million for the capacity expansion project in Illinois to handle additional LPG volumes as referenced above. Other expansion projects in 2006 included various ethanol-blending and butane-blending projects at pipeline stations and terminals owned by Buckeye, and an expansion of pipeline and terminal infrastructure at the Memphis International Airport to accommodate a new generation of cargo planes for Federal Express Corporation.

Until December 31, 2005, Buckeye's initial pipeline integrity expenditures for internal inspections had been capitalized as part of pipeline cost when such expenditures improved or extended the life of the pipeline or related assets. Subsequent pipeline integrity expenditures for internal inspections have been expensed as incurred. As of January 1, 2006, Buckeye began expensing all internal inspections for pipeline integrity, whether or not such expenditures were for the initial or subsequent internal inspection. In 2008, 2007 and 2006, approximately \$8.9 million, \$10.9 million and \$10.5 million, respectively, of integrity costs were expensed. Buckeye expects to charge approximately \$13.9 million of

pipeline integrity expenditures to expense in 2009.

*Cash Flows from Financing Activities*

*Equity Securities:*

As described above, BGH raised approximately \$168.3 million, net of underwriters' discount and expenses, in the August 2006 IPO. BGH used the proceeds from the offering, plus available cash from operations and the liquidation of MainLine's interest expense reserve account and its three derivative instruments, to repay principal and accrued interest on MainLine's then-outstanding term loan, as well as make distributions of \$7.7 million to BGH's pre-IPO equity owners.

On March 26, 2008, Buckeye issued 2.6 million LP Units in an underwritten public offering at \$42.86 per LP Unit. Total proceeds from the offering, after underwriter's discount of \$1.79 per LP Unit and offering expenses, were approximately \$113.1 million and were used to reduce amounts outstanding under the Credit Facility.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

### Table of Contents

On December 4, 2007, Buckeye issued 2.0 million LP Units in an underwritten public offering at \$47.30 per LP Unit. Total proceeds from the offering, after underwriter's discount of \$1.00 per LP Unit and offering expenses, were approximately \$94.5 million, and were used to reduce amounts outstanding under the Credit Facility and to pre-fund a portion of the amounts required for the acquisition of Lodi Gas in January 2008.

On August 8, 2007, Buckeye issued 2.5 million LP Units in an underwritten public offering at \$47.95 per LP Unit. Total proceeds from the offering, after underwriter's discount of \$0.70 per LP Unit and offering expenses, were approximately \$119.7 million, and were used to reduce amounts outstanding under the Credit Facility.

On March 5, 2007, Buckeye issued 1.5 million LP Units in an underwritten public offering at \$48.25 per LP Unit. On March 14, 2007, the underwriters exercised a portion of their over-allotment option and, accordingly, Buckeye issued an additional 208,600 LP Units at \$48.25 per LP Unit. Proceeds from the offering, including the over-allotment option and after underwriter's discount of \$0.75 per LP and offering expenses, were approximately \$82.2 million, and were used to reduce amounts outstanding under the Credit Facility.

On March 7, 2006, Buckeye issued 1.5 million LP Units in an underwritten public offering at \$44.22 per LP Unit. Proceeds from the offering, after underwriter's discount of \$1.45 per LP Unit and offering expenses, were approximately \$64.1 million and were used to reduce amounts outstanding under the Credit Facility.

### *Debt Securities:*

On January 11, 2008, Buckeye sold \$300.0 million in aggregate principal amount of the 6.05% Notes in an underwritten public offering. Proceeds from this offering, after underwriters' fees and expenses, were approximately \$298.0 million and were used to partially pre-fund the Lodi Gas acquisition. In connection with this debt offering, Buckeye settled two interest rate swaps associated with the 6.05% Notes, which resulted in a settlement payment by Buckeye of \$9.6 million that is being amortized as interest expense over the ten-year term of the 6.05% Notes.

### *Bank Financings:*

Buckeye borrowed \$558.6 million, \$155.0 million and \$177.0 million, and repaid \$264.3 million, \$300.0 million and \$82.0 million under the Credit Facility (and its predecessor facility) in 2008, 2007 and 2006, respectively. Net repayments under the BES Credit Agreement and BES's previous credit agreement were \$4.0 million in 2008.

Payments on Service Company's ESOP loans were \$6.3 million in 2008 and \$6.0 million in each of 2007 and 2006.

### *Distributions:*

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Distributions to non-controlling interests consisting primarily of Buckeye's distributions to holders of its LP Units increased to \$159.3 million in 2008 compared to \$128.8 million in 2007 and \$113.5 million in 2006. Distributions in 2008 increased over 2007 primarily as a result of increases in the unit distribution rate and the issuance of the 2.6 million LP Units in 2008. Distributions in 2007 increased over 2006 primarily as a result of increases in the unit distribution rate and the issuance of the 6.2 million LP Units in 2007.

