INERGY L P
Form 10-K
November 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2010

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: 000-32453

INERGY, L.P.

(Exact name of registrant as specified in its charter)

Delaware	43-1918951
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112

(Address of principal executive offices) (Zip Code)

(816) 842-8181

(Registrant s telephone number including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Units representing limited partnership interests	The New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x 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. x

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 definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	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 x

The aggregate market value of the 77,740,764 common units of the registrant held by non-affiliates computed by reference to the $39.26 closing price of such common units on October 29, 2010, was $3.1 billion. The aggregate market value of the 60,688,232 common units of the registrant held by non-affiliates computed by reference to the $37.80 closing price of such common units on March 31, 2010, the last business day of the registrant s most recently completed second fiscal quarter, was $2.3 billion. As of November 15, 2010, the registrant had 120,918,070 common and class B units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the indicated parts of this report: None.

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GUIDE TO READING THIS REPORT

The following information should help you understand some of the conventions used in this report.

Throughout this report,

(1) When we use the terms we, us, our company, Inergy, or Inergy, L.P., we are referring either to Inergy, L.P., the registrant itself, or to Ine L.P. and its operating subsidiaries collectively, as the context requires.

(2) When we use the term our predecessor, we are referring to Inergy Partners, LLC, the entity that conducted our business before our initial public offering, which closed on July 31, 2001. Inergy, L.P. was formed as a Delaware limited partnership on March 7, 2001 and did not have operations until the closing of our initial public offering. Our predecessor commenced operations in November 1996. The discussion of our business throughout this report relates to the business operations of Inergy Partners, LLC before Inergy, L.P. s initial public offering and of Inergy, L.P. thereafter.

(3) When we use the term Inergy Propane, we are referring to Inergy Propane, LLC itself, or to Inergy Propane, LLC and its operating subsidiaries collectively, as the context requires.

(4) When we use the term finance company, we are referring to Inergy Finance Corp., a subsidiary of Inergy, L.P., formed on September 21, 2004.

(5) When we use the term managing general partner, we are referring to Inergy GP, LLC.

(6) When we use the term non-managing general partner, we are referring to Inergy Partners, LLC.

(7) When we use the term general partners, we are referring to our managing general partner and our non- managing general partner.

(8) When we use the term Inergy Holdings or Holdings, we are referring to Inergy Holdings, L.P. itself, or to Inergy Holdings, L.P. and its subsidiaries collectively, as the context requires.

Historically, we have had a managing general partner and a non-managing general partner. As explained further in Part I, Item 1. Business, on November 5, 2010, we closed on the transactions contemplated by the Simplification Transaction among us, Inergy Holdings and the other parties thereto pursuant to which, among other things, we cancelled our incentive distribution rights and acquired the equity interests of our non-managing general partner. Our managing general partner does not have rights to allocations or distributions from our company and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf.

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INERGY, L.P.

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PART I

Item 1. Business.

Recent Developments

On August 7, 2010, we, Inergy Holdings and certain other parties thereto entered into an agreement and plan of merger, which was amended and restated on September 3, 2010 (the Merger Agreement), as part of a plan to simplify our capital structure. Pursuant to the steps contemplated by the Merger Agreement (the Simplification Transaction), Inergy Holdings merged into a wholly owned subsidiary of its general partner (the Merger) and the outstanding common units in Inergy Holdings were cancelled. In connection with the Simplification Transaction, our incentive distribution rights, all of which were held by Inergy Holdings, were cancelled, and we acquired the approximate 0.6% economic general partner interest in us that was held by our non-managing general partner.

Upon completion of the Merger, the holders of Holdings common units (the Holdings unitholders) received 0.77 Inergy common units for each Inergy Holdings common unit that they own (the exchange ratio). The exchange ratio took into account 1,080,453 Inergy common units that are owned by Inergy Holdings which were distributed to the Holdings unitholders as part of the Merger consideration. Inergy issued approximately 35.2 million new common units in connection with the Simplification Transaction. We also issued 11,568,560 Class B Units to certain members of senior management and directors of Inergy Holdings general partner and other beneficial owners of Inergy Holdings common units in lieu of issuing them an equivalent number of common units. The Class B Units will not receive cash distributions but instead will receive distributions of additional Class B Units. The Class B units will convert automatically into Inergy common units on a one-for-one basis in two tranches over a two-year period.

