

Energy Transfer Partners, L.P.
Form 10-Q
November 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013
or

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

Commission file number 1-11727

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

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

3738 Oak Lawn Avenue, Dallas, Texas 75219
(Address of principal executive offices) (zip code)
(214) 981-0700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

At November 1, 2013, the registrant had units outstanding as follows:

Energy Transfer Partners, L.P. 330,159,209 Common Units and 50,160,000 Class H Units.

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FORM 10-Q

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

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Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by Energy Transfer Partners, L.P. (“Energy Transfer Partners,” the “Partnership,” or “ETP”) in periodic press releases and some oral statements of the Partnership’s officials during presentations about the Partnership, include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “forecast,” “may,” “will” or similar expressions help identify forward-looking statements. Although the Partnership and its General Partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Partnership’s actual results may vary materially from those anticipated, projected or expected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are difficult to predict and beyond management’s control. For additional discussion of risks, uncertainties and assumptions, see “Part I — Item 1A. Risk Factors” in the Partnership’s Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on March 1, 2013.

Definitions

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

/d	per day
AmeriGas	AmeriGas Partners, L.P.
AOCI	accumulated other comprehensive income (loss)
Bbls	barrels
Bcf	billion cubic feet
Btu	British thermal unit, an energy measurement used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used
Citrus	Citrus Corp.
CrossCountry	CrossCountry Energy, LLC
DOT	U.S. Department of Transportation
ETC Compression	ETC Compression, LLC
ETC FEP	ETC Fayetteville Express Pipeline, LLC
ETC OLP	La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company
ETC Tiger	ETC Tiger Pipeline, LLC
ETE	Energy Transfer Equity, L.P., a publicly traded partnership and the owner of ETP LLC
ET Interstate	Energy Transfer Interstate Holdings, LLC

ETP Credit Facility	ETP's \$2.5 billion revolving credit facility
ETP GP	Energy Transfer Partners GP, L.P., the general partner of ETP
ETP LLC	Energy Transfer Partners, L.L.C., the general partner of ETP GP
EPA	U.S. Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934
FEP	Fayetteville Express Pipeline LLC
FERC	Federal Energy Regulatory Commission

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FGT	Florida Gas Transmission Company, LLC
GAAP	accounting principles generally accepted in the United States of America
Holdco	ETP Holdco Corporation
IDRs	incentive distribution rights
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
Lone Star	Lone Star NGL LLC
MGE	Missouri Gas Energy
MMBtu	million British thermal units
MTBE	methyl tertiary butyl ether
NEG	New England Gas Company
NGL	natural gas liquid, such as propane, butane and natural gasoline
NYMEX	New York Mercantile Exchange
OSHA	federal Occupational Safety and Health Act
OTC	over-the-counter
Panhandle	Panhandle Eastern Pipe Line Company, LP and its subsidiaries
PCBs	polychlorinated biphenyls
PEPL	Panhandle Eastern Pipe Line Company, LP
PEPL Holdings	PEPL Holdings, LLC, a wholly-owned subsidiary of Southern Union, which owns the general partner and 100% of the limited partner interests in Panhandle Eastern Pipeline Company, LP
PES	Philadelphia Energy Solutions
PHMSA	Pipeline Hazardous Materials Safety Administration
Regency	Regency Energy Partners LP, a subsidiary of ETE
Sea Robin	Sea Robin Pipeline Company, LLC
SEC	Securities and Exchange Commission

Southern Union	Southern Union Company
SUGS	Southern Union Gas Services
Sunoco	Sunoco, Inc.
Sunoco Logistics	Sunoco Logistics Partners L.P.
Transwestern	Transwestern Pipeline Company, LLC
Trunkline	Trunkline Gas Company, LLC

Adjusted EBITDA is a term used throughout this document, which we define as earnings before interest, taxes, depreciation, amortization and other non-cash items, such as non-cash compensation expense, gains and losses on disposals of assets, the allowance for equity funds used during construction, unrealized gains and losses on commodity risk management activities, non-cash impairment charges, loss on extinguishment of debt, gain on deconsolidation and other non-operating income or expense items. Unrealized gains and losses on commodity risk management activities include unrealized gains and losses on commodity derivatives and inventory fair value adjustments (excluding lower of cost or market adjustments). Adjusted EBITDA reflects amounts for less than wholly owned subsidiaries based on 100% of the subsidiaries' results of operations and for unconsolidated affiliates based on the Partnership's proportionate ownership.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

(unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,064	\$311
Accounts receivable, net	3,288	2,910
Accounts receivable from related companies	177	94
Inventories	1,657	1,495
Exchanges receivable	32	55
Price risk management assets	30	21
Current assets held for sale	16	184
Other current assets	318	334
Total current assets	6,582	5,404
PROPERTY, PLANT AND EQUIPMENT	27,352	27,412
ACCUMULATED DEPRECIATION	(2,262	) (1,639
	25,090	25,773
NON-CURRENT ASSETS HELD FOR SALE	145	985
ADVANCES TO AND INVESTMENTS IN UNCONSOLIDATED AFFILIATES	4,513	3,502
NON-CURRENT PRICE RISK MANAGEMENT ASSETS	19	42
GOODWILL	5,262	5,606
INTANGIBLE ASSETS, net	1,490	1,561
OTHER NON-CURRENT ASSETS, net	455	357
Total assets	\$43,556	\$43,230

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

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Table of ContentsENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

(unaudited)

	September 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$3,357	\$3,002
Accounts payable to related companies	53	24
Exchanges payable	190	156
Price risk management liabilities	64	110
Accrued and other current liabilities	1,617	1,562
Current maturities of long-term debt	294	609
Current liabilities held for sale	13	85
Total current liabilities	5,588	5,548
NON-CURRENT LIABILITIES HELD FOR SALE		
LONG-TERM DEBT, less current maturities	70	142
LONG-TERM NOTES PAYABLE — RELATED PARTY	16,352	15,442
NON-CURRENT PRICE RISK MANAGEMENT LIABILITIES	—	166
DEFERRED INCOME TAXES	54	129
OTHER NON-CURRENT LIABILITIES	3,605	3,476
	948	995
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
General Partner	207	188
Limited Partners:		
Common Unitholders	12,002	9,026
Accumulated other comprehensive income (loss)	3	(13)
Total partners' capital	12,212	9,201
Noncontrolling interest	4,727	8,131
Total equity	16,939	17,332
Total liabilities and equity	\$43,556	\$43,230

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per unit data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUES:				
Natural gas sales	\$721	\$655	\$2,286	\$1,572
NGL sales	708	460	1,885	1,300
Crude sales	4,215	—	11,408	—
Gathering, transportation and other fees	648	530	1,977	1,429
Refined product sales	4,633	—	13,945	—
Other	977	157	2,806	420
Total revenues	11,902	1,802	34,307	4,721
COSTS AND EXPENSES:				
Cost of products sold	10,654	1,026	30,477	2,606
Operating expenses	331	167	950	493
Depreciation and amortization	253	162	764	419
Selling, general and administrative	138	82	424	272
Total costs and expenses	11,376	1,437	32,615	3,790
OPERATING INCOME	526	365	1,692	931
OTHER INCOME (EXPENSE):				
Interest expense, net of interest capitalized	(210)	) (147)	) (632)	) (479)
Equity in earnings of unconsolidated affiliates	28	8	137	64
Gain on deconsolidation of Propane Business	—	—	—	1,057
Gain on sale of AmeriGas common units	87	—	87	—
Loss on extinguishment of debt	—	—	—	(115)
Gains (losses) on interest rate derivatives	—	—	46	(9)
Other, net	7	7	6	10
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	438	233	1,336	1,459
Income tax expense from continuing operations	47	27	139	36
INCOME FROM CONTINUING OPERATIONS	391	206	1,197	1,423
Income (loss) from discontinued operations	13	(142)	) 44	(136)
NET INCOME	404	64	1,241	1,287
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	49	28	244	25
NET INCOME ATTRIBUTABLE TO PARTNERS	355	36	997	1,262
GENERAL PARTNER'S INTEREST IN NET INCOME	146	116	429	342
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	\$209	\$(80)	) \$568	\$920
INCOME FROM CONTINUING OPERATIONS PER LIMITED PARTNER UNIT:				
Basic	\$0.51	\$0.26	\$1.55	\$4.54
Diluted	\$0.51	\$0.26	\$1.55	\$4.52
NET INCOME (LOSS) PER LIMITED PARTNER UNIT:				

