Energy Transfer Partners, L.P.
Form 424B3
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PROSPECTUS SUPPLEMENT

(To Prospectus dated January 12, 2004)

1,640,000 Common Units

Representing Limited Partner Interests

We are offering 1,640,000 common units representing limited partner interests of Energy Transfer Partners, L.P. to 10 purchasers in a privately negotiated transaction pursuant to this prospectus supplement at a price of $31.95 per common unit.

Investing in the common units involves risk. See Risk Factors beginning on page S-4 of this prospectus supplement and on page 6 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

June 17, 2005

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This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common units. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the common units. If the information in this prospectus supplement varies from the information in the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

You should only rely on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since these dates.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering. You should read Risk Factors beginning on page S-4 of this prospectus supplement and page 6 of the accompanying prospectus for more information about important risks that you should consider before buying common units in this offering. The information presented in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option. Throughout this prospectus supplement and the accompanying prospectus, we refer to ourselves, Energy Transfer Partners, L.P., and our predecessor, Heritage Propane Partners, L.P., as we, us, our or Energy Transfer Partners.

Energy Transfer Partners, L.P.

We are a rapidly-growing master limited partnership engaged in the natural gas midstream, transportation and storage business, with operations in Texas and Louisiana, and in the retail propane marketing business, with operations in 33 states.

Our midstream, transportation and storage business owns and/or operates approximately 11,700 miles of natural gas gathering and transportation pipelines, three natural gas processing plants, two of which are currently connected to our gathering systems, 14 natural gas treating facilities and three natural gas storage facilities. Our midstream segment focuses on the transportation, gathering, compression, treating, processing and marketing of natural gas, and its operations are currently concentrated in the Austin Chalk trend of southeast Texas, the Permian Basin of west Texas, the Barnett Shale in north Texas and the Bossier Sands in east Texas. Our midstream segment also includes the recently acquired Houston Pipeline System which is comprised of approximately 4,200 miles of intrastate natural gas pipeline, the 65 Bcf of working gas underground Bammel storage reservoir and related transportation assets. The Houston Pipeline System has access to multiple sources of historically significant natural gas supply reserves from south Texas, the Gulf Coast, east Texas and the western Gulf of Mexico and is directly connected to major gas distribution, electric and industrial load centers in Houston, Corpus Christi, Texas City, Baytown, Beaumont and Port Arthur. Our transportation and storage segment focuses on the transportation of natural gas through the Oasis pipeline, our Bossier pipeline, our natural gas pipeline and storage assets that we refer to as the ET Fuel System and certain transportation assets of the recently acquired Houston Pipeline System. The Oasis pipeline is a 583-mile natural gas pipeline that directly connects the Waha Hub, a major natural gas trading center located in the Permian Basin of west Texas, to the Katy Hub, a major natural gas trading center near Houston, Texas. The Bossier pipeline, which became commercially operational in June 2004, connects natural gas supplies in east Texas to our Katy pipeline. The ET Fuel System, which serves some of the most active drilling areas in the United States, is comprised of approximately 2,000 miles of intrastate natural gas pipeline and related natural gas storage facilities located in Texas. With approximately 460 receipt and/or delivery points, including interconnects with pipelines providing direct access to power plants and interconnects with other intrastate and interstate pipelines, the ET Fuel System is strategically located near high-growth production areas and major markets such as the Waha Hub, the Katy Hub and the Carthage Hub, three major natural gas trading centers located in Texas. The Houston Pipeline System consists of six main transportation pipelines and three market area loops and has direct access to multiple market hubs at Katy, the Houston Ship Channel, Ague Dulce and through its operation of the Bammel storage facility.

In April, 2005, we announced that we had completed the sale of our Oklahoma gathering, treating and processing assets, which we refer to as our Elk City System, to Atlas Pipeline Partners, L.P.

We are the fourth largest retail propane marketer in the United States, serving more than 650,000 customers from 311 customer service locations. Our propane operations extend from coast to coast, with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States.

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We were originally formed in conjunction with our initial public offering as Heritage Propane Partners, L.P. in June 1996. In January 2004, we combined the propane operations of Heritage Propane Partners with the natural gas midstream and transportation operations of La Grange Acquisition conducted under the name Energy Transfer Company. We refer to this combination, along with the incurrence of debt and the issuance of our equity securities in connection with that combination, as the Energy Transfer Transactions. In March 2004, we changed our name to Energy Transfer Partners, L.P.

Our executive offices are located at 2838 Woodside Street, Dallas, Texas 75204. Our telephone number is (214) 981-0700. We maintain a website at *http://www.energytransfer.com* that provides information about our business and operations. Information contained on this website, however, is not incorporated into or otherwise a part of this prospectus.

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THE OFFERING

Common units offered	1,640,000 common units.
Common units outstanding immediately after this offering	103,884,572 common units.
Other units outstanding immediately after this offering	1,000,000 class C units and 8,853,832 class E units.
Use of proceeds	We will receive net proceeds of approximately $52.1 million from this offering. We plan to use the net cash proceeds from this offering for general partnership purposes.
Risk Factors	Please read Risk Factors beginning on page S-4 of this prospectus supplement and on page 6 of the accompanying prospectus for a discussion of risks relating to an investment in our common units.
New York Stock Exchange symbol	ETP.

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RISK FACTORS

An investment in our common units involves a high degree of risk. You should carefully consider the following risk factors included below and under the caption Risk Factors beginning on page 3 of the accompanying prospectus, together with all of the other information included in, or incorporated by reference into, this prospectus supplement in evaluating an investment in our common units. If any of these risks were to occur, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of our common units could decline and you could lose all or part of your investment.

We may be unable to successfully integrate the operations of the ET Fuel System and the Houston Pipeline System with our operations and to realize all of the anticipated benefits of the acquisition of the ET Fuel System and the Houston Pipeline System.

Integration of the ET Fuel System and the Houston Pipeline System with our business and operations will be a complex, time consuming and costly process. Failure to successfully integrate the ET Fuel System and the Houston Pipeline System with our business and operations in a timely manner may have a material adverse effect on our business, financial condition and results of operations. The difficulties of combining the companies include, among other things:

- operating a significantly larger combined company and integrating additional midstream operations to our existing operations;
- the necessity of coordinating geographically disparate organizations, systems and facilities;
- integrating personnel with diverse business backgrounds and organizational cultures; and
- consolidating corporate and administrative functions.

In addition, we may not realize all of the anticipated benefits from our acquisition of the ET Fuel System and the Houston Pipeline System due to a number of potential factors including the impact of competition, fluctuations in markets, higher costs and difficulties in integrating operations.

We will also be exposed to risks that are commonly associated with transactions similar to this acquisition, such as unanticipated liabilities and costs, some of which may be material, and diversion of management s attention. As a result, the anticipated benefits of the acquisition may not be fully realized, if at all.

We encounter competition from other midstream, transportation and storage companies and propane companies.

We experience competition in all of our markets. Our principal areas of competition include obtaining natural gas supplies for the Southeast Texas System and natural gas transportation customers for the Oasis Pipeline, the Bossier Pipeline and the ET Fuel System. Our competitors include major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport and market natural gas. The Oasis Pipeline competes directly with two other major intrastate pipelines that link the Waha Hub and the Houston area, one of which is owned by Duke Energy Field Services, LLC and the other one of which is owned by El Paso Corporation and American Electric Power Service Corporation. The Southeast Texas System competes with natural gas gathering and processing systems owned by Duke Energy Field Services, LLC. The Bossier Pipeline competes with other natural gas transportation pipelines that serve the Bossier Sands area in east Texas and the Barnett Shale area of the Fort Worth Basin in north Texas. The ET Fuel System competes with a number of other natural gas pipelines, including interstate and intrastate pipelines that link the Waha Hub and the Dallas/Ft. Worth area and other pipelines that serve the east central Texas and south Texas markets. Pipelines that we compete with in these areas include those owned by Atmos Energy Corporation, Enterprise Products Partners, L.P. and Enbridge, Inc. Many of our competitors have greater financial resources and access to larger natural gas supplies than we do.

The acquisition of the Houston Pipeline System, which will increase the number of interstate pipelines and natural gas markets to which we have access, will also expand our principal areas of competition to areas such as southeast Texas and the Texas Gulf Coast. As a result of our expanded market presence and diversification, we will face additional competitors, such as major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport and market natural gas, that have greater financial resources and access to larger natural gas supplies than we do.

Our propane business competes with a number of large national and regional propane companies, and several thousand small independent propane companies. Because of the relatively low barriers to entry into the retail propane market, there is potential for small independent propane retailers, as well as other companies that may not currently be engaged in retail propane distribution, to compete with our retail outlets. As a result, we are always subject to the risk of additional competition in the future. Generally, warmer-than-normal weather further intensifies competition. Most of our propane retail branch locations compete with several other marketers or distributors in their service areas. The principal factors influencing competition with other retail propane marketers are:

- price,
- reliability and quality of service,
- responsiveness to customer needs,
- safety concerns,
- long-standing customer relationships,
- the inconvenience of switching tanks and suppliers, and
- the lack of growth in the industry.