Finally, in connection with the Simplification Transaction, we assumed and immediately paid off approximately $24.1 million of outstanding indebtedness under Inergy Holdings credit agreements. The Simplification Transaction took effect on November 5, 2010.

Inergy GP, our managing general partner, continues to manage us following the Simplification Transaction and our management team has remained unchanged. Additionally, one of the independent members of Holdings general partner s board of directors joined our general partner s board of directors. The other independent members of Holdings general partner s board of directors were already serving as independent members of our general partner s board of directors.

On October 14, 2010, we completed the acquisition of Tres Palacios Gas Storage, LLC. Tres Palacios Gas Storage, LLC is the owner and operator of a natural gas storage facility located in Matagorda County, Texas (Tres Palacios). Tres Palacios is a high deliverability, salt dome natural gas storage facility with approximately 38.4 bcf of working gas capacity (Caverns 1-3). The facility is expandable by an additional 9.5 bcf of working gas capacity which we expect to place in service by or before 2014 (Cavern 4). Located approximately 100 miles southwest of Houston, Tres Palacios is currently connected to a total of ten intrastate and interstate pipelines offering connectivity to multiple demand markets including the Houston and San Antonio metropolitan areas and the broader Texas markets as well as markets in the Northeast, Midwest, Southeast, Florida and Mid-Atlantic United States and Mexico. Tres Palacios offers customers greater than six-turn gas storage capability with maximum withdrawal capacity of 2.5 bcf per day and maximum injection capacity of 1 bcf per day.

On October 19, 2010, we completed the acquisition of the propane operating assets of Schenck Gas Services, LLC, located in East Hampton, New York.

On November 15, 2010, we completed the acquisition of the propane assets of Pennington Energy Corporation (Pennington), headquartered in Morenci, Michigan. Pennington currently delivers propane to nearly 14,800 customers from seven customer service centers in Northwest Ohio and Southeast Michigan.

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General

Inergy, L.P., a publicly traded Delaware limited partnership, was formed on March 7, 2001 and we closed on our initial public offering on July 31, 2001. We own and operate a growing, geographically diverse retail and wholesale propane supply, marketing and distribution business. We also own and operate a growing midstream business that includes four natural gas storage facilities (Stagecoach , Steuben , Thomas Corners and Tres Palacios), a liquefied petroleum gas (LPG) storage facility (Finger Lakes LPG), a natural gas liquids (NGL) business and a solution-mining and salt production company (US Salt). For the fiscal year ended September 30, 2010, we sold and physically delivered 340.2 million gallons of propane to retail customers and 415.3 million gallons of propane to wholesale customers.

We believe we are the fourth largest propane retailer in the United States based on retail propane gallons sold. Our propane business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products under various regional brand names. As of October 29, 2010, we serve over 700,000 retail customers in 33 states from 356 customer service centers, which have an aggregate of 34.2 million gallons of above-ground propane storage. In addition to our retail propane business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other NGL marketing and distribution companies in 40 states, primarily in the Midwest, Northeast and South.

We also own and operate a midstream business which includes the following assets:

- the Stagecoach natural gas storage facility, a high performance, multi-cycle natural gas storage facility with 26.25 bcf of working gas capacity, a maximum withdrawal capability of 500 MMcf/day and a maximum injection capability of 250 MMcf/day. Located 150 miles northwest of New York City, the Stagecoach facility is the closest natural gas storage facility to the northeastern United States market. Stagecoach is connected to Tennessee Gas Pipeline Company s 300-Line and the Millennium pipeline. The facility is fee-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2014.

- an NGL business near Bakersfield, California, which includes a 25.0 MMcf/day natural gas processing plant, a 12,000 bpd NGL fractionation plant, an 8,000 bpd butane isomerization plant, NGL rail and truck terminals, a 24.0 million gallon NGL storage facility and NGL transportation/marketing operations.

- Finger Lakes LPG, currently a 1.7 million barrel salt cavern LPG storage facility located near Bath, New York, approximately 210 miles northwest of New York City and 60 miles from our Stagecoach facility. The facility is fee-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2011. We expect to extend these contracts in the future. The facility is supported by both rail and truck terminals capable of loading/unloading 20 23 rail cars per day and 17 truck transports per day. The Finger Lakes LPG expansion project is expected to convert certain of the caverns at US Salt into LPG storage with a capacity of up to 5 million barrels. This project is expected to be completed in the first half of calendar 2011.

- 100% of the membership interests of Arlington Storage Company, LLC (ASC). During the fiscal year we acquired the minority interests in Steuben Gas Storage Company (Steuben) and ASC is now the sole owner and operator of Steuben, which owns a 6.2 bcf natural gas storage facility located in Steuben County, New York. The facility is fee-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2011. We expect to extend these contracts in the future.

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Thomas Corners, a 7 bcf natural gas storage facility also located in Steuben County, New York, with maximum withdrawal and injection capabilities of 140 MMcf/day and 70 MMcf/day, respectively. The facility is fee-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2015.

US Salt, an industry-leading solution mining and salt production company located in Schuyler County, New York, between our Stagecoach and Steuben natural gas storage facilities. US Salt produces and sells over 300,000 tons of salt each year. The solution mining process used by US Salt creates salt caverns that can be developed into usable natural gas storage capacity.

Tres Palacios, a high deliverability, salt dome natural gas storage facility with approximately 38.4 bcf of working gas capacity (Caverns 1-3). The facility is expandable by an additional 9.5 bcf of working gas capacity which we expect to place in service by or before 2014 (Cavern 4). Caverns 1 and 2 are currently 90% contracted with primarily investment grade-rated companies until 2013. We closed on the acquisition of this facility on October 14, 2010. Tres Palacios offers customers greater than six-turn gas storage capability with maximum withdrawal capacity of 2.5 bcf per day and maximum injection capacity of 1 bcf per day.

We have grown primarily through acquisitions and to a lesser extent through organic expansion projects. Since the inception of our predecessor in November 1996 through September 30, 2010, we have acquired 86 companies for an aggregate purchase price of approximately $2.1 billion, including working capital, assumed liabilities and acquisition costs. The acquisitions include the assets of two propane companies acquired during fiscal 2010 for an aggregate purchase price, net of cash acquired, of $253.0 million.

The following chart sets forth information about each business we acquired during the fiscal year ended September 30, 2010, and through the date of this filing:

Acquisition Date	Company	Location
December 2009	Liberty Propane, LP	Overland Park, KS
January 2010	MGS Corporation	Hackensack, NJ
Acquisitions after September 30, 2010		
October 2010	Tres Palacios Gas Storage LLC	Matagorda County, TX
October 2010	Schenck Gas Services, LLC	East Hampton, NY
November 2010	Pennington Energy Corporation	Morenci, MI

The address of our principal executive offices is Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri, 64112 and our telephone number at this location is 816-842-8181. Our common units trade on The New York Stock Exchange under the symbol NRGY . We electronically file certain documents with the Securities and Exchange Commission (SEC). We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K (as appropriate), along with any related amendments and supplements. From time-to-time, we also may file registration and related statements pertaining to equity or debt offerings. You may read and download our SEC filings over the internet from several commercial document retrieval services as well as at the SEC s website at www.sec.gov. You may also read and copy our SEC filings at the SEC s public reference room located at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC 1-800-SEC-0330 for further information concerning the public reference room and any applicable copy charges. In addition, our SEC filings are available at no cost after the filing thereof on our website at www.inergylp.com. Please note that any internet addresses provided in this Form 10-K are for information purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet addresses is intended or deemed to be incorporated by reference herein.