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Basic	\$0.55	\$(0.33) \$1.63	\$3.91
Diluted	\$0.55	\$(0.33) \$1.63	\$3.89

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$404	\$64	\$1,241	\$1,287
Other comprehensive income (loss), net of tax:				
Reclassification to earnings of gains and losses on derivative instruments accounted for as cash flow hedges	(3	) (9	) (5	) (21
Change in value of derivative instruments accounted for as cash flow hedges	(4	) (7	) 4	14
Change in value of available-for-sale securities	1	—	1	—
Actuarial gain relating to pension and other postretirement benefits	8	—	9	—
Foreign currency translation adjustment	—	—	(1) —
Change in other comprehensive income from equity investments	9	8	13	(14
	11	(8	) 21	(21
Comprehensive income	415	56	1,262	1,266
Less: Comprehensive income attributable to noncontrolling interest	49	9	241	33
Comprehensive income attributable to partners	\$366	\$47	\$1,021	\$1,233

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

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CONSOLIDATED STATEMENT OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(Dollars in millions)

(unaudited)

	General Partner	Limited Partner Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance, December 31, 2012	\$ 188	\$ 9,026	\$ (13)	\$ 8,131	\$ 17,332
Distributions to partners	(410)	(931)	—	—	(1,341)
Distributions to noncontrolling interest	—	—	—	(309)	(309)
Units issued for cash	—	1,301	—	—	1,301
Capital contributions from noncontrolling interest	—	—	—	100	100
Holdco Acquisition and SUGS Contribution (See Note 2)	—	2,013	(5)	(3,445)	(1,437)
Non-cash compensation expense, net of units tendered by employees for tax withholdings	—	28	—	9	37
Other comprehensive income (loss), net of tax	—	—	24	(3)	21
Other, net	—	(3)	(3)	—	(6)
Net income	429	568	—	244	1,241
Balance, September 30, 2013	\$ 207	\$ 12,002	\$ 3	\$ 4,727	\$ 16,939

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(unaudited)

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,241	\$1,287
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	764	419
Deferred income taxes	249	40
Gain on curtailment of other postretirement benefits	—	(15)
Amortization of finance costs charged to interest	(63)	(9)
Loss on extinguishment of debt	—	115
LIFO valuation adjustments	(22)	—
Non-cash compensation expense	36	31
Gain on deconsolidation of Propane Business	—	(1,057)
Gain on sale of AmeriGas common units	(87)	—
Write-down of assets included in loss from discontinued operations	—	145
Distributions on unvested awards	(9)	(6)
Equity in earnings of unconsolidated affiliates	(137)	(64)
Distributions from unconsolidated affiliates	220	95
Other non-cash	11	64
Net change in operating assets and liabilities, net of effects of acquisitions and deconsolidations (see Note 3)	(461)	(133)
Net cash provided by operating activities	1,742	912
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for Citrus Merger	—	(1,895)
Cash proceeds from contribution and sale of propane operations	—	1,443
Cash proceeds from SUGS Contribution (See Note 2)	493	—
Cash paid for Holdco Acquisition (See Note 2)	(1,332)	—
Cash proceeds from the sale of the MGE assets (See Note 2)	973	—
Cash proceeds from the sale of AmeriGas common units	346	—
Cash (paid) received from all other acquisitions	(5)	471
Capital expenditures (excluding allowance for equity funds used during construction)	(1,840)	(1,938)
Contributions in aid of construction costs	11	28
Contributions to unconsolidated affiliates	(1)	(2)
Distributions from unconsolidated affiliates in excess of cumulative earnings	121	95
Proceeds from the sale of assets	37	13
Other	(29)	(2)
Net cash used in investing activities	(1,226)	(1,787)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	6,971	5,696
Repayments of long-term debt	(6,312)	(4,744)
Repayments of borrowings from affiliates	(166)	—
Net proceeds from issuance of Limited Partner units	1,301	772
Capital contributions received from noncontrolling interest	123	240
Distributions to partners	(1,341)	(1,020)