We are exposed to the credit risk of our customers, and an increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

Risks of nonpayment and nonperformance by our customers are a major concern in our business. Participants in the energy industry have been subjected to heightened scrutiny from the financial markets in light of past collapses and failures of other energy companies. We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. Any increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

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Our increased debt level may limit our future financial and operating flexibility.

As of February 28, 2005, we had approximately $1.8 billion of consolidated debt outstanding, which represents 67% of our total book capitalization as of that date. As a result of the acquisition of the ET Fuel System and the Houston Pipeline System and the related financings, our financial leverage is higher. Our level of indebtedness affects our operations in several ways, including, among other things:

- a significant portion of our cash flow from operations will be dedicated to the payment of principal and interest on outstanding debt and will not be available for other purposes, including payment of distributions;
- covenants contained in our existing debt arrangements require us to meet financial tests that may adversely affect our flexibility in planning for and reacting to changes in our business;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general partnership purposes may be limited;
- we may be at a competitive disadvantage relative to similar companies that have less debt; and
- we may be more vulnerable to adverse economic and industry conditions as a result of our significant debt level.

The ET Fuel System and the Houston Pipeline System are subject to operational, regulatory and environmental risks.

The operations of the ET Fuel System and the Houston Pipeline System are similar in many ways to the operations conducted by our existing transportation assets, and as a result, are subject to similar operational risks, regulatory requirements, environmental liabilities and pipeline right-of-way issues as potentially exist for our current transportation assets as described in the accompanying prospectus. Please read Risk Factors Risks Related to our Midstream and Transportation Business and Business Energy Transfer Company Regulation in the accompanying prospectus.

In addition, the ET Fuel System and the Houston Pipeline System are subject to the jurisdiction of the TRRC. Generally, the TRRC has jurisdiction over all underground storage of natural gas in Texas, unless the facility is part of an interstate gas pipeline facility. Because the ET Fuel System and the Houston Pipeline System natural gas storage facilities are only connected to intrastate gas pipelines, they fall within the TRRC s jurisdiction. Under the TRRC s regulations, a natural gas storage facility must have a commission-issued permit to operate. Our purchase of the assets of the ET Fuel System from TXU Fuel Company required us to apply for transfers of the permits as operators of the storage facilities acquired from TXU Fuel Company. We have made applications for the transfer of these permits and are awaiting TRRC approval. Some changes to a permit, such as facility expansions and increases in the maximum operating pressure, must be approved through an amendment process before the TRRC. In addition, the TRRC must approve transfers of the permits. The TRRC s regulations also require all natural gas storage facilities to be operated to prevent waste, the uncontrolled escape of gas, pollution and danger to life or property. Accordingly, the TRRC requires natural gas storage facilities to implement certain safety, monitoring, reporting and record-keeping measures. Violations of the terms and provisions of a TRRC permit or a TRRC order or regulation can result in the modification, cancellation or suspension of an operating permit and/or civil penalties, injunctive relief, or both.

The ET Fuel System and the Houston Pipeline System are comprised of assets such as storage facilities for which we do not have operating experience.

The assets of the ET Fuel System and the Houston Pipeline System included storage facilities, which are a type of asset that we have limited experience operating. Operation of these assets will subject us to different governmental regulations and may result in increased costs. The success of our business strategy related to the operation of the ET

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Fuel System and the Houston Pipeline System is dependent upon our ability to capitalize on significant operating synergies to further enhance the value of the assets. If we are unable to operate these assets in accordance with our business strategy, it could have a material adverse effect on our results of operations.

Our storage business depends on neighboring pipelines to transport natural gas.

To obtain natural gas, our storage business depends on the pipelines to which they have access. Many of these pipelines are owned by parties not affiliated with us. Any interruption of service on those pipelines or adverse change in their terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport natural gas to and from our facilities and a corresponding material adverse effect on our storage revenues. In addition, the rates charged by those interconnected pipelines for transportation to and from our facilities affect the utilization and value of our storage services. Significant changes in the rates charged by those pipelines or the rates charged by other pipelines with which the interconnected pipelines compete could also have a material adverse effect on our storage revenues.

We may not be able to fully execute our growth strategy if we encounter illiquid capital markets or increased competition for qualified assets.

Our strategy contemplates growth through the development and acquisition of a wide range of midstream, transportation, storage, propane and other energy infrastructure assets while maintaining a strong balance sheet. This strategy includes constructing and acquiring additional assets and businesses to enhance our ability to compete effectively and diversify our asset portfolio, thereby providing more stable cash flow. We regularly consider and enter into discussions regarding, and are currently contemplating, the acquisition of additional assets and businesses, stand alone development projects or other transactions that we believe will present opportunities to realize synergies and increase our cash flow.

We may require substantial new capital to finance the future development and acquisition of assets and businesses. Limitations on our access to capital will impair our ability to execute this strategy. Expensive capital will limit our ability to develop or acquire accretive assets. We may not be able to raise the necessary funds on satisfactory terms, if at all.

Consistent with our acquisition strategy, we are continuously engaged in discussions with potential sellers regarding the possible acquisition of additional assets or businesses. Such acquisition efforts may involve our participation in processes that involve a number of potential buyers, commonly referred to as auction processes, as well as situations where we believe we are the only party or one of a very limited number of potential buyers in negotiations with the potential seller. We can give you no assurance that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms considered favorable to us.

In addition, we are experiencing increased competition for the assets we purchase or contemplate purchasing. Increased competition for a limited pool of assets could result in us losing to other bidders more often or acquiring assets at higher prices. Either occurrence would limit our ability to fully execute our growth strategy. Our inability to execute our growth strategy may materially adversely impact the market price of our securities.

Our pipeline integrity program may impose significant costs and liabilities on us.

In December 2003, the U.S. Department of Transportation issued a final rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule refers to as high consequence areas. The final rule resulted from the enactment of the Pipeline Safety Improvement Act of 2002. The final rule was effective as of January 14, 2004. Based on the results of our current pipeline integrity testing programs, we estimate that compliance with this final rule for our existing transportation assets will result in capital costs of $4.5 million during 2005 to 2010, as well as operating and maintenance costs of $1.8 million during 2005 to 2010. We are continuing to assess the impact of this final rule on the ET Fuel System and the Houston Pipeline System and cannot predict any estimated compliance costs for those assets at this time. Integrity testing and assessment of all of these assets will continue, and the potential exists that results of such testing and assessment could cause us to incur even greater capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of our pipelines.

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If we do not make acquisitions on economically acceptable terms, any future growth will be limited.

Our ability to grow and to increase distributions to unitholders is dependent principally on our ability to make acquisitions that are accretive to our distributable cash flow per unit. our acquisition strategy is based, in part, on our expectation of ongoing divestitures of pipeline assets by large industry participants. A material decrease in such divestitures would limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

In addition, we may be unable to make such accretive acquisitions for any of the following reasons, among others:

- because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them;
- because we are unable to raise financing for such acquisitions on economically acceptable terms; or
- because we are outbid by competitors, some of which are substantially larger than us and have greater financial resources and lower costs of capital then we do.

Furthermore, even if we consummate acquisitions that we believe will be accretive, they may in fact result in no increase or even a decrease in distributable cash flow per unit. Any acquisition involves potential risks, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- encounter difficulties operating in new geographic areas or new lines of business;
- incur or assume unanticipated liabilities, losses or costs associated with the business or assets acquired for which we are not indemnified or for which the indemnity is inadequate;
- be unable to hire, train or retrain qualified personnel to manage and operate our growing business and assets;
- less effectively manage our historical assets, due to the diversion of management s attention from other business concerns;

incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

If we consummate future acquisitions, our capitalization and results of operations may change significantly. As we determine the application of our funds and other resources, you will not have an opportunity to evaluate the economics, financial and other relevant information that we will consider.

On January 26, 2005, we consummated the acquisition of a controlling interest in the Houston Pipeline System for approximately $825.0 million, subject to working capital adjustments. In addition, the payment for the inventory of working gas stored in the Bammel storage facility was financed through a short-term borrowing from a related party. We may be exposed to some or all of the risks described above in connection with this acquisition.

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USE OF PROCEEDS

We will receive net proceeds of approximately $52.1 million from this offering. We plan to use the net cash proceeds from this offering for general partnership purposes.

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

The common units are listed and traded on the New York Stock Exchange under the symbol ETP. The following table shows the high and low sales prices for the common units on the New York Stock Exchange Composite Transactions Tape and the cash distribution paid per common unit for the quarterly periods ending on the dates indicated.

Common Unit Price Range

and Cash Distributions (a)

Price Range	High	Low	Cash Distributions(b)
Fiscal 2002			
November 30, 2001	$ 14.495	$ 12.325	$ 0.31875
February 28, 2002	15.275	12.755	0.31875
May 31, 2002	14.50	13.25	0.31875
August 31, 2002	13.80	11.25	0.31875
Fiscal 2003			
November 30, 2002	$ 14.125	$ 12.25	$ 0.31875
February 28, 2003	14.785	13.525	0.31875
May 31, 2003	14.95	13.88	0.31875
August 31, 2003	16.27	14.80	0.3250
Fiscal 2004			
November 30, 2003	$ 19.35	$ 15.51	$ 0.3250
February 29, 2004	21.33	18.78	0.3500
May 31, 2004	20.125	17.25	0.3750
August 31, 2004	21.69	18.935	0.4125
Fiscal 2005			
November 30, 2004	$ 27.00	$ 21.59	$ 0.4375
February 28, 2005	32.55	25.925	0.4625
May 31, 2005	32.69	29.75	0.4875
August 31, 2005 (c)	33.99	32.00	

(a) All common unit and cash distributions have been adjusted to reflect the 2-for-1 unit split that was effected in March 2005.
(b) Distributions are shown in the quarter with respect to which they were declared.
(c) Through June 17, 2005.

The last reported sales price of common units on the NYSE on June 17, 2005 was $33.99 per common unit. As of June 17, 2005, there were approximately 55,000 individual common unitholders.

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TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of our common units, see Material Tax Considerations in the accompanying prospectus. You may wish to consult with your own tax advisor about the federal, state, local and foreign tax consequences peculiar to your circumstances.

Ownership of common units by tax-exempt entities, regulated investment companies and foreign investors raises issues unique to such persons. Recent legislation treats net income derived from the ownership of certain publicly traded partnerships (including us) as qualifying income to a regulated investment company. However, this legislation is only effective for taxable years beginning after October 22, 2004, the date of enactment. For taxable years beginning on or before the date of enactment, very little of our income will be qualifying income to a regulated investment company. Please read Material Tax Consequences Tax-Exempt Organizations and Other Investors in the accompanying prospectus.

Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the implementation of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, our cash available for distribution would be reduced.

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PLAN OF DISTRIBUTION

We are selling the common units offered under this prospectus supplement directly to five investors in a privately negotiated transaction in which no party is acting as an underwriter. Subject to the terms of a purchase agreement dated June 17, 2005, the investors have agreed to purchase and we have agreed to sell to the investors 1,640,000 common units at a price of $31.95 per common unit. The price per common unit was determined through negotiations with the investors based upon the market price for the common units.

We expect to deliver the common units through our transfer agent on June 20, 2005.

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EXPERTS

The consolidated financial statements of Energy Transfer Partners, L.P. as of August 31, 2004, and for the year ended August 31, 2004; the consolidated financial statements of Heritage Propane Partners, L.P., as of August 31, 2003, and for the period ended January 19, 2004 and for the years ended August 31, 2003 and 2002; the consolidated balance sheet of U.S. Propane, L.P. as of August 31, 2004; and the consolidated balance sheet of U.S. Propane, L.L.C. as of August 31, 2004, all incorporated by reference in the prospectus and elsewhere in the registration statement of which the prospectus is a part from our Annual Report on Form 10-K for the year ended August 31, 2004, have been audited by Grant Thornton LLP, independent registered public accounting firm, as indicated in their reports with respect thereto, and are incorporated by reference in the prospectus in reliance upon the authority of said firm as experts in giving such reports. The audit report covering the consolidated financial statements of Heritage Propane Partners, L.P. refers to a change in accounting for stock-based compensation.

The consolidated financial statements of Aquila Gas Pipeline Corporation and Subsidiaries as of September 30, 2002 and for the periods ended September 30, 2002 and December 31, 2001; and the consolidated financial statements of Oasis Pipe Line Company as of December 27, 2002 and the period then ended; and the combined financial statements of Energy Transfer Company as of August 31, 2003 and for the eleven months then ended, incorporated by reference in this prospectus have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, and are incorporated by reference herein in reliance upon such reports given on the authority of such firm as experts in accounting and auditing. The audit report covering the consolidated financial statements of Aquila Gas Pipeline Corporation and Subsidiaries as of September 30, 2002, and for the periods ended September 30, 2002 and December 31, 2001 refers to a change in accounting for goodwill and other intangible assets.

The financial statements of TXU Fuel Company as of December 31, 2003 and 2002 and for the years then ended included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report which report expresses an unqualified opinion and includes an explanatory paragraph referring to the adoption of Statement of Financial Accounting Standards No. 143 which is included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of HPL Consolidation LP as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, included in this prospectus have been audited by Deloitte & Touche LLP, independent registered public accounting firm, as stated in their report, which is included herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement with the SEC under the Securities Act of 1933 that registers the securities offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this prospectus.

In addition, we file annual, quarterly and other reports and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 for further information on the operation of the SEC s public reference room. Our SEC filings are available on the SEC s web site at http://www.sec.gov. We also make available free of charge on our website, at http://www.energytransfer.com, all materials that we file electronically with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports and amendments to these reports as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC. Additionally, you can obtain information about us through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our common units are listed.

The SEC allows us to incorporate by reference the information we have filed with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. These other documents contain important information about us, our financial condition and results of operations. The information incorporated by reference is an important part of this prospectus. Information that we file later with the SEC will automatically update and may replace information in this prospectus and information previously filed with the SEC.

We incorporate by reference in this prospectus the documents listed below:

- our annual report on Form 10-K for the year ended August 31, 2004;

- our definitive proxy statement filed by us under Section 14(a) of the Securities Exchange Act of 1934 on May 18, 2004;

- our quarterly reports on Form 10-Q for the quarters ended November 30, 2004 and February 28, 2005;

- our current reports on Form 8-K filed June 14, 2004 (as amended on June 23, 2004), September 23, 2004, October 25, 2004, November 1, 2004 (as amended on November 2, 2004), November 3, 2004, January 3, 2005, January 12, 2005 (with respect to Item 8.01 only), January 19, 2005, January 31, 2005 (with respect to Item 8.01 only), February 1, 2005 (as amended on March 17, 2005), March 11, 2005, March 16, 2005, and April 12, 2005;

- the description of our common units in our registration statement on Form 8-A (File No. 1-11727) filed pursuant to the Securities Exchange Act of 1934 on May 16, 1996; and all documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of this prospectus and the termination of the registration statement.

You may obtain any of the documents incorporated by reference in this prospectus from the SEC through the SEC s website at the address provided above. You also may request a copy of any document incorporated by reference in this prospectus (including exhibits to those documents specifically incorporated by reference in this document), at no cost, by visiting our internet website at www.energytransfer.com, or by writing or calling us at the following address:

Energy Transfer Partners, L.P.

8801 South Yale Avenue, Suite 310

Tulsa, Oklahoma 74137

Attention: Robert A. Burk

Telephone: (918) 492-7272

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GLOSSARY

The following is a description of the meanings of some of the oil and natural gas industry terms used in this prospectus supplement.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

Bcf. One billion cubic feet of gas.

Bcf/d. One billion cubic feet of gas per day.

Btu. British thermal unit, which is heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Mcf/d. One thousand cubic feet of gas per day.

MMBtu. One million Btus.

MMcf/d. Million cubic feet of natural gas per day.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

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PROSPECTUS

$800,000,000

Energy Transfer Partners, L.P.

Common Units

Debt Securities

Heritage Operating, L.P.

Debt Securities

1,988,846

Common Units

Offered By Selling Unitholders

The following securities may be offered under this prospectus:

- Common units representing limited partner interests in Energy Transfer Partners, L.P.;
- Debt securities of Energy Transfer Partners, L.P.; and
- Debt securities of Heritage Operating, L.P., in an aggregate initial offering price of $800,000,000; and

Up to 1,988,846 common units offered by selling unitholders.

The aggregate initial offering price of the securities that we offer by this prospectus will not exceed $800,000,000. We will offer the securities in amounts, at prices and on terms to be determined by market conditions at the time of our offerings. This prospectus describes only the general terms of these securities and the general manner in which we will offer the securities. The specific terms of any securities we offer will be included in a supplement to this prospectus. The prospectus supplement will describe the specific manner in which we will offer the securities and also may add, update or change information contained in this prospectus. The common units are traded on the New York Stock Exchange under the symbol ETP.

You should read this prospectus and the prospectus supplement carefully before you invest in any of our securities. This prospectus may not be used to consummate sales of our securities unless it is accompanied by a prospectus supplement.

Investing in our securities involves risk. You should carefully consider the risk factors described under Risk Factors beginning on page 3 of this prospectus before you make any investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is January 12, 2004.

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You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone else to give you different information. We are not offering these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents. We will disclose any material changes in our affairs in an amendment to this prospectus, a prospectus supplement or a future filing with the Securities and Exchange Commission incorporated by reference in this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we have filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf registration process, we may sell, in one or more offerings, up to $800,000,000 in total aggregate offering price of securities described in this prospectus. In addition, the selling unitholders named in this prospectus may offer and sell up to 1,988,846 common units under this prospectus. This prospectus provides you with a general description of us and the securities offered under this prospectus. Unless otherwise provided in a prospectus supplement, we will not receive any proceeds from sales of common units by the selling unitholders.

Each time we or a selling unitholder sells securities under this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities being offered. The prospectus supplement also may add to, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement. You should read carefully this prospectus, any prospectus supplement and the additional information described below under the heading Where You Can Find More Information.

As used in this prospectus, we, us and our and similar terms mean either or both of Energy Transfer Partners, L.P. and Heritage Operating, L.P. and their subsidiaries, unless the context indicates otherwise.

WHO WE ARE

We are a publicly traded Delaware limited partnership formed in conjunction with our initial public offering as Heritage Propane Partners, L.P. in June 1996. We are engaged in the natural gas midstream business through our operating subsidiary, La Grange Acquisition, L.P., and in the retail propane marketing business through our operating subsidiary, Heritage Operating, L.P. Following the completion of our transaction in January 2004, in which we combined the retail propane operations of Heritage Propane Partners with the natural gas midstream operations of Energy Transfer Company, we changed our name to Energy Transfer Partners, L.P.

Through La Grange Acquisition, a Texas limited partnership formed in October 2002, our midstream operations are conducted under the name Energy Transfer Company. Energy Transfer Company s operations are concentrated in the Austin Chalk trend of southeast Texas, the Anadarko Basin of western Oklahoma and the Permian Basin of west Texas. Through our ownership of the Energy Transfer Company operations, we own or have an interest in approximately 4,500 miles of natural gas gathering and transportation pipelines, three natural gas processing plants connected to our gathering systems and seven natural gas treating facilities.

Energy Transfer Company s operations are divided into two business segments, consisting of the midstream segment and the transportation segment. The midstream segment operations are conducted primarily in the Southeast Texas System and the Elk City System, and focus on the gathering of natural gas from over 1,400 producing wells, the compression of natural gas to facilitate its flow through Energy Transfer Company s gathering systems, the treating of natural gas to remove impurities to ensure that the natural gas meets pipeline quality specifications, the processing of natural gas to extract natural gas liquids, and the marketing of natural gas and natural gas liquids to third parties. Our transportation segment focuses on the transportation of natural gas through the Oasis Pipeline, a 583-mile natural gas pipeline that directly connects the Waha Hub, a major natural gas market center located in the Permian Basin of west Texas to the Katy Hub, a major natural gas market center near Houston, Texas.

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Through Heritage Operating, we serve more than 650,000 customers from over 300 customer service locations in 31 states. Our propane operations extend from coast to coast, with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States.

Our partnership agreement limits our general partner s fiduciary duties to our unitholders and restricts the remedies available for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

We maintain our principal executive offices at 8801 South Yale Avenue, Suite 310, Tulsa, Oklahoma 74137, and our telephone number is (918) 492-7272.

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THE SUBSIDIARY GUARANTORS

Energy Transfer Partners, L.P. will, and Heritage Service Corp., Heritage-Bi State, L.L.C. and Heritage Energy Resources, L.L.C. may, unconditionally guarantee any series of debt securities of Heritage Operating, L.P. offered by this prospectus, as set forth in a related prospectus supplement. Heritage Operating, L.P., Heritage Service Corp., Heritage-Bi State, L.L.C. and Heritage Energy Resources, L.L.C. may unconditionally guarantee any series of debt securities of Energy Transfer Partners, L.P. offered by this prospectus, as set forth in a related prospectus supplement. As used in this prospectus, the term Subsidiary Guarantors means Heritage Service Corp., Heritage-Bi State, L.L.C. and Heritage Energy Resources, L.L.C. and also includes Heritage Operating, L.P. when discussing subsidiary guarantees of the debt securities of Energy Transfer Partners, L.P. The term Guarantor means Energy Transfer Partners, L.P. in its role as guarantor of the debt securities of Heritage Operating, L.P.

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. Before you invest in our securities, you should consider carefully the following risk factors, together with all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference.

If any of the following risks actually were to occur, our business, financial condition or results of operations could be affected materially and adversely. In that case, we may be unable to make distributions to our unitholders or pay interest on, or the principal of, any debt securities, the trading price of our securities could decline and you could lose all or part of your investment.

Risks Related to our Midstream and Transportation Business

The profitability of our midstream and transportation business is dependent upon prices and market demand for natural gas and NGLs, which are beyond our control and have been volatile.

Our midstream and transportation business is subject to significant risks due to fluctuations in commodity prices. During the 11 months ended August 31, 2003, we generated approximately 54% of our gross margin from three types of contractual arrangements under which our margin is exposed to increases and decreases in the price of natural gas and NGLs discount-to-index, percentage-of-proceeds and keep-whole arrangements.

For a portion of the natural gas gathered at the Southeast Texas System and the Elk City System, we purchase natural gas from producers at the wellhead at a price that is at a discount to a specified index price and then gather and deliver the natural gas to pipelines where we typically resell the natural gas at the index price. Generally, the gross margins we realize under these discount-to-index arrangements decrease in periods of low natural gas prices because these gross margins are based on a percentage of the index price. Accordingly, a decrease in the price of natural gas could have a material adverse effect on our results of operations.

For a portion of the natural gas gathered at the Southeast Texas System and the Elk City System, we enter into percentage-of-proceeds arrangements and keep-whole arrangements, pursuant to which we agree to gather and process natural gas received from the producers. Under percentage-of- proceeds arrangements, we generally sell the residue gas and NGLs at market prices and remit to the producers an agreed upon percentage of the proceeds based on an index price. In other cases, instead of remitting cash payments to the producer, we deliver an agreed upon percentage of the residue gas and NGL volumes to the producer and sell the volumes we keep to third parties at market prices. Under these arrangements our revenues and gross margins decline when natural gas prices and NGL prices decrease. Accordingly, a decrease in the price of natural gas or NGLs could have a material adverse effect on our results of operations. Under keep-whole arrangements, we generally sell the NGLs produced from our gathering and processing operations to third parties at market prices. Because the extraction of the NGLs from the natural gas during processing reduces the Btu content of the natural gas, we must either purchase natural gas at market prices for return to producers or make a cash payment to producers equal to the value of this natural gas. Under these arrangements, our revenues and gross margins decrease when the price of natural gas increases relative to the price of NGLs if we are not able to bypass our processing plants and sell the unprocessed natural gas. Accordingly, an increase in the price of natural gas relative to the price of NGLs could have a material adverse effect on our results of operations.

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In the past, the prices of natural gas and NGLs have been extremely volatile, and we expect this volatility to continue. For example, during the 11 months ended August 31, 2003, the NYMEX settlement price for the prompt month contract ranged from a high of $9.58 per MMBtu to a low of $3.72 per MMBtu. A composite of the Mt. Belvieu average NGLs price based upon our average NGLs composition during the 11 months ended August 31, 2003 ranged from a high of approximately $0.82 per gallon to a low of approximately $0.41 per gallon.

Average realized natural gas sales prices for the 11 months ended August 31, 2003 substantially exceeded our historical realized natural gas prices as well as recent natural gas prices. For example, our average realized natural gas price increased $2.31, or 85.0%, from $2.72 per MMBtu for the nine months ended September 30, 2002 to $5.03 per MMBtu for the 11 months ended August 31, 2003. On December 13, 2003, the NYMEX settlement price for January natural gas deliveries was $6.95 per MMBtu, which was 38.2% higher than our average natural gas price for the 11 months ended August 31, 2003. Natural gas prices are subject to significant fluctuations, and there can be no assurance that natural gas prices will remain at the high level recently experienced.

The markets and prices for residue gas and NGLs depend upon factors beyond our control. These factors include demand for oil, natural gas and NGLs, which fluctuate with changes in market and economic conditions, and other factors, including:

- the impact of weather on the demand for oil and natural gas;
- the level of domestic oil and natural gas production;
- the availability of imported oil and natural gas;
- actions taken by foreign oil and gas producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the availability and marketing of competitive fuels;
- the impact of energy conservation efforts; and
- the extent of governmental regulation and taxation.

Our success depends upon our ability to continually find and contract for new sources of natural gas supply.

In order to maintain or increase throughput levels on our gathering and transportation pipeline systems and asset utilization rates at our treating and processing plants, we must continually contract for new natural gas supplies. We may not be able to obtain additional contracts for natural gas supplies. The primary factors affecting our ability to connect new supplies of natural gas to our gathering systems include our success in contracting for existing natural gas supplies that are not committed to other systems and the level of drilling activity near our gathering systems. The primary factors affecting our ability to attract customers to the Oasis Pipeline include our access to other natural gas pipelines, natural gas markets, natural gas-fired power plants and other industrial end-users and the level of drilling in areas connected to the Oasis Pipeline.

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Fluctuations in energy prices can greatly affect production rates and investments by third parties in the development of new oil and natural gas reserves. Drilling activity generally decreases as oil and natural gas prices decrease. We have no control over the level of drilling activity in the areas of operations, the amount of reserves underlying the wells and the rate at which production from a well will decline, sometimes referred to as the decline rate. In addition, we have no control over producers or their production decisions, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, the level of reserves, geological considerations, governmental regulation and the availability and cost of capital.

A substantial portion of our assets, including our gathering systems and our processing and treating plants, are connected to natural gas reserves and wells for which the production will naturally decline over time. In particular, the Southeast Texas System covers portions of the Austin Chalk, Buda, Georgetown, Edwards, Wilcox and other producing formations in southeast Texas, which we collectively refer to as the Austin Chalk trend, and the Elk City System covers portions of the Anadarko basin in western Oklahoma. Both of these natural gas producing regions have generally been characterized by high initial flow rates followed by steep initial declines in production. Accordingly, our cash flows associated with these systems will also decline unless we are able to access new supplies of natural gas by connecting additional production to these systems. A material decrease in natural gas production in our areas of operation, as a result of depressed commodity prices or otherwise, would result in a decline in the volume of natural gas we handle, which would reduce our revenues and operating income. In addition, our future growth will depend, in part, upon whether we can contract for additional supplies at a greater rate than the rate of natural decline in our currently connected supplies.

We depend on certain key producers for our supply of natural gas on the Southeast Texas System and the Elk City System, the loss of any of these key producers could adversely affect our financial results.

For the 11 months ended August 31, 2003, Anadarko Petroleum Corp. and Chesapeake Energy Corp. supplied us with approximately 44% of the Southeast Texas System s natural gas supply, and Chesapeake Energy Corp. and Kaiser-Francis Oil Company and its affiliates supplied us with approximately 53% of the Elk City System s natural gas supply. To the extent that these and other producers may reduce the volumes of natural gas that they supply us, we would be adversely affected unless we were able to acquire comparable supplies of natural gas from other producers.

Federal, state or local regulatory measures could adversely affect our business.

As a natural gas gatherer and intrastate pipeline company, we are generally exempt from Federal Energy Regulatory Commission, or FERC, regulation under the Natural Gas Act of 1938, or NGA, but FERC regulation still significantly affects our business and the market for our products. In recent years, FERC has pursued pro-competitive policies in our regulation of interstate natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas transportation capacity. In addition, the rates, terms and conditions of some of the transportation services we provide on the Oasis Pipeline are subject to FERC regulation under Section 311 of the Natural Gas Policy Act, or NGPA. Under Section 311, rates charged for transportation must be fair and equitable, and amounts collected in excess of fair and equitable rates are subject to refund with interest.

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Our intrastate natural gas transportation pipelines are located in Texas and some are subject to regulation as common purchasers and as gas utilities by the Texas Railroad Commission, or TRRC. The TRRC s jurisdiction extends to both rates and pipeline safety. The rates we charge for transportation services are deemed just and reasonable under Texas law unless challenged in a complaint. Should a complaint be filed or should regulation become more active, our business may be adversely affected.

Other state and local regulations also affect our business. We are subject to ratable take and common purchaser statutes in Texas, Oklahoma and Louisiana, the states where we operate. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas. Federal law leaves any economic regulation of natural gas gathering to the states, and some of the states in which we operate have adopted complaint-based or other limited economic regulation of natural gas gathering activities. States in which we operate that have adopted some form of complaint-based regulation, like Oklahoma and Texas, generally allow natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering rates and access.

The states in which we conduct operations administer federal pipeline safety standards under the Pipeline Safety Act of 1968, which requires certain pipelines to comply with safety standards in constructing and operating the pipelines, and subjects pipelines to regular inspections. Certain of our gathering facilities are exempt from the requirements of this Act. In respect to recent pipeline accidents in other parts of the country, Congress and the Department of Transportation have passed or are considering heightened pipeline safety requirements. See Business Energy Transfer Company Regulation.

Failure to comply with applicable regulations under the NGA, NGPA, Pipeline Safety Act and certain state laws can result in the imposition of administrative, civil and criminal remedies.

Our business involves hazardous substances and may be adversely affected by environmental regulation.

Many of the operations and activities of our gathering systems, plants and other facilities are subject to significant federal, state and local environmental laws and regulations. These include, for example, laws and regulations that impose obligations related to air emissions and discharge of wastes from our facilities and the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent wastes for disposal. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Liability may be incurred without regard to fault for the remediation of contaminated areas. Private parties, including the owners of properties through which our gathering systems pass, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage.

There is inherent risk of the incurrence of environmental costs and liabilities in our business due to our handling of natural gas and other petroleum products, air emissions related to our operations, historical industry operations, waste disposal practices and the prior use of natural gas flow meters containing mercury. In addition, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase

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our compliance costs and the cost of any remediation that may become necessary. We may incur material environmental costs and liabilities. Furthermore, our insurance may not provide sufficient coverage in the event an environmental claim is made against us.

Our business may be adversely affected by increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with required operating or other regulatory permits. New environmental regulations might adversely affect our products and activities, including gathering, compression, treating, processing and transportation, as well as waste management and air emissions. Federal and state agencies could also impose additional safety requirements, any of which could affect our profitability. See Business Energy Transfer Company Environmental Matters.

Our business involves many hazards and operational risks, some of which may not be fully covered by insurance.

Our operations are subject to the many hazards inherent in the gathering, compression, treating, processing and transportation of natural gas and NGLs, including:

- damage to pipelines, related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters and acts of terrorism;
- inadvertent damage from construction and farm equipment;
- leaks of natural gas, NGLs and other hydrocarbons; and
- fires and explosions.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. Our operations are primarily concentrated in Texas, and a natural disaster or other hazard affecting this area could have a material adverse effect on our operations. We are not fully insured against all risks incident to our business. We do not have property insurance on all of our underground pipeline systems that would cover damage to the pipelines. We are not insured against all environmental accidents that might occur, other than those considered to be sudden and accidental. We have minimal business interruption insurance that covers the Oasis Pipeline. Under the terms of our general liability and workers compensation policies, claims of up to $1 million are insured. We also have excess liability coverage for claims up to $35 million per occurrence after the payment of a $1 million deductible. If a significant accident or event occurs that is not fully insured, it could adversely affect our operations and financial condition.

Any reduction in the capacity of, or the allocations to, our shippers in interconnecting, third-party pipelines could cause a reduction of volumes transported in our pipelines, which would adversely affect our revenues and cash flow.

Users of our pipelines are dependent upon connections to third-party pipelines to receive and deliver natural gas and NGLs. Any reduction of capacities of these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes could result in reduced volumes transported in our pipelines. Similarly, if

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additional shippers begin transporting volumes of natural gas and NGLs over interconnecting pipelines, the allocations to existing shippers in these pipelines would be reduced, which could also reduce volumes transported in our pipelines. Any reduction in volumes transported in our pipelines would adversely affect our revenues and cash flow.

We encounter competition from other midstream companies.

We experience competition in all of our markets. Our principal areas of competition include obtaining natural gas supplies for the Southeast Texas System and Elk City System and natural gas transportation customers for the Oasis Pipeline. Our competitors include major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport and market natural gas. The Oasis Pipeline competes directly with two other major intrastate pipelines that link the Waha Hub and the Houston area, one of which is owned by Duke Energy Field Services, LLC and the other one of which is owned by El Paso Corporation and American Electric Power Service Corporation. The Southeast Texas System competes with natural gas gathering and processing systems owned by Duke Energy Field Services, LLC and Devon Energy Corporation. The Elk City System competes with natural gas gathering and processing systems owned by Enogex, Inc., Oneok Gas Gathering, L.L.C., CenterPoint Energy Field Services, Inc. and Enbridge Inc., as well as producer owned systems. Many of our competitors have greater financial resources and access to larger natural gas supplies than we do.

Expanding our business by constructing new pipelines and treating and processing facilities subjects us to construction risks.

One of the ways we may grow our business is through the construction of additions to our existing gathering, compression, treating, processing and transportation system. The construction of a new pipeline or the expansion of an existing pipeline, by adding additional horsepower or pump stations or by adding a second pipeline along an existing pipeline, and the construction of new processing or treating facilities, involve numerous regulatory, environmental, political and legal uncertainties beyond our control and require the expenditure of significant amounts of capital. If we undertake these projects, they may not be completed on schedule or at all or at the budgeted cost. Moreover, our revenues may not increase immediately upon the expenditure of funds on a particular project. For instance, if we build a new pipeline, the construction will occur over an extended period of time, and we will not receive any material increases in revenues until after completion of the project. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which such growth does not materialize. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return, which could adversely affect our results of operations and financial condition.

We depend on Koch Hydrocarbons, L.P. to purchase and fractionate the NGLs produced at the Elk City processing plant.

All of the NGLs produced at the Elk City processing plant are transported by Koch Hydrocarbons and delivered for fractionation to Conway, Kansas. There are no other fractionation plants or other NGL markets connected to the Elk City processing plant. As a result, if Koch Hydrocarbons refuses or is unable to transport or fractionate these NGLs, our only alternative in the short term would be to transport NGLs by truck to another fractionation plant or another NGL market, which would likely result in additional costs and adversely affect our ability to market the NGLs.

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We are exposed to the credit risk of our customers, and an increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

Risks of nonpayment and nonperformance by our customers are a major concern in our business. Several participants in the energy industry have been receiving heightened scrutiny from the financial markets in light of the collapse of Enron Corp. We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. Any increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

We may not be able to bypass the La Grange processing plant, which would expose us to the risk of unfavorable processing margins.

Because of our ownership of the Oasis Pipeline, we can generally elect to bypass the La Grange processing plant when processing margins are unfavorable and instead deliver pipeline-quality gas by blending rich gas from the Southeast Texas System with lean gas transported on the Oasis Pipeline. In some circumstances, such as when we do not have a sufficient amount of lean gas to blend with the volume of rich gas that we receive at the La Grange processing plant, we may have to process the rich gas. If we have to process when processing margins are unfavorable, our results of operations will be adversely affected.

We may not be able to retain existing customers or acquire new customers, which would reduce our revenues and limit our future profitability.

The renewal or replacement of existing contracts with our customers at rates sufficient to maintain current revenues and cash flows depends on a number of factors beyond our control, including competition from other pipelines, and the price of, and demand for, natural gas in the markets we serve.

For the 11 months ended August 31, 2003, approximately 23% of our sales of natural gas were to industrial end-users and utilities. As a consequence of the increase in competition in the industry and volatility of natural gas prices, end-users and utilities are increasingly reluctant to enter into long-term purchase contracts. Many end-users purchase natural gas from more than one natural gas company and have the ability to change providers at any time. Some of these end-users also have the ability to switch between gas and alternate fuels in response to relative price fluctuations in the market. Because there are numerous companies of greatly varying size and financial capacity that compete with us in the marketing of natural gas, we often compete in the end-user and utilities markets primarily on the basis of price. The inability of our management to renew or replace our current contracts as they expire and to respond appropriately to changing market conditions could have a negative effect on our profitability.

Energy Transfer Company has a limited operating history.

Energy Transfer Company acquired substantially all of its assets in October 2002 and December 2002 and has therefore only operated them together under common management for a limited period of time. Furthermore, the success of our business strategy related to our midstream and transportation business is dependent upon our operating these assets substantially differently from the manner in which Aquila Gas Pipeline operated them. As a result, our historical and pro forma financial information may not give you an accurate indication of what our actual results would have been if we had completed the acquisitions at the

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beginning of the periods presented or our future results of operations. If we are unable to operate these assets in accordance with our business strategy, it will have a material adverse effect on our results of operations.

Risks Related to Our Propane Business

Since weather conditions may adversely affect demand for propane, our financial condition is vulnerable to warm winters.

Weather conditions have a significant impact on the demand for propane for both heating and agricultural purposes because many of our customers rely heavily on propane as a heating fuel. Typically, we sell approximately two-thirds of our retail propane volume during the peak-heating season of October through March. Our results of operations can be adversely affected by warmer winter weather which results in lower sales volumes. In addition, to the extent that warm weather or other factors adversely affect our operating and financial results, our access to capital and our acquisition activities may be limited. Variations in weather in one or more of the regions where we operate can significantly affect the total volume of propane that we sell and the profits realized on these sales. Agricultural demand for propane is also affected by weather during the harvest season as poor harvests or dry weather reduce demand for propane used in crop drying.

Sudden and sharp propane price increases that cannot be passed on to customers may adversely affect our profit margins.

The propane industry is a margin-based business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability is sensitive to changes in energy prices, and in particular, changes in wholesale prices of propane. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to changes in supply or other market conditions over which we have no control. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

Our results of operations and our ability to make distributions or pay interest or principal on debt securities could be negatively impacted by price and inventory risk and management of these risks.

We generally attempt to minimize our price and inventory risk by purchasing product on a short-term basis, under supply contracts that typically have a one-year term and at a price that fluctuates based on the prevailing market prices at major delivery points. In order to help ensure adequate supply sources are available during periods of high demand, we may purchase large volumes of propane during periods of low demand or low price, which generally occur during the summer months, for storage in our facilities, at major storage facilities or for future delivery. This strategy may not be effective in limiting our price and inventory risks if, for example, market, weather or other conditions prevent or allocate the delivery of physical product during periods of peak demand. If the market price falls below the price at which we made such purchases, it could adversely affect our profits.

Some of our propane sales are pursuant to commitments at fixed prices. To mitigate the price risk related to our anticipated sales volumes under the commitments, we may purchase and store physical product and/or enter

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into fixed price over-the-counter energy commodity forward contracts and options. Generally, over-the-counter energy commodity forward contracts have terms of less than one year. We enter into such contracts and exercise such options at volume levels that we believe are necessary to manage these commitments. The risk management of our inventory and contracts for the future purchase of product could impair our profitability if the customers do not fulfill their obligations.

We also engage in other trading activities, and may enter into other types of over-the-counter energy commodity forward contracts and options. These trading activities are based on our management s estimates of future events and prices and are intended to generate a profit. However, if those estimates are incorrect or other market events outside of our control occur, such activities could generate a loss in future periods and potentially impair our profitability.

We are dependent on our principal suppliers, which increases the risk of an interruption in supply.

During fiscal 2003, we purchased approximately 29% of our propane from Enterprise Products Operating L.P., approximately 13% of our propane from Dynegy Liquids Marketing and Trade and approximately 19% of our propane from MP Energy, the Canadian partnership in which we own a 60% interest. If supplies from these sources were interrupted, the cost of procuring replacement supplies and transporting those supplies from alternative locations might be materially higher and, at least on a short-term basis, margins could be adversely affected. Supply from Canada is subject to the additional risk of disruption associated with foreign trade such as trade restrictions, shipping delays and political, regulatory and economic instability.

Historically, a substantial portion of the propane we purchase has originated from one of the industry s major markets located in Mont Belvieu, Texas and has been shipped to us through major common carrier pipelines. Any significant interruption in the service at Mont Belvieu or other major market points, or on the common carrier pipelines we use would adversely affect our ability to obtain propane.

Because of the highly competitive nature of the retail propane business, we may not be able to maintain existing customers or acquire new customers, which would have an adverse impact on our operating results and financial condition.

We compete with a number of large national and regional propane companies, some of whom have greater financial resources than we do, and several thousand small independent propane companies. Because of the relatively low barriers to entry into the retail propane market, there is potential for small independent propane retailers, as well as other companies that may not be engaged in retail propane distribution, to compete with our retail outlets. As a result, we are always subject to the risk of additional competition in the future. Generally, warmer-than-normal weather further intensifies competition. Most of our propane retail branch locations compete with several other marketers or distributors in their service areas. The principal factors influencing competition with other retail marketers are:

- price,
- reliability and quality of service,

responsiveness to customer needs,

- safety concerns,
- long-standing customer relationships,
- the inconvenience of switching tanks and suppliers, and
- the lack of growth in the industry.

We can make no assurances that we will be able to compete successfully on the basis of these factors.

Competition from alternative energy sources may cause us to lose customers, thereby reducing our revenues.

Competition from alternative energy sources has been increasing as a result of reduced regulation of many utilities. Propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a less expensive source of energy than propane. The gradual expansion of natural gas distribution systems and the availability of natural gas in many areas that previously depended upon propane could cause us to lose customers, thereby reducing our revenues. Fuel oil also competes with propane and is generally less expensive than propane. In addition, the successful development and increasing usage of alternative energy sources could adversely affect our operations.

If we do not continue to make acquisitions on economically acceptable terms, our future financial performance will be limited.

The propane industry is not a growth industry in part because of increased competition from alternative energy sources. In addition, because of long-standing customer relationships that are typical in the retail propane industry, the inconvenience of switching tanks and suppliers, and propane s higher cost relative to other energy sources, such as natural gas, we may have difficulty in increasing our retail customer base except through acquisitions. Therefore, our ability to grow our propane business will depend primarily upon our ability to acquire other retail propane distributors. Any acquisition may involve one or more of the following risks, including:

- an increase in our indebtedness, which may affect credit ratings and our ability to make distributions to unitholders;
- the inability to integrate the operations of the acquired business into our existing operations and make cost-saving changes such that the acquisition will be accretive to earnings and distributions to unitholders;
- the diversion of management s attention from other business concerns;

the assumption of unknown liabilities and/or the inability or failure of the sellers to indemnify us under the acquisition agreements; and

greater-than-expected loss of customers or employees from the acquired business.

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Covenant restrictions in the debt agreements of Heritage Operating may limit its ability to incur indebtedness, grant liens and take other actions.

Heritage Operating is subject to restrictive covenants contained in its debt agreements. These debt agreements consist of a bank credit facility and the three note agreements with secured lenders. These covenants limit the ability of Heritage Operating to incur additional indebtedness, grant liens on our properties or assets, or make loans, advances, investments and engage in transactions with affiliates. In addition, these covenants require Heritage Operating to maintain ratios of consolidated funded indebtedness to consolidated EBITDA (as these terms are similarly defined in the debt agreements) of not more than 5.00 to 1 for the bank credit facility and not more than 5.25 to 1 for the note agreements and consolidated EBITDA to consolidated interest expense (as these terms are similarly defined in the debt agreements) of not less than 2.25 to 1.

We are subject to operating and litigation risks that could adversely affect our operating results.

Our operations are subject to all operating hazards and risks normally incidental to handling, storing and delivering combustible liquids like propane. As a result, we have been, and are likely to be, a defendant in various legal proceedings arising in the ordinary course of business. Our insurance may not be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage and we may not be able to continue purchasing such levels of insurance at economical prices. In addition, the occurrence of a serious accident involving propane, whether or not we are involved, may have an adverse effect on the public s desire to use propane.

Energy efficiency and technological advances may affect the demand for propane and adversely affect our operating results.

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has decreased the demand for propane by retail customers. Stricter conservation measures in the future or technological advances in heating, conservation, energy generation or other devices could adversely affect our operations.

Due to our lack of asset diversification, adverse developments in our propane business would reduce our ability to make distributions to our unitholders.

Due to our lack of asset diversification, an adverse development in our propane business would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

Risks Inherent in an Investment in Us

Cash distributions are not guaranteed and may fluctuate with our performance and other external factors.

The amount of cash we can distribute on our common units or other partnership securities depends upon the amount of cash we generate from our operations. The amount of cash we generate from our operations will fluctuate from quarter to quarter and will depend upon, among other things:

- the amount of natural gas transported on the Oasis Pipeline and in our gathering systems;
- the level of throughput in our processing and treating operations;

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- the fees we charge and the margins we realize for our services;
- the price of natural gas;
- the relationship between natural gas and NGL prices;
- the weather in our operating areas;
- the cost to us of the propane we buy for resale and the prices we receive for our propane;
- the level of competition from other propane companies and other energy providers;
- the level of our operating costs; and
- prevailing economic conditions.

In addition, the actual amount of cash available for distribution will also depend on other factors, such as:

- the level of capital expenditures we make;
- the cost of acquisitions, if any;
- our debt service requirements;
- fluctuations in our working capital needs;
- our ability to make working capital borrowings under our credit facilities to make distributions;
- restrictions on distributions contained in our debt agreements; and
- the amount, if any, of cash reserves established by the general partner in its discretion for the proper conduct of our business.

Because of all these factors, we cannot guarantee that we will have sufficient available cash to pay a specific level of cash distributions to our unitholders.

Furthermore, you should be aware that the amount of cash we have available for distribution depends primarily upon our 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, we may make cash distributions during periods when we record net losses and may not make cash distributions during periods when we record net income.

We may be unable to successfully integrate the operations of Energy Transfer Company with our operations and to realize all of the anticipated benefits of the acquisition of Energy Transfer Company.

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In January 2004, we completed a combination transaction with La Grange Acquisition, L.P. (a company that conducted its operations under the name Energy Transfer Company). This combination involves the integration of two companies in separate lines of business that previously have operated independently, which is a complex, costly and time-consuming process. Failure to successfully integrate these two companies may have a material adverse effect on our business, financial condition or results of operations. The difficulties of combining the companies include, among other things:

- operating a significantly larger combined company and adding a new business segment, midstream operations, to our existing propane operations;

- the necessity of coordinating geographically disparate organizations, systems and facilities;

- integrating personnel with diverse business backgrounds and organizational cultures; and

- consolidating corporate and administrative functions.

Combining the two companies is made particularly difficult by the large size of Energy Transfer Company as compared to Heritage Propane Partners, L.P. (our predecessor company). For example, Energy Transfer Company s pro forma revenues for the 12 months ended August 31, 2003 were approximately $1.1 billion as compared to revenues of Heritage Propane Partners, L.P. of approximately $571 million for the same period. Additionally, the two companies operate in distinct business segments that require different operating strategies and different managerial expertise. The management team of Heritage Propane Partners, L.P. does not have substantial experience operating in the midstream natural gas industry. Likewise, the management team of Energy Transfer Company does not have substantial experience operating in the propane industry. While we intend to operate each of these two business segments independently by management experienced in such segments, we cannot assure you that this approach will be successful.

The process of combining the two companies could cause an interruption of, or loss of momentum in, the activities of the combined company s business and the loss of key personnel. The diversion of management s attention and any delays or difficulties encountered in connection with the acquisition and the integration of the two companies could harm the business, results of operations, financial condition or prospects of the combined company after the acquisition. Furthermore, the integration of these two companies may not result in the realization of the full benefits anticipated by the companies to result from the acquisition.

As part of the Energy Transfer Transaction, La Grange Energy acquired our general partner and a large portion of our units. As a result, our management and business strategies changed substantially from our previous management and business strategies, which has an impact on an investment in our common units.

In connection with the Energy Transfer Transaction, La Grange Energy purchased all of the partnership interests of U.S. Propane, L.P., our general partner, and all of the member interests of U.S. Propane, L.L.C., the general partner of U.S. Propane, L.P. In addition, La Grange Energy now owns 41.6% of our common units (assuming the conversion of the class D units and special units into common units). As a result of La Grange Energy s purchase of our general partner, La Grange Energy has made various changes to our management structure. La Grange Energy was formed to invest in the midstream natural gas industry and is the current owner of Energy Transfer Company, a midstream natural gas business. As the owner of our general partner, La Grange Energy has significant influence over our business strategy. La Grange Energy and our new

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management team may have different business strategies and approaches to operating our partnership than the previous owners of our general partner and our previous management team. In particular, we expect that midstream acquisitions will be the primary focus of our acquisition strategy in the future. Failure to successfully implement these new business strategies and operating approaches may have a material adverse effect on our business, financial condition and results of operations.

We may sell additional limited partner interests, diluting existing interests of unitholders.

Our partnership agreement allows us to issue an unlimited number of additional limited partner interests, including securities senior to the common units, without the approval of the unitholders. The issuance of additional common units or other equity securities will have the following effects:

- the proportionate ownership interest of our unitholders in us will decrease;
- the amount of cash available for distribution on each common unit or partnership security may decrease;
- the relative voting strength of each previously outstanding common unit may be diminished; and
- the market price of the common units or partnership securities may decline.

La Grange Energy may sell units or other limited partner interests in the trading market, which could reduce the market price of unitholders limited partner interests.

La Grange Energy owns approximately 4,419,177 common units, 7,721,542 class D units and 3,742,515 special units. Following the approval of our unitholders and other conditions, the class D units and special units will be converted into an equal number of common units. In the future, La Grange Energy may dispose of some or all of these units. If La Grange Energy were to dispose of a substantial portion of these units in the trading markets, it could reduce the market price of our outstanding common units. Our partnership agreement allows La Grange Energy to cause us to register for sale units held by La Grange Energy. These registration rights allow La Grange Energy to request registration of its common units, class D units and special units and to include any of those units in a registration of other securities by us.

Our debt agreements may limit our ability to make distributions to unitholders and our financial flexibility.

As of August 31, 2003, Heritage Operating had outstanding $353.1 million in senior secured debt with insurance companies and $51.4 million in secured debt under its bank credit facility. This leverage may adversely affect its ability to finance future operations and capital needs, limit its ability to pursue acquisitions and other business opportunities and make its results of operations more susceptible to adverse economic conditions. Heritage Operating may in the future incur additional debt to finance acquisitions or for general business purposes, which could result in a significant increase in its leverage. The payment of principal and interest on its debt will reduce the cash available to make distributions on the common units. We will not be able to make any distributions to our unitholders if there is or will be an event of default under these debt agreements. The ability of Heritage Operating to make principal and interest payments depends on its future performance, which is subject to many factors, several of which will be outside its control. Heritage Operating has granted liens on substantially all of its personal property (other than vehicles) to secure its existing debt. If an event of default occurs, the secured lenders can foreclose on the collateral.

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The debt agreements of Heritage Operating contain provisions relating to changes in ownership and changes of our general partner. If these provisions are triggered, the outstanding debt under these agreements may become due. If that happens, we cannot guarantee that we would be able to pay the debt. The general partner and its partners are not prohibited from entering into a transaction that would trigger these change-in-ownership provisions. The notes and the bank credit facility also contain restrictive covenants that limit the ability of Heritage Operating to incur additional debt and to engage in certain transactions. The debt agreements contain covenants that require Heritage Operating to maintain ratios of consolidated funded indebtedness to consolidated EBITDA (as these terms are similarly defined in the debt agreements) of not more than 5.00 to 1 for the bank credit facility and not more than 5.25 to 1 for the note agreements and consolidated EBITDA to consolidated interest expense (as these terms are similarly defined in the debt agreements) of not less than 2.25 to 1. Other covenants also limit the ability of Heritage Operating to incur additional indebtedness, grant liens on its properties or assets, or make loans, advances, investments and engage in transactions with affiliates. These covenants could reduce its ability to capitalize on business opportunities as they arise. Any new indebtedness could be reasonably expected to have similar or greater restrictions.

Our ability to access the capital markets for future offerings may be limited by adverse market conditions resulting from, among other things, general economic conditions, contingencies and uncertainties that are difficult to predict and beyond our control. If we are unable to access the capital markets for future offerings, we might be forced to seek extensions for some of our short-term maturities or to refinance some of our debt obligations through bank credit, as opposed to long-term public or private debt securities or equity securities. The price and terms upon which we might receive such extensions or additional bank credit could be more onerous than those contained in our existing debt agreements. Any such arrangements could, in turn, increase the risk that our leverage may adversely affect our future financial and operating flexibility.

The general partner is not elected by the unitholders and cannot be removed without its consent.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business, and therefore limited ability to influence management s decisions regarding our business. Unitholders did not elect our general partner and will have no right to elect our general partner on an annual or other continuing basis. Although our general partner has a fiduciary duty to manage us in a manner beneficial to Energy Transfer Partners, L.P. and the unitholders, the directors of our general partner and its general partner, U.S. Propane, L.L.C., have a fiduciary duty to manage the general partner and its general partner in a manner beneficial to the owners of those entities.

Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. The general partner generally may not be removed except upon the vote of the holders of 66 2/3% of the outstanding units voting together as a single class, including units owned by the general partner and its affiliates. Because the general partner and its affiliates currently hold approximately 25.7% of all the units, with an additional 11.0% of units held by our officers and directors, it will be difficult to remove the general partner without the consent of the general partner and our affiliates.

Furthermore, unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner and its affiliates, cannot be voted on any matter.

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The control of our general partner may be transferred to a third party without unitholder consent.

The 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 the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the general partner of our general partner from transferring its general partner interest in our general partner to a third party. Any new owner of the general partner would be in a position to replace the officers of the general partner with its own choices and to control the decisions taken by such officers.

Unitholders may be required to sell their units to the general partner at an undesirable time or price.

If at any time less than 20% of the outstanding units of any class are held by persons other than the general partner and its affiliates, the general partner will have the right to acquire all, but not less than all, of those units at a price no less than their then-current market price. As a consequence, a unitholder may be required to sell his common units at an undesirable time or price. The general partner may assign this purchase right to any of its affiliates or to us.

Cost reimbursements due our general partner may be substantial and reduce our ability to pay the distributions to unitholders.

Prior to making any distributions on the units, we will reimburse our general partner for all expenses it has incurred on our behalf. In addition, our general partner and its affiliates may provide us with services for which we will be charged reasonable fees as determined by the general partner. The reimbursement of these expenses and the payment of these fees could adversely affect our ability to make distributions to the unitholders. Our general partner has sole discretion to determine the amount of these expenses and fees.

Unitholders may have liability to repay distributions.

Under certain circumstances unitholders may have to repay us amounts wrongfully returned or distributed to them. Under Delaware law, we may not make a distribution to you if the distribution causes our liabilities to exceed the fair value of our assets. Liabilities to partners on account of their partnership interests and non-recourse liabilities are not counted for purposes of determining whether a distribution is permitted. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated Delaware law will be liable to the limited partnership for the distribution amount for three years from the distribution date. Under Delaware law, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of the assignor to make contributions to the partnership. However, such an assignee is not obligated for liabilities unknown to him at the time he or she became a limited partner if the liabilities could not be determined from the partnership agreement.

Our partnership agreement limits our general partner s fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that reduce the obligations to which our general partner would otherwise be held by state-law fiduciary duty standards. The following is a summary of the material restrictions contained in our partnership

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agreement on the fiduciary duties owed by our general partner to the limited partners. Our partnership agreement:

- permits our general partner to make a number of decisions in its sole discretion. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;

- provides that our general partner is entitled to make other decisions in its reasonable discretion ;

- generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the interests of all parties involved, including its own. Unless our general partner has acted in bad faith, the action taken by our general partner shall not constitute a breach of its fiduciary duty; and

- provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our general partner and those other persons acted in good faith.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

The general partner s absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.

Our partnership agreement requires the general partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the partnership agreement permits the general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to unitholders.

Our general partner has conflicts of interest and limited fiduciary responsibilities, which may permit our general partner to favor its own interests to the detriment of unitholders.

Our general partner and its affiliates directly and indirectly own an aggregate limited partner interest of approximately 25.6% and our officers and directors own approximately 11.5% of the limited partner interests in us. Conflicts of interest could arise in the future as a result of relationships between our general partner and its affiliates, on the one hand, and us, on the other hand. As a result of these conflicts our general partner may favor its own interests and those of its affiliates over the interests of the unitholders. The nature of these conflicts includes the following considerations:

Remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

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Our general partner is allowed to take into account the interests of parties in addition to us in resolving conflicts of interest, thereby limiting its fiduciary duties to the unitholders.

Our general partner s affiliates are not prohibited from engaging in other businesses or activities, including those in direct competition with us.

Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings and reserves, each of which can affect the amount of cash that is distributed to unitholders.

Our general partner determines whether to issue additional units or other equity securities of us.

Our general partner determines which costs are reimbursable by us.

Our general partner controls the enforcement of obligations owed to us by it.

Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

Our general partner is not restricted 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.

In some instances our general partner may borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make incentive distributions.

Tax Risks

For a general discussion of the expected federal income tax consequences of owning and disposing of common units, see Material Tax Considerations.

The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to unitholders.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35% and we would likely pay state taxes as well. Distributions to unitholders would generally be taxed again as corporate distributions, and none of our income, gains, losses or deductions would flow through to unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution to unitholders would be substantially reduced. Therefore, our treatment as a corporation would result in a material reduction in the after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

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A change in current law or a change in our business could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that causes us to be treated as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution and the target distribution levels will be adjusted to reflect that impact on us.

A successful IRS contest of the federal income tax positions we take may adversely affect the market for common units and the costs of any contest will be borne by our unitholders and our general partner.

We have not requested a ruling from the IRS with respect to any matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain our counsel s conclusions or the positions we take. A court may not concur with some or all of our counsel s conclusions or the positions we take. Any contest with the IRS may materially and adversely affect the market for our common units and the price at which they trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be indirectly borne by our unitholders and our general partner since such costs will reduce the amount of cash available for distribution.

Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Unitholders will be required to pay federal income taxes and, in some cases, state and local income taxes on their share of our taxable income even if they do not receive any cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from the taxation of their share of our taxable income.

Only calendar year taxpayers may become partners.

Only calendar year taxpayers may purchase common units. Any unitholder who is not a calendar year taxpayer will not be admitted to Energy Transfer Partners, L.P. as a partner, will not be entitled to receive distributions or federal income tax allocations from Energy Transfer Partners, L.P. and may only transfer these common units to a purchaser or other transferee.

Tax gain or loss on disposition of common units could be different than expected.

Unitholders who sell common units will recognize gain or loss equal to the difference between the amount realized and their tax basis in those common units. Prior distributions in excess of the total net taxable income allocated for a common unit that decreased a unitholder s tax basis in that common unit will, in effect, become taxable income to the unitholder if the common unit is sold at a price greater than the unitholder s tax basis in that common unit, even if the price is less than his original cost. A substantial portion of the amount the unitholder realizes, whether or not representing gain, will likely be ordinary income to the unitholder. Should the IRS successfully contest some positions we take, a unitholder could recognize more gain on the sale of common units than would be the case under those positions, without the benefit of decreased income in prior years. Also, unitholders who sell common units may incur a tax liability in excess of the amount of cash they receive from the sale.

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Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units which may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, including employee benefit plans and individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to unitholders who are organizations exempt from federal income tax, may be unrelated business taxable income and will be taxable to them. Very little of our income will be qualifying income to a regulated investment company. Distributions to non-U.S. persons will be reduced by withholding taxes, at the highest applicable rate, and non-U.S. persons will be required to file federal income tax returns and generally pay tax on their share of our taxable income.

Our registration as a tax shelter may increase the risk of an IRS audit of us or a unitholder.

We are registered with the IRS as a tax shelter. Our tax shelter registration number is 96234000014. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in the unitholders tax returns and may lead to audits of the unitholders tax returns and adjustments of items unrelated to us. Unitholders will bear the cost of any expense incurred in connection with an examination of their personal tax returns and will indirectly bear a portion of the cost of an audit of us.

We will treat each purchaser of common units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the units.

Because we cannot match transferors and transferees of common units, we will adopt depreciation and amortization positions that do not conform with 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 the unitholder s sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to the unitholder s tax returns. Please read Material Tax Considerations Tax Consequences of Unit Ownership Section 754 Election and Uniformity of Units.

Unitholders likely will be subject to state and local taxes in states where they do not live as a result of an investment in the units.

In addition to federal income taxes, the unitholders may 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 we do business or own property now or in the future, even if they do not live in any of those jurisdictions. We presently conduct business in 29 states. In the future, we may acquire property or do business in other states or in foreign jurisdictions. Unitholders may be required to file state and local income tax returns and pay state and local income taxes in some or all of the jurisdictions. Further, unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

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Risks Relating to the Debt Securities

References in these Risks Relating to the Debt Securities to we, us, and our means Energy Transfer Partners, L.P. and Heritage Operating, L.P.

Energy Transfer Partners, L.P. is a holding company and conducts its operations through its subsidiaries and depends on cash flow from its subsidiaries to service any of its debt obligations.

Energy Transfer Partners, L.P. conducts all of its operations through its subsidiaries and owns no significant assets other than the ownership interests in these subsidiaries. Therefore, the ability of Energy Transfer Partners, L.P. to make required payments on any debt securities it issues will depend on the performance of Heritage Operating, L.P. and its subsidiaries and their ability to distribute funds to Energy Transfer Partners, L.P. The ability of these subsidiaries to make such distributions may be restricted by, among other things, their debt agreements