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Industry Background and Competition

Propane

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative stand-alone energy sources. Our retail propane business consists principally of transporting propane to our customer service centers and other distribution areas and then to tanks located on our customers premises. Retail propane falls into four broad categories: residential, industrial, commercial and agricultural. Residential customers use propane primarily for space and water heating. Industrial customers use propane primarily as fuel for forklifts and stationary engines, to fire furnaces, as a cutting gas, in mining operations and in other process applications. Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control.

Propane is extracted from natural gas or oil wellhead gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is colorless and odorless; an odorant is added to allow its detection. Propane is clean-burning, producing negligible amounts of pollutants when consumed.

The retail market for propane is seasonal because it is used primarily for heating in residential and commercial buildings. Approximately 70% of our retail propane volume is sold during the peak heating season from October through March. Consequently, sales and operating profits are generated mostly in the first and fourth calendar quarters of each calendar year.

Propane competes primarily with natural gas, electricity and fuel oil as an energy source, principally on the basis of price, availability and portability. Propane is more expensive than natural gas on an equivalent BTU basis in locations served by natural gas, but serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Historically, the expansion of natural gas into traditional propane markets has been inhibited by the capital costs required to expand pipeline and retail distribution systems. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, we believe that new opportunities for propane sales can arise as more geographically remote neighborhoods are developed. Propane is often less expensive to use than electricity for space heating, water heating, clothes drying and cooking. Although propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent than propane and natural gas, primarily because of the cost of converting to fuel oil. The costs associated with switching from appliances that use fuel oil to appliances that use propane are a significant barrier to switching. By contrast, natural gas can generally be substituted for propane in appliances designed to use propane as a principal fuel source.

In addition to competing with alternative energy sources, we compete with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service, multi-state propane marketers, smaller local independent marketers and farm cooperatives. Based on industry publications, we believe that the 10 largest retailers account for 38% of the total retail sales of propane in the United States and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of our customer service centers compete with several marketers or distributors. Each customer service center operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. Our typical customer service center generally has an effective marketing radius of approximately 25 miles, although in certain rural areas the marketing radius may be extended by a satellite location.

The ability to compete effectively further depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. We believe that our safety programs, policies and procedures are more

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comprehensive than many of our smaller, independent competitors and give us a competitive advantage over such retailers. We also believe that our service capabilities and customer responsiveness differentiate us from many of these smaller competitors. Our employees are on call 24-hours and seven-days-a-week for emergency repairs and deliveries.

Retail propane distributors typically price retail usage based on a per gallon margin over wholesale costs. As a result, distributors generally seek to maintain their operating margins by passing costs through to customers, thus insulating themselves from volatility in wholesale propane prices.

The propane distribution industry is characterized by a large number of relatively small, independently owned and locally operated distributors. Each year, a number of these local distributors have sought to sell their business for reasons that include, among others, retirement and estate planning. In addition, the propane industry faces increasing environmental regulations and escalating capital requirements needed to acquire advanced, customer-oriented technologies. Primarily as a result of these factors, the industry is undergoing consolidation and we, as well as other national and regional distributors, have been active consolidators in the propane market. In recent years, an active, competitive market has existed for the acquisition of propane assets and businesses. We expect this acquisition market to continue for the foreseeable future.

The wholesale propane business is highly competitive. Our competitors in the wholesale business include producers and independent regional wholesalers. We believe that our wholesale supply and distribution business provides us with a stronger regional presence and a reasonably secure, efficient supply base and positions us well for expansion through acquisitions.

Midstream

Natural Gas Storage Business

According to the Energy Information Administration s consumption data, natural gas supplies approximately 25% of U.S. energy. In recent years, the market for natural gas has experienced increasingly volatile prices, due in part to the following factors:

- weather-related demand shifts;
- increasing supply related to new production technology and the development of shale gas formations;
- infrastructure constraints;
- trading impacts on short-term energy markets; and
- supply, demand and other factors affecting alternative fuels.

Underground natural gas storage facilities are a critical component of the North American natural gas transmission and distribution system. They provide an essential reliability cushion against unexpected disruptions in supply, transportation or markets and allow for the warehousing of gas to meet expected seasonal and daily variability in demand. According to the Energy Information Administration, U.S. natural gas consumption is expected to grow at a compound annual growth rate of 1.0% through 2020.

Most forecasts of North American natural gas supply and demand suggest a continuation of trends that will result in increased demand for natural gas storage capacity. Seasonal and weather sensitive demand sectors (residential and commercial heating demand and gas-fired power generation demand) have been growing and are expected to continue to do so, while the less seasonal industrial demand has been declining. Natural gas supply, meanwhile, has become almost entirely non-seasonal, requiring greater reliance on natural gas storage to respond to demand variability. On average, total North American natural gas consumption levels are approximately 40% higher in the winter months than summer months primarily due to the requirements of residential and commercial market sectors. These markets are very temperature sensitive with demand being highly variable both on a seasonal and

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a daily basis thus requiring that storage be capable of providing high maximum daily deliverability on the coldest days when storage due to infrastructure constraints provides as much as 50% of the market s total requirement. Analysis has shown that seasonal winter demand has continued to show steady growth even though warmer winter temperature trends have muted the full impact of this increasing demand. In the South around our Tres Palacios asset, seasonal peak days generated by excessive electric demand during the summer also drive consumption. Gas storage has facilitated the creation of a natural gas industry that is characterized by a production profile that is largely non-seasonal and a consumption profile that is highly seasonal and weather sensitive. Natural gas storage is essential in reallocating this inherent supply and demand imbalance.

In the natural gas storage business, there are significant barriers to entry, particularly in depleted reservoir and salt dome storage such as the Stagecoach, Thomas Corners and Tres Palacios facilities. Barriers include:

Geology: rock quality, depth, containment and reservoir size heavily influence development opportunities;

Geography: proximity to existing pipeline infrastructure, surface development and complicated land ownership all combine to further increase the difficulty in developing and operating natural gas storage facilities;

Specialized skills: finding and retaining qualified and skilled natural gas storage professionals is a challenge in today s competitive job market in the oil & gas sectors due to the specialized nature of the skills required; and

Development costs: costs for new natural gas storage capacity development have continued to increase.

Although there are significant barriers to entry within the natural gas storage industry, competition is robust. Competition for natural gas storage is primarily based on location, connectivity and the ability to deliver natural gas in a timely and reliable manner. Our natural gas storage facilities compete with other means of natural gas storage, including other depleted reservoir facilities, salt cavern storage facilities and liquefied natural gas and pipelines.

Storage capacity is held by a wide variety of market participants for a variety of purposes such as:

Reliability: local distribution companies (LDC s) hold the bulk of capacity and tend to use it in a manner relatively insensitive to gas prices, injecting gas into storage during the summer to meet fairly well-defined inventory targets and withdrawing it in winter to meet peak load requirements while retaining a sufficient cushion of inventory to meet worst-case late winter demands. For such customers with an obligation to serve core end use markets, the value of storage may be significantly greater than the price differential between winter and summer gas. LDC s will pay the price to secure the natural gas storage they need up to the cost of alternatives (i.e., long haul pipeline capacity or above-ground storage).

Efficiency: pipeline operators use storage capacity for system balancing requirements and to manage maintenance schedules, as well as to provide storage services to shippers on their systems. Producers use capacity to minimize production fluctuations and to manage market commitments. Power generators use storage capacity to provide swing capability for their plants that experience high daily and even hourly variability of requirements.

Arbitrage: energy merchants and other trading entities use storage for gas price arbitrage purposes, buying and injecting gas at times of low gas prices and withdrawing at times of higher prices as driven by the fundamentals of the natural gas market.

The value of natural gas storage is a reflection of its critical role in providing the North American natural gas market with a degree of supply reliability, flexibility and seasonal and daily demand balancing.

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NGL Business

In general, natural gas produced at the wellhead contains, along with methane, various NGLs. This raw natural gas is usually not acceptable for transportation in the nation s major natural gas pipeline systems or for commercial use as a fuel. Our natural gas processing operation, located near Bakersfield, California, separates the NGLs from the methane and delivers the methane to the local natural gas pipelines. The NGLs are retained for further processing within our fractionation facility.

NGL fractionation facilities separate mixed NGL streams into discrete NGL products: propane, normal butane, isobutane and pentanes (sometimes referred to as natural gasoline). The three primary sources of mixed NGLs fractionated in the United States are (i) domestic natural gas processing plants, (ii) domestic crude oil refineries and (iii) imports of butane and propane mixtures. The mixed NGLs delivered from domestic natural gas processing plants and crude oil refineries to our NGL fractionation facility are typically transported by NGL pipelines, railcar and NGL transport truck.

Other businesses within our NGL operation are butane isomerization and refrigerated storage. Our recently constructed isomerization facility chemically changes normal butane to isobutane, which we provide to area refineries for motor fuel blending.

The purity NGL products (propane, normal butane, isobutane and natural gasoline) are typically used as raw materials by the petrochemical industry, feedstocks by refiners in the production of motor gasoline and by industrial and residential users as fuel. Propane is used both as a petrochemical feedstock in the production of propylene and as a heating, engine and industrial fuel. Normal butane is used as a petrochemical feedstock in the production of butadiene (a key ingredient of synthetic rubber), as a blendstock for motor gasoline and to derive isobutane through isomerization. Some more common uses of isobutane is blendstock in motor gasoline to enhance the octane content and in the production of propylene oxide. Natural gasoline, a mixture of pentanes and heavier hydrocarbons, is primarily used as a blendstock for motor gasoline, denaturant for ethanol and dilute for heavy crude oil.

Our NGL business encounters competition from fully integrated oil companies and independent NGL market participants. Each of our competitors has varying levels of financial and personnel resources and competition generally revolves around price, service and location. The majority of our NGL processing and fractionation activities are processing mixed NGL streams for third-party customers and to support our NGL marketing activities under contractual and fee-based arrangements. These fees (typically in cents per gallon) are subject to adjustment for changes in certain fractionation expenses, including natural gas fuel costs. Our integrated midstream energy asset system affords us flexibility in meeting our customers needs. While many companies participate in the natural gas processing business, few have a presence in significant downstream activities such as NGL fractionation and transportation and NGL marketing as we do. Our competitive position and presence in these downstream businesses allow us to extract incremental value while offering our customers enhanced services, including comprehensive service packages.

Salt Mining

According to the Salt Institute, a North American based non-profit salt industry trade association, more than 250 million metric tons of salt were produced in the world in 2007. China was the single largest producer of salt in 2007, with 59.8 million metric tons, followed by the United States, with 44.5 million metric tons. Salt is generally categorized into four types based upon the method of production: evaporated salt, solar salt, rock salt and salt in brine. Dry salt is produced through the following methods: solution mining and mechanical evaporation, solar evaporation or deep-shaft mining. Our US Salt facility, located in Schuyler County, New York, produces salt using solution mining and mechanical evaporation. The facility produces and sells over 300,000 tons of salt each year.

In solution mining, wells are drilled into salt beds or domes and then water is injected into the formation and circulated to dissolve the salt. The salt solution, or brine, is then pumped out and taken to a plant for evaporation.

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At the plant, the brine is treated to remove minerals and pumped into vacuum pans, sealed containers in which the brine is boiled and then evaporated until the salt is left behind. Then it is dried and refined. Depending on the type of salt to be produced, iodine and an anti-clumping agent may be added to the salt. Most food grade table salt is produced in this manner.

After the salt is removed from a solution-mined salt deposit, the empty cavern can be used to store other substances, like natural gas, LPG or compressed air.

Our US Salt facility has existing cavern space that we are currently developing into a 5 million barrel LPG storage facility that we expect to place into service in the spring of 2011. There is also existing cavern space that we intend to convert to approximately 10 bcf of natural gas storage. With each new brine well that we drill we create additional potential storage capacity.

Business Strategy

Our primary objective is to increase distributable cash flow for our unitholders, while maintaining the highest level of commitment and service to our customers. We have engaged and will continue to engage in objectives of further growth through acquisitions both in our propane and midstream operations, internally generated expansion and measures aimed at increasing the profitability of existing operations.