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Distributions to noncontrolling interest	(309) (39)
Debt issuance costs	(30) (20)
Net cash provided by financing activities	237	885	
INCREASE IN CASH AND CASH EQUIVALENTS	753	10	
CASH AND CASH EQUIVALENTS, beginning of period	311	107	
CASH AND CASH EQUIVALENTS, end of period	\$1,064	\$117	

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

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ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

1. OPERATIONS AND ORGANIZATION:

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

Business Operations

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

ETC OLP, a Texas limited partnership engaged in midstream and intrastate transportation and storage natural gas operations. ETC OLP owns and operates, through its wholly and majority-owned subsidiaries, natural gas gathering systems, intrastate natural gas pipeline systems and gas processing plants and is engaged in the business of purchasing, gathering, transporting, processing, and marketing natural gas and NGLs in the states of Texas, Louisiana, New Mexico and West Virginia. ETC OLP’s intrastate transportation and storage operations primarily focus on transporting natural gas in Texas through our Oasis pipeline, ET Fuel System, East Texas pipeline and HPL System. ETC OLP’s midstream operations focus on the gathering, compression, treating, conditioning and processing of natural gas, primarily on or through our Southeast Texas System, Eagle Ford System, North Texas System and Northern Louisiana assets. ETC OLP also owns a 70% interest in Lone Star.

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

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

• ETC FEP, a Delaware limited liability company that directly owns a 50% interest in FEP, which owns 100% of the Fayetteville Express interstate natural gas pipeline.

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

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

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

Sunoco Logistics, a publicly traded Delaware limited partnership that owns and operates a logistics business, consisting of refined products and crude oil pipelines, terminalling and storage assets, and refined products and crude oil acquisition and marketing assets.

Holdco, a Delaware limited liability company that indirectly owns Southern Union and Sunoco. As discussed in Note 2, ETP acquired ETE’s 60% interest in Holdco on April 30, 2013. Sunoco and Southern Union operations are described as follows:

Southern Union owns and operates assets in the regulated and unregulated natural gas industry and is primarily engaged in the transportation, storage and distribution of natural gas in the United States. As discussed in Note 2, on April 30, 2013, Southern Union completed its contribution to Regency of all of the issued and outstanding membership interests in Southern Union Gathering Company, LLC, and its subsidiaries, including SUGS.

Additionally, as discussed in Note 2, on September 1, 2013, Southern Union completed its sale of the assets of MGE to Laclede Gas Company.

Sunoco owns and operates retail marketing assets, which sell gasoline and middle distillates at retail and operates convenience stores primarily on the east coast and in the midwest region of the United States.

Our financial statements reflect the following reportable business segments:

• intrastate natural gas transportation and storage;

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- interstate natural gas transportation and storage;
- midstream;
- NGL transportation and services;
- investment in Sunoco Logistics; and
- retail marketing.

Preparation of Interim Financial Statements

The accompanying consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements and notes thereto of the Partnership as of September 30, 2013 and for the three and nine month periods ended September 30, 2013 and 2012, have been prepared in accordance with GAAP for interim consolidated financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. However, management believes that the disclosures made are adequate to make the information not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonal nature of the Partnership's operations, maintenance activities and the impact of forward natural gas prices and differentials on certain derivative financial instruments that are accounted for using mark-to-market accounting.

In the opinion of management, all adjustments (all of which are normal and recurring) have been made that are necessary to fairly state the consolidated financial position of the Partnership as of September 30, 2013, and the Partnership's results of operations and cash flows for the three and nine months ended September 30, 2013 and 2012. The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Energy Transfer Partners presented in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on March 1, 2013.

Certain prior period amounts have been reclassified to conform to the 2013 presentation. These reclassifications had no impact on net income or total equity.

In accordance with GAAP, we have accounted for the October 2012 transaction in which ETE contributed its interest in Southern Union to Holdco in exchange for a 60% interest in Holdco and ETP contributed its interest in Sunoco (exclusive of Sunoco Logistics) to Holdco in exchange for a 40% interest in Holdco (the "Holdco Transaction") as a reorganization of entities under common control. Accordingly, ETP's consolidated financial statements have been retrospectively adjusted to reflect the consolidation of Southern Union into ETP beginning March 26, 2012 (the date ETE acquired Southern Union).