Total distributions by BGH to its Unitholders in 2008 amounted to \$34.4 million as compared to \$27.7 million in 2007 and \$3.5 million in 2006. Distributions in 2008 increased over 2007 primarily as a result of increases in Buckeye's unit distribution rate. In 2007, BGH declared four quarterly distributions as compared to 2006, when BGH only declared one quarterly distribution, as a result of BGH's IPO in the latter part of 2006.

### **Other Financing**

#### *Operating Leases*

Buckeye leases certain land and rights-of-way in connection with the operations of its pipelines. Minimum future lease payments for these leases as of December 31, 2008 are approximately \$5.8 million for each of the next five years. Substantially all of these lease payments can be canceled at any time should they not be required for operations.

Buckeye leases certain other land and space in office buildings. Future minimum lease payments under these non-cancelable operating leases at December 31, 2008 are approximately \$1.5 million for 2009, \$1.5 million for 2010, \$1.5 million for 2011, \$1.4 million for 2012, \$1.4 million for 2013, and \$12.3 million in the aggregate thereafter.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

### Table of Contents

Buckeye has leases for subsurface underground gas storage rights and surface rights in connection with its operations in the Natural Gas Storage segment. These leases may be cancelled by Buckeye if the storage reservoir is not used for underground storage of natural gas or the removal or injection thereof for a continuous period of two consecutive years. Lease payments for the year ended December 31, 2008 were \$2.7 million. Lease expense associated with these leases is being recognized on a straight-line basis over 44 years. For the year ended December 31, 2008, the Natural Gas Storage segment's lease expense was approximately \$7.1 million, including \$4.6 million recorded as an increase in Buckeye's deferred lease liability. Buckeye GP estimates that the deferred lease liability will continue to increase through 2032, at which time Buckeye's deferred lease liability is estimated to be approximately \$64.7 million. Buckeye's deferred lease liability will then be reduced over the remaining 19 years of the lease, since the expected annual lease payments will exceed the amount of lease expense.

Future minimum lease payments for subsurface underground gas storage and mineral rights by year as of December 31, 2008, are as follows:

	<b>Years Ending December 31, (In thousands)</b>	
2009	\$	2,677
2010		2,943
2011		3,057
2012		3,281
2013		3,408
Thereafter		298,848
<b>Total</b>	<b>\$</b>	<b>314,214</b>

Rent expense under operating leases was \$20.2 million, \$11.7 million and \$10.3 million for 2008, 2007 and 2006, respectively.

### *Contractual Obligations*

Contractual obligations are summarized in the following table:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years (In thousands)	3-5 years	More than 5 years
Long-term debt	\$ 1,462,264	\$ 6,294	\$ 7,703	\$ 598,267	\$ 850,000
Interest payable on fixed long-term debt obligations	634,311	63,728	126,558	126,263	317,762
Operating leases	19,545	1,474	2,941	2,868	12,262
Land leases	314,214	2,677	6,000	6,689	298,848
Rights-of-way payments	29,138	5,828	11,655	11,655	
Purchase obligations	47,227	47,227			
<b>Total contractual cash obligations</b>	<b>\$ 2,506,699</b>	<b>\$ 127,228</b>	<b>\$ 154,857</b>	<b>\$ 745,742</b>	<b>\$ 1,478,872</b>

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Interest payable on fixed long-term debt obligations includes semi-annual payments required for Buckeye's 4.625% Notes due 2013, its 6.75% Notes due 2033, its 5.30% Notes due 2014, its 5.125% Notes due 2017, and its 6.05% Notes, as well as interest due on Services Company's 3.6% ESOP Notes. Interest on Buckeye's variable rate obligations (the Credit Facility and the BES Credit Agreement) is not included in the table above because the amounts outstanding and the related interest rates cannot be predicted. In 2008, Buckeye paid interest of approximately \$6.1 million on the Credit Facility and \$3.7 million on the BES Credit Agreement. The weighted average interest rates for borrowings outstanding under the Credit Facility and the BES Credit Agreement were 2.4% and 2.6%, respectively, at December 31, 2008. At December 31, 2008, BGH did not have any amounts outstanding under the BGH Credit Agreement.

Purchase obligations generally represent commitments for recurring operating expenses or capital projects.

In addition, BGH's and Buckeye's obligations related to their pension and postretirement benefit plans are discussed in Note 17 to BGH's consolidated financial statements.

### *Environmental Matters*

Buckeye is subject to federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations, as well as Buckeye's own standards relating to protection of the environment, cause Buckeye to incur current and



Table of Contents

ongoing operating and capital expenditures. Environmental expenses are incurred in connection with emergency response activities associated with the release of petroleum products to the environment from Buckeye's pipelines and terminals, and in connection with longer term environmental remediation efforts which may involve, for example, groundwater monitoring and treatment. Buckeye regularly incurs expenses in connection with these environmental remediation activities. In 2008, Buckeye incurred operating expenses of \$10.1 million and at December 31, 2008 had \$27.0 million accrued for environmental matters. At December 31, 2008, Buckeye estimates that approximately \$2.9 million of environmental expenditures incurred will be covered by insurance. These recovery amounts have not been included in expense in Buckeye's financial statements. Buckeye maintains environmental liability insurance covering all of its pipelines and terminals with a per occurrence deductible in the amount of \$3.0 million. Expenditures, both capital and operating, relating to environmental matters are expected to continue due to Buckeye's commitment to maintaining high environmental standards and complying with increasingly rigorous environmental laws.

**Employee Stock Ownership Plan**

Services Company provides an employee stock ownership plan (the ESOP) to the majority of its employees hired before September 16, 2004. Effective September 16, 2004, new employees do not participate in the ESOP, as well as certain employees covered by a union multiemployer pension plan. The ESOP owns all of the outstanding common stock of Services Company.

Services Company stock is released to employee accounts in the proportion that current payments of principal and interest on the 3.6% ESOP Notes bear to the total of all principal and interest payments due under the 3.6% ESOP Notes. Individual employees are allocated shares based upon the ratio of their eligible compensation to total eligible compensation. Eligible compensation generally includes base salary, overtime payments and certain bonuses. Total ESOP related costs charged to earnings were \$3.4 million, \$5.8 million, and \$5.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**Off-Balance Sheet Arrangements**

BGH does not have any off-balance sheet arrangements except for operating leases. See Note 20 to BGH's consolidated financial statements for a further discussion.

**Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to select appropriate accounting principles from those available, to apply those principles consistently and to make reasonable estimates and assumptions that affect revenues and associated costs as well as reported amounts of assets and liabilities. The following describes the estimated risks underlying BGH's critical accounting policies and estimates:

*Depreciation Methods and Estimated Useful Lives of Property, Plant and Equipment*

Property, plant and equipment is recorded at cost. Approximately 68.7% of BGH's consolidated assets consist of property, plant and equipment such as pipeline and related transportation facilities, land, rights-of-way, buildings, leasehold improvements and machinery and equipment. The most significant of these assets are pipelines and related facilities, which, consistent with industry practice, are generally depreciated on a straight line basis over an estimated useful life of 50 years. Depreciation is the systematic and rational allocation of an asset's cost or fair value, less its residual value (if any), to the periods it benefits. Straight line depreciation results in depreciation expense being incurred evenly over the life of an asset.

The determination of an asset's useful life requires assumptions regarding a number of factors including technological change, normal depreciation and actual physical usage. If any of these assumptions subsequently change, the estimated useful life of the asset could change and result in an increase or decrease in depreciation expense that could have a material impact on our financial statements.

At December 31, 2008 and 2007, the net book value of BGH's consolidated property plant and equipment was \$2.2 billion and \$1.8 billion, respectively. Depreciation expense was \$47.4 million and \$39.6 million for the years ended December 31, 2008 and 2007, respectively. BGH does not believe that there is a reasonable likelihood that there will be a material change in the future estimated useful life of these assets. In the past, BGH has generally not deemed it necessary to materially change the depreciable lives of its assets. However, a 10% reduction in the depreciable life of these assets, for example, from 50 to 45 years for pipelines and related assets, would increase annual depreciation expense, and reduce operating income by approximately \$5.0 million annually.

Table of Contents

*Reserves for Environmental Matters*

As discussed under *Environmental Matters* above, Buckeye is subject to federal, state and local laws and regulations relating to the protection of the environment. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to existing conditions caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or clean-ups are probable, and the costs can be reasonably estimated based upon past experience and advice of outside engineering, consulting and law firms. Generally, the timing of these accruals coincides with Buckeye's commitment to a formal plan of action. Accrued environmental remediation related expenses include estimates of direct costs of remediation and indirect costs related to the remediation effort, such as compensation and benefits for employees directly involved in the remediation activities and fees paid to outside engineering, consulting and law firms. Historically, Buckeye's estimates of direct and indirect costs related to remediation efforts have generally not required material adjustments. However the accounting estimates relative to environmental matters are uncertain because (1) estimated future expenditures related to environmental matters are subject to cost fluctuations and can change materially, (2) unanticipated liabilities may arise in connection with environmental remediation projects and may impact cost estimates, and (3) changes in federal, state and local environmental regulations can significantly increase the cost or potential liabilities related to environmental matters. Buckeye maintains insurance which may cover certain environmental expenditures. During 2008, 2007 and 2006, Buckeye incurred environmental related operating expenses, net of insurance recoveries, of \$10.1 million, \$7.4 million and \$6.2 million, respectively. At December 31, 2008 and 2007, Buckeye had accrued \$27.0 million and \$22.7 million, respectively, for environmental matters. The environmental accruals are revised as new matters arise, or as new facts in connection with environmental remediation projects require a revision of estimates previously made with respect to the probable cost of such remediation projects. Changes in estimates of environmental remediation for each remediation project will affect operating income on a dollar-for-dollar basis up to Buckeye's self-insurance limit. Buckeye's self-insurance limit is currently \$3.0 million per occurrence.

*Fair Value of Derivatives and Fixed-Price Sales Contracts*

The Energy Services segment primarily uses exchange-traded petroleum futures contracts to manage the risk of market price volatility on its refined petroleum product inventories and its fixed-price sales contracts. The Energy Services segment has elected not to use hedge accounting with respect to its fixed-price sales contracts. Therefore, its fixed-price sales contracts and the related futures contracts used to offset those fixed-price sales contracts are all marked-to-market on Buckeye's balance sheet with gains and losses being recognized in earnings during the period. As a result, the valuations associated with these derivative instruments, including the fixed-price sales contracts, have a material impact on net income. At December 31, 2008, BUCKEYE included in its financial statements as assets fixed-price sales contracts with values of approximately \$78.4 million. These fair values resulted from the increasingly large differences between the fixed-prices called for in the sales contracts and current prices available in spot markets. Offsetting the value of these fixed-price sales contracts were futures contracts with values of approximately \$50.8 million which were recognized as liabilities. Buckeye has determined that the exchange-traded futures contracts represent Level 1 fair value measurements, as described in Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) because the prices for such futures contracts are established on liquid exchanges with willing buyers and sellers and with prices which are readily available on a daily basis.

Buckeye has determined that the fixed-price sales contracts represent Level 2 fair value measurements under SFAS 157 because their value is derived from similar contracts for similar delivery and settlement terms which are traded on established exchanges. However, because the fixed-price sales contracts are privately negotiated with customers of the Energy Services segment who are generally private companies that do not have credit ratings established by nationally recognized ratings agencies, the determination of an adjustment to fair value to reflect counterparty credit risk (a credit valuation adjustment) requires significant management judgment. At December 31, 2008, due to a credit valuation adjustment, Buckeye had reduced the fair value of the fixed-price sales contracts by \$0.6 million to reflect this counterparty credit risk. The delivery periods for the contracts range from one to 14 months, with the substantial amount of deliveries concentrated in the first four months of 2009.

Because little or no public credit information is available for the Energy Services segment's customers who have fixed-price sales contracts, Buckeye specifically analyzed each customer and contract to evaluate (i) the historical payment patterns of the customer, (ii) the current outstanding receivables balances for each customer and contract and (iii) the level of performance of each customer with respect to volumes called for in the contract. Buckeye then evaluated the specific risks and expected outcomes of nonpayment or nonperformance by each customer and contract. Based on its credit and performance risk evaluation, Buckeye recorded the credit valuation adjustment of \$0.6 million. If actual customer performance under these fixed-price sales contracts deteriorates (either through nonperformance with respect to contracted volumes or nonpayment of amounts due), then the fair value of these contracts could be materially less. For example, a one percent shortfall in delivered volumes over the average life of the contracts would reduce the fair value of the contracts and, accordingly, net income, by \$0.8 million. Buckeye continues to monitor and evaluate performance and collections with respect to these fixed-price sales contracts.

Table of Contents

*Accounting for Goodwill and Assessment of Goodwill Impairment*

BGH's goodwill balance at year-end 2007 of \$234.6 million related primarily to BGH's acquisition of the entity that controlled the general partner interests in Buckeye. The amount of reported goodwill increased to \$433.9 million at year-end 2008 substantially as a result of Buckeye's acquisition of Lodi Gas, Farm & Home and the ethanol and petroleum products terminal in Albany, New York. The initial recording of goodwill resulted from management's allocation of the purchase price of these businesses to the assets acquired and liabilities assumed, as required under Statement of Financial Accounting Standards No. 141 Business Combinations (SFAS 141). The application of SFAS 141 requires that the total purchase price be allocated to the fair value of the assets acquired and the liabilities assumed based on an assessment of their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill.

Under Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142), goodwill and other indefinite-lived intangible assets are not amortized but are reviewed annually for impairment. Intangible assets that have finite useful lives are amortized over such useful lives. As a result, significant management judgment is required in the determination of the fair values of the assets acquired and the liabilities assumed, including the determination if any intangible assets have been acquired and, if so, if such intangible assets have definite or indefinite useful lives. For intangible assets that are not indefinite, additional judgment is required in assessing such intangible asset's estimate useful life.

Subsequent to the initial recording of goodwill, SFAS 142 requires management, at least annually, to assess goodwill for impairment using a two-step methodology. The initial step requires management to determine the fair value of each of its reporting units and compare it to the carrying value, including goodwill, of the reporting unit. If the fair value exceeds carrying value, no impairment loss is recognized. However, a carrying value that exceeds fair value may be an indication of impaired goodwill. The amount, if any, of the impairment would then be measured and an impairment loss would be recognized. The impairment testing performed annually on January 1 has resulted in the determination that no impairment had been incurred in 2008, 2007 or 2006.

The determination of whether goodwill is impaired is based on management's estimate of the fair value of Buckeye's reporting units at each measurement date compared to their carrying values. In the 2008 impairment test, Buckeye utilized industry-specific multiples of EBITDA to determine the terminal values of each of its reporting units. These multiples require significant management judgment applied to each reporting unit. Management used EBITDA multiples that it believed were reasonable based on its experience in the acquisition of similar assets in the context of current market conditions. In the determination of estimated useful lives of intangible assets with finite lives, management considered relevant factors of useful life including, with respect to customer intangibles, the historical attrition rates for each customer.

**Related Party Transactions**

With respect to related party transactions see Note 21 to BGH's consolidated financial statements and Item 13 Certain Relationships and Related Transactions and Director Independence.

## Recent Accounting Pronouncements

See Note 2 to BGH's consolidated financial statements for a description of certain new accounting pronouncements issued in the year ended December 31, 2008.

## Forward-Looking Information

The information contained above in this Management's Discussion and Analysis and elsewhere in this Annual Report on Form 10-K includes forward-looking statements. Such statements use forward-looking words such as anticipate, continue, estimate, expect, may, believe, and other similar words, although some forward-looking statements are expressed differently. These statements discuss future expectations and contain projections. Specific factors that could cause actual results to differ from those in the forward-looking statements include, but are not limited to: (1) BGH's ability to pay distributions to its Unitholders; (2) BGH's expected receipt of distributions and incentive distributions from Buckeye; (3) anticipated trends in Buckeye's business; (4) price trends and overall demand for refined petroleum products and natural gas in the United States in general and in Buckeye's service areas in particular (economic activity, weather, alternative energy sources, conservation and technological advances may affect price trends and demands); (5) competitive pressures from other transportation services or alternative fuel sources; (6) changes, if any, in laws and regulations, including, among others, safety, environmental, tax and accounting matters or Federal Energy Regulatory Commission regulation of Buckeye's tariff rates; (7) liability for environmental claims; (8) nonpayment or nonperformance by Buckeye's customers; (9) security issues affecting Buckeye's assets, including, among others, potential damage to its assets caused by vandalism, acts of war or terrorism; (10) construction costs, unanticipated capital expenditures and operating expenses to repair or replace Buckeye's assets; (11) availability and cost of insurance on BGH's and Buckeye's assets and operations; (12) Buckeye's ability to successfully identify and complete strategic acquisitions and make cost saving changes in operations; (13) expansion in the operations of Buckeye's competitors; (14) Buckeye's ability to integrate

Table of Contents

any acquired operations into its existing operations and to realize anticipated cost savings and efficiencies; (15) shut-downs or cutbacks at major refineries that use Buckeye's services; (16) deterioration in Buckeye's labor relations; (17) regional economic conditions; (18) changes in real property tax assessments; (19) disruptions to the air travel system; (20) interest rate fluctuations and other capital market conditions; (21) BGH's future results of operations; (22) BGH's liquidity and ability to finance its activities; (23) market conditions in Buckeye's industry; (24) conflicts of interest between Buckeye, its general partner and BGH; (25) the treatment of Buckeye or BGH as a corporation for federal income tax purposes or if BGH or Buckeye become subject to entity-level taxation for state tax purposes; and (26) the impact of governmental legislation and regulation on BGH and Buckeye.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. Although the expectations in the forward-looking statements are based on our current beliefs and expectations, we do not assume responsibility for the accuracy and completeness of such statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Report on Form 10-K, including those described in the "Risk Factors" section of this Report. Further, we undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

***Market Risk – Trading Instruments***

BGH and Buckeye do not have any trading derivative instruments and neither engages in hedging activity with respect to trading instruments.

***Market Risk – Other than Trading Instruments***

Buckeye is exposed to financial market risk resulting from changes in commodity prices and interest rates. Buckeye does not currently have foreign exchange risk.

***Commodity Risk***

The Energy Services segment primarily uses exchange-traded petroleum futures contracts to manage the risk of market price volatility on its refined petroleum product inventories and its fixed-price sales contracts. The derivative contracts used to hedge refined petroleum product inventories are classified as fair value hedges. Accordingly, BGH's method of measuring ineffectiveness will compare the changes in the fair value of the New York Mercantile Exchange futures contracts to the change in fair value of Buckeye's hedged fuel inventory. Any difference between the amounts will be considered ineffectiveness and recorded in current period earnings.

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

The Energy Services segment has elected not to use hedge accounting with respect to its fixed-price sales contracts. Therefore, its fixed-price sales contracts and the related futures contracts used to offset those fixed-price sales contracts are all marked-to-market on the balance sheet with gains and losses being recognized in earnings during the period.

As of December 31, 2008, the Energy Services segment had derivative assets and liabilities as follows:

	<b>December 31, 2008</b>	
	<b>(In thousands)</b>	
<b>Assets:</b>		
Fixed-price sales contracts	\$	78,423
Futures contracts for inventory		25,225
		103,648
<b>Liability:</b>		
Futures contracts for fixed-price sales contracts		(50,806)
Total	\$	52,842

All but \$1.2 million of the assets noted above for unrealized gains of \$25.2 million related to inventory hedges will be realized in the first quarter of 2009 as the related inventory is sold. Gains recorded on inventory hedges that were ineffective were approximately \$5.7 million. As of December 31, 2008, open petroleum derivative contracts (represented by the fixed-price sales



Table of Contents

contracts and futures contracts for fixed-price sales contracts noted above) varied in duration, but did not extend beyond June 2010. In addition, Buckeye had on hand at December 31, 2008 refined product inventories which it intends to use to satisfy a portion of the fixed-price sales contracts.

Based on a hypothetical 10% movement in the underlying quoted market prices of the commodity financial instruments outstanding at December 31, 2008, the estimated fair value of the portfolio of commodity financial instruments would be as follows:

Scenario	Resulting Classification	Commodity Financial Instrument Portfolio Fair Value (In thousands)
Fair value assuming no change in underlying commodity prices (as is)	Asset	\$ 52,842
Fair value assuming 10% increase in underlying commodity prices	Asset	\$ 44,977
Fair value assuming 10% decrease in underlying commodity prices	Asset	\$ 60,708

The value of the open futures contract positions noted above were based upon quoted market prices obtained from the New York Mercantile Exchange. The value of the fixed-price sales contracts was based on observable market data related to the obligation to provide refined petroleum products to customers.

*Interest Rate Risk*

From time to time, Buckeye uses interest rate derivatives to hedge interest obligations on specific debt issuances, including anticipated debt issuances. Buckeye's practice with respect to derivative transactions related to interest rate risk has been to have each transaction in connection with non-routine borrowings authorized by the Board of Directors of Buckeye GP. In January 2009, Buckeye GP's Board of Directors adopted an interest rate hedging policy which permits Buckeye to enter into certain short-term interest rate hedge agreements to manage its interest rate and cash flow risks associated with the Credit Facility.

Buckeye is exposed to fair value risk with respect to its fixed-rate debt obligations and to cash flow risk with respect to its variable-rate obligations. Fair value risk represents the risk that the value of Buckeye's fixed-rate debt obligations will rise or fall depending on changes in interest rates. Cash flow risk represents the risk that interest expense related to the variable-rate obligations will rise or fall depending on changes in interest rates.

At December 31, 2008, Buckeye had total fixed-rate debt obligations at face value of \$1,150.0 million, consisting of \$125.0 million of the 5.125% Notes, \$275.0 million of the 5.30% Notes, \$300.0 million of the 4.625% Notes, \$150.0 million of the 6.75% Notes and \$300.0 million of the 6.05% Notes. Services Company had fixed debt obligations of approximately \$14.3 million. The fair value of these fixed-rate debt obligations at December 31, 2008 was approximately \$986.5 million. Buckeye estimates that a 1% decrease in rates for obligations of similar

## Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

maturities would increase the fair value of its fixed-rate debt obligations by \$58.0 million. Buckeye's variable-rate obligation was \$298.3 million under the Credit Facility and \$96.0 million under the BES Credit Agreement at December 31, 2008. Based on the balances outstanding at December 31, 2008, a 1% increase in interest rates would increase annual interest expense by \$3.9 million.

Table of Contents

**Item 8. Financial Statements and Supplementary Data**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

Management of MainLine Management LLC ( MainLine Management ), as general partner of Buckeye GP Holdings L.P. ( BGH ), is responsible for establishing and maintaining adequate internal control over financial reporting of BGH. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated MainLine Management's internal control over financial reporting of BGH as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (COSO). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of December 31, 2008, MainLine Management's internal control over financial reporting of BGH was effective.

BGH's independent registered public accounting firm, Deloitte & Touche LLP, has audited MainLine Management's internal control over financial reporting of BGH. Their opinion on the effectiveness of MainLine Management's internal control over financial reporting of BGH appears herein.

FORREST E. WYLIE  
Chief Executive Officer  
March 13, 2009

KEITH E. ST. CLAIR  
Chief Financial Officer

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Partners of Buckeye GP Holdings L.P.

We have audited the internal control over financial reporting of Buckeye GP Holdings L.P. and subsidiaries ( BGH ) as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. BGH's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on BGH's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BGH maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of BGH and our report dated March 13, 2009 expressed an unqualified

opinion on those consolidated financial statements.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania  
March 13, 2009

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Partners of Buckeye GP Holdings L.P.

We have audited the accompanying consolidated balance sheets of Buckeye GP Holdings L.P. and subsidiaries, formerly MainLine L.P. and subsidiaries, ( BGH ) as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and partners' capital for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of BGH's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Buckeye GP Holdings L.P. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the consolidated financial statements, BGH adopted the provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R), as of December 31, 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BGH's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2009 expressed an unqualified opinion on BGH's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania  
March 13, 2009



Table of Contents**BUCKEYE GP HOLDINGS L.P.****CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per unit amounts)**

	Year Ended December 31,		
	2008	2007	2006
<b>Revenues:</b>			
Product sales	\$ 1,304,097	\$ 10,680	\$ 9,840
Transportation and other	592,555	508,667	451,920
Total revenue	1,896,652	519,347	461,760
<b>Costs and expenses:</b>			
Cost of product sales	1,274,135	10,473	9,637
Operating expenses	281,965	245,271	217,737
Depreciation and amortization	50,834	40,236	39,629
General and administrative	43,226	28,014	29,884
Total costs and expenses	1,650,160	323,994	296,887
Operating income	246,492	195,353	164,873
<b>Other income (expense):</b>			
Investment income	1,553	1,490	1,410
Interest and debt expense	(75,410)	(51,721)	(60,702)
Total other expense	(73,857)	(50,231)	(59,292)
Income before equity income and non-controlling interest expense	172,635	145,122	105,581
Equity income	7,988	7,553	6,219
Non-controlling interest expense	(154,146)	(129,754)	(103,066)
<b>Net income</b>	<b>\$ 26,477</b>	<b>\$ 22,921</b>	<b>\$ 8,734</b>
Less: Net income prior to initial public offering on August 9, 2006			(6,135)
Net income subsequent to initial public offering on August 9, 2006 to December 31, 2006			\$ 2,599
Net income per partnership unit:			
Basic	\$ 0.94	\$ 0.81	\$ 0.09
Diluted	\$ 0.94	\$ 0.81	\$ 0.09
Weighted average number of limited partner units outstanding:			
Basic	28,300	28,142	27,891
Diluted	28,300	28,300	28,300

See Notes to consolidated financial statements.





Table of Contents

**BUCKEYE GP HOLDINGS L.P.**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands)

	2008	December 31,	2007
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 61,281	\$	94,486
Trade receivables, net	79,969		47,598
Construction and pipeline relocation receivables	21,501		12,571
Inventories	84,229		15,149
Derivative assets	97,375		
Prepaid and other current assets	75,406		32,708
Total current assets	419,761		202,512
Property, plant and equipment, net	2,241,612		1,806,720
Equity investments	90,110		77,354
Goodwill	433,892		234,603
Intangible assets, net	44,114		9,044
Other non-current assets	33,608		24,093
Total assets	\$ 3,263,097	\$	2,354,326
<b>Liabilities and partners capital:</b>			
Current liabilities:			
Line of credit	\$ 96,000	\$	
Current portion of long-term debt	6,294		6,289
Accounts payable	42,098		20,368
Derivative liabilities	48,623		7,187
Accrued and other current liabilities	116,464		71,715
Total current liabilities	309,479		105,559
Long-term debt	1,453,425		863,174
Other non-current liabilities	101,359		81,120
Non-controlling interest	1,166,774		1,066,143
Total liabilities	3,031,037		2,115,996
Commitments and contingent liabilities			
<b>Partners capital:</b>			
General Partner (2,830 common units outstanding as of December 31, 2008 and 2007)	7		7
Limited Partners (27,766,817 common units outstanding as of December 31, 2008 and 2007)	226,565		232,928
Management Units (530,353 units outstanding as of December 31, 2008 and 2007)	3,037		3,156
Equity gains on issuance of Buckeye Partners, L.P. partnership units	2,451		2,239
Total partners capital	232,060		238,330
Total liabilities and partners capital	\$ 3,263,097	\$	2,354,326

See notes to consolidated financial statement.



Table of Contents

## BUCKEYE GP HOLDINGS L.P.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net income	\$ 26,477	\$ 22,921	\$ 8,734
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of debt discount and unit-based compensation	4,643	2,197	3,832
Value of ESOP shares released	2,202	4,470	4,077
Depreciation and amortization	50,834	40,236	39,629
Net changes in fair value of derivatives	(24,228)		
Deferred lease expense	4,598		
Non-controlling interest	154,146	128,926	103,066
Earnings from equity investments of Buckeye Partners, L.P.	(7,988)	(7,553)	(6,219)
Distributions from equity investments of Buckeye Partners, L.P.	5,113	7,418	6,815
<b>Change in assets and liabilities, net of amounts related to acquisitions:</b>			
Trade receivables	36,060	3,432	(12,166)
Construction and pipeline relocation receivables	(8,930)	(382)	(1,618)
Inventories	(4,362)	(863)	(618)
Prepaid and other current assets	(27,823)	1,467	(22,733)
Accounts payable	(10,647)	(6,282)	8,002
Accrued and other current liabilities	9,336	733	20,823
Other non-current assets	9,520	1,999	(810)
Other non-current liabilities	(10,394)	(6,983)	4,378
Total adjustments from operating activities	182,080	168,815	146,458
Net cash provided by operating activities	208,557	191,736	155,192
<b>Cash flows from investing activities:</b>			
Capital expenditures	(120,472)	(67,867)	(92,817)
Acquisitions and equity investments, net of cash acquired	(667,523)	(40,726)	(94,253)
Net (expenditures for) proceeds from disposal of property, plant and equipment	(365)	(12)	1,485
Proceeds from the sale of discontinued operations	52,584		
Release of restricted cash			5,117
Net cash used in investing activities	(735,776)	(108,605)	(180,468)
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of Buckeye GP Holdings L.P. units			168,324
Net proceeds from issuance of Buckeye Partners, L.P. limited partnership units	113,111	296,361	64,092
Proceeds from exercise of Buckeye Partners, L.P. units options	316	2,497	1,360
Proceeds from issuance of long-term debt and borrowings under credit facilities	856,604	157,500	177,000
Capital contributions			2
Payment of debt, net	(270,577)	(308,536)	(261,261)
Debt issuance costs	(2,111)	(178)	(535)
Distributions to non-controlling partners of Buckeye Partners, L.P.	(159,306)	(128,775)	(113,480)
Settlement payment of interest rate swaps	(9,638)		
Distributions to Limited Partners	(34,385)	(27,734)	(18,990)

Edgar Filing: Buckeye GP Holdings L.P. - Form 10-K

Net cash provided by (used in) financing activities	494,014	(8,865)	16,512
Net (decrease) increase in cash and cash equivalents	(33,205)	74,266	(8,764)
Cash and cash equivalents Beginning of year	94,486	20,220	28,984
Cash and cash equivalents End of year	\$ 61,281	\$ 94,486	\$ 20,220
<b>Supplemental cash flow information:</b>			
Cash paid for interest (net of amount capitalized)	\$ 63,647	\$ 50,956	\$ 56,792
Capitalized interest	\$ 2,355	\$ 1,469	\$ 1,845
Cash paid for income tax	\$ 1,063	\$ 1,095	\$ 218
<b>Non-cash changes in assets and liabilities:</b>			
Capital additions accrued in property, plant, and equipment	\$ 1,957	\$ 2,377	\$
Hedge accounting	\$ 3,357	\$ 6,951	\$ (235)

See Notes to consolidated financial statements.

Table of Contents**BUCKEYE GP HOLDINGS L.P.****CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL****(In thousands)**

	<b>General Partners- Common Units</b>	<b>Limited Partners- Common Units</b>	<b>Manage- ment Units</b>	<b>General Partner</b>	<b>Limited Partners A Units</b>	<b>Limited Partners B Units</b>	<b>Equity Gains on Issuance of Buckeye LP Units</b>	<b>Accumulated Other Compre- hensive Income</b>	<b>Total</b>
Partners' capital- January 1, 2006	\$	\$	\$	\$ 7	\$ 74,132	\$ 3,473	\$ 1,316	\$ 1,514	\$ 80,442
Net income through August 8, 2006					6,135				6,135
Net income August 9 through December 31, 2006		2,599							2,599
Settlement of interest rate swaps								(1,514)	
Other comprehensive income								(1,514)	(1,514)
Total comprehensive income									7,220
Exchange of GP units and Limited Partner - A and B Units for General Partner and Limited Partner - Common and Management Units	7	80,267	3,473	(7)	(80,267)	(3,473)			
Issuance of Limited Partner - Common Units		168,324							168,324
Recognition of value of Management Units			3,453						3,453
Distributions to Limited Partner - Common Units									