Competitive Strengths

We intend to pursue this objective by capitalizing on what we believe are our competitive strengths as follows:

Proven Acquisition Expertise

Since our predecessor s inception and through September 30, 2010, we have acquired and successfully integrated 86 companies 80 retail propane companies and 6 midstream businesses. Our executive officers and key employees, who together average more than 15 years experience in the propane and midstream energy-related industries, have developed business relationships with retail propane owners and businesses as well as other midstream industry participants throughout the United States. These significant industry contacts have enabled us to negotiate most of our acquisitions on an exclusive basis. We believe that this acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions. Our acquisition program will continue to seek:

- businesses that generate distributable cash flow that is accretive to common unitholders on a per unit basis;
- propane and midstream businesses in attractive market areas;
- propane businesses with established names and reputations for customer service and reliability;
- propane businesses with high concentration of propane sales to residential customers;
- midstream businesses that generate predictable, stable fee-based cash flow streams;
- midstream businesses with organic expansion opportunities or strategic regional enhancement; and
- retention of key employees in acquired businesses.

Management Experience

Our senior management team has extensive experience in the propane and midstream energy industry. Our management team has a proven track record of enhancing the value of our partnership, through the acquisition, integration and optimization of the businesses we own and operate.

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Flexible Financial Structure

We have a $450 million revolving general partnership credit facility for acquisitions and a $75 million revolving working capital facility. We believe our available capacity under these facilities combined with our ability to fund acquisitions and organic expansion projects through the issuance of additional partnership interests will provide us with a flexible financial structure that will facilitate our acquisition and organic expansion effort. We expect that the elimination of our incentive distribution rights will reduce our cost of capital, which will enhance our ability to compete for future acquisitions and finance organic growth projects.

Propane Business Strengths

Focus on High Percentage of Retail Sales to Residential Customers

Our retail propane operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2010, sales to residential customers represented approximately 65% of our retail propane gallons sold. Although overall demand for propane is affected by weather and other factors, we believe that residential propane consumption is not materially affected by general economic conditions because most residential customers consider home space heating to be an essential purchase. In addition, we own nearly 90% of the propane tanks located at our customers homes. In many states, fire safety regulations restrict the refilling of a leased tank solely to the propane supplier that owns the tank. These regulations, which require customers to switch propane tanks when they switch suppliers, help enhance the stability of our customer base because of the inconvenience and costs involved with switching tanks and suppliers.

Regionally Branded Operating Structure

We believe that our success in maintaining customer stability and our low cost operating structure at our customer service centers results from our decentralized operation under established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention. We expect our local branch management to continue to manage the marketing programs, new business development, customer service and customer billing and collections. We believe that our employee incentive programs encourage efficiency and allow us to control costs at the corporate and field levels.

Operations in Attractive Propane Markets

A majority of our propane operations are concentrated in attractive propane market areas, where natural gas distribution is not cost-effective, margins are relatively stable and tank control is relatively high. We intend to pursue acquisitions in similar attractive markets.

Comprehensive Propane Logistics and Distribution Business

One of our distinguishing strengths is our propane procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2010, we delivered 415.3 million gallons of propane on a wholesale basis to our various customers. These operations are significantly larger on a relative basis than the wholesale operations of most publicly-traded propane businesses. We also provide transportation services to these distributors through our fleet of transport vehicles, and price risk management services to our customers through a variety of financial and other instruments. The presence of our trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities. Because we sell on a wholesale basis to many residential and commercial retailers, we have an ongoing relationship with a large number of businesses that may be attractive acquisition opportunities for us. We believe that we will have an adequate supply of propane to support our growing retail operations at prices

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that are generally available only to large wholesale purchasers. This purchasing scale and resulting expertise also helps us avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors.

Midstream Business Strengths

Strategically Located Assets

Our assets are situated close to or within demand based market areas, which positions us well to leverage the services we offer to our customers relative to our competitors. We own and operate natural gas storage operations approximately 200 miles northwest of New York City. These assets are among the closest natural gas storage facilities to the New York City market and have the capability of delivering gas to this market as well as other Northeast and Mid-Atlantic market centers. We also own and operate US Salt, a salt production company located in Schuyler County, New York, between our Stagecoach and Steuben natural gas storage facilities, which will add additional gas storage capacity to our operations in the Northeast. Our recent acquisition of Tres Palacios, which is located approximately 100 miles southwest of Houston, provides us access to the Houston and San Antonio metropolitan areas and the broader Texas markets as well as markets in the Northeast, Midwest, Southeast, Florida and Mid-Atlantic United States and Mexico. The Tres Palacios facility, like Stagecoach, is located near shale gas supply, connected to multiple supply sources and supports strong demand markets. The Texas natural gas fired electric generation market is among the largest in the United States. We also own and operate an NGL operation near Bakersfield, California, strategically situated between the major refining centers of Los Angeles and San Francisco. We believe there are opportunities to further leverage our geographic location, expand our current asset base and to enhance the platform of services we offer to our customers that will further enhance the value and profitability of these assets.

Ability to Leverage Industry Relationships

Our management team has extensive industry relationships and they have been successful in leveraging these relationships with both new and existing customers of our midstream operations into profitable opportunities to further grow our operations.

Stable Cash Flows

Our midstream operations consist predominantly of fee-based services that generate stable cash flows. These contracts are primarily with investment-grade rated customers such as large east coast utilities and major gas marketing firms. We believe that this further adds to our stable cash flow and enhances our access to the capital markets.

Operations

Our operations reflect our two reportable segments: propane operations and midstream operations.

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Propane Operations

Retail Propane

Customer Service Centers

At October 29, 2010, we distributed propane to over 700,000 retail customers from 356 customer service centers in 33 states. We market propane primarily in rural areas, but also have a significant number of customers in suburban areas where energy alternatives to propane such as natural gas are generally not available. We market our propane primarily in the eastern half of the United States through our customer service centers using multiple regional brand names. The following table shows our customer service centers by state:

State	Number of Customer Service Centers
Alabama	44
Arizona	1
Arkansas	2
Colorado	5
Connecticut	4
Delaware	1
Florida	19
Georgia	5
Illinois	4
Indiana	24
Kentucky	2
Maine	5
Maryland	6
Massachusetts	7
Michigan	31
Mississippi	29
New Hampshire	3
New Jersey	8
New Mexico	3
New York	11
North Carolina	29
Ohio	25
Oklahoma	3
Pennsylvania	17
Rhode Island	1
South Carolina	3
Tennessee	10
Texas	26
Vermont	11
Virginia	6
Washington	3
West Virginia	2
Wisconsin	6
Total	356

From our customer service centers, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances. Typical customer service centers consist of an office and

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service facilities, with one or more 12,000 to 30,000 gallon bulk storage tanks. Some of our customer service centers also have an appliance showroom. We have several satellite facilities that typically contain only large capacity storage tanks.

Customer Deliveries

Retail deliveries of propane are usually made to customers by means of our fleet of bobtail and rack trucks. Propane is pumped from the bobtail truck, which generally holds 2,500 to 3,000 gallons, into a stationary storage tank at the customer s premises. The capacity of these tanks range from 100 gallons to 1,200 gallons, with a typical tank having a capacity of 100 to 300 gallons in milder climates and 500 to 1,000 gallons in colder climates. We also deliver propane to retail customers in portable cylinders, which typically have a capacity of five to thirty-five gallons. These cylinders typically are picked up by us and replenished at our distribution locations, then returned to the retail customer. To a limited extent, we also deliver propane to certain customers in larger trucks known as transports, which have an average capacity of 10,000 gallons. These customers include industrial customers, large-scale heating accounts and large agricultural accounts.

During the fiscal year ended September 30, 2010, we delivered approximately 45% of our propane volume to retail customers and 55% to wholesale customers. Our retail volume sold to residential, industrial and commercial and agricultural customers were as follows:

65% to residential customers;

25% to industrial and commercial customers; and