2. ACQUISITIONS, DIVESTITURES AND RELATED TRANSACTIONS:

Sale of Distribution Operations

In December 2012, Southern Union entered into a purchase and sale agreement with The Laclede Group, Inc., pursuant to which Laclede Missouri agreed to acquire the assets of Southern Union's MGE division and Laclede Massachusetts agreed to acquire the assets of Southern Union's NEG division (together, the "LDC Disposal Group"). Laclede Gas Company, a subsidiary of The Laclede Group, Inc., subsequently assumed all of Laclede Missouri's rights and obligations under the purchase and sale agreement. In February 2013, The Laclede Group, Inc. entered into an agreement with Algonquin Power & Utilities Corp ("APUC") that allows a subsidiary of APUC to assume the rights of The Laclede Group, Inc. to purchase the assets of Southern Union's NEG division, subject to certain approvals. Effective September 1, 2013, Southern Union completed its sale of the assets of MGE to Laclede Gas Company for an aggregate purchase price of \$975 million, subject to customary post-closing adjustments. The sale of Southern Union's NEG division is expected to close in the fourth quarter of 2013 for cash proceeds of \$40 million, subject to customary post-closing adjustments, and the assumption of \$20 million of debt.

The LDC Disposal Group's operations have been classified as discontinued operations for all periods in the consolidated statements of operations. The assets and liabilities of the LDC Disposal Group have been classified as assets and liabilities held for sale.

SUGS Contribution

On April 30, 2013, Southern Union completed its contribution to Regency of all of the issued and outstanding membership interest in Southern Union Gathering Company, LLC, and its subsidiaries, including SUGS (the "SUGS

Contribution”). The general partner and IDRs of Regency are owned by ETE. The consideration paid by Regency in connection with this transaction

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consisted of (i) the issuance of approximately 31.4 million Regency common units to Southern Union, (ii) the issuance of approximately 6.3 million Regency Class F units to Southern Union, (iii) the distribution of \$463 million in cash to Southern Union, net of closing adjustments, and (iv) the payment of \$30 million in cash to a subsidiary of ETP. This transaction was between commonly controlled entities; therefore, the amounts recorded in the consolidated balance sheet for the investment in Regency and the related deferred tax liabilities were based on the historical book value of SUGS. In addition, PEPL Holdings, a wholly-owned subsidiary of Southern Union, provided a guarantee of collection with respect to the payment of the principal amounts of Regency's debt related to the SUGS Contribution. The Regency Class F units have the same rights, terms and conditions as the Regency common units, except that Southern Union will not receive distributions on the Regency Class F units for the first eight consecutive quarters following the closing, and the Regency Class F units will thereafter automatically convert into Regency common units on a one-for-one basis. The Partnership has not presented SUGS as discontinued operations due to the expected continuing involvement with SUGS through affiliate relationships, as well as the direct investment in Regency common and Class F units received, which has been accounted for using the equity method.

Acquisition of ETE's Holdco Interest

On April 30, 2013, ETP acquired ETE's 60% interest in Holdco for approximately 49.5 million of newly issued ETP Common Units and \$1.40 billion in cash, less \$68 million of closing adjustments (the "Holdco Acquisition"). As a result, ETP now owns 100% of Holdco. ETE, which owns the general partner and IDRs of ETP, agreed to forego incentive distributions on the newly issued ETP units for each of the first eight consecutive quarters beginning with the quarter in which the closing of the transaction occurred and 50% of incentive distributions on the newly issued ETP units for the following eight consecutive quarters. ETP controlled Holdco prior to this acquisition; therefore, the transaction did not constitute a change of control.

Sunoco Merger

On October 5, 2012, Sam Acquisition Corporation, a Pennsylvania corporation and a wholly-owned subsidiary of ETP, completed its merger with Sunoco (the "Sunoco Merger"). Under the terms of the merger agreement, Sunoco shareholders received a total of approximately 55 million ETP Common Units and \$2.6 billion in cash.

3. CASH AND CASH EQUIVALENTS:

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

The net change in operating assets and liabilities included in cash flows from operating activities is comprised as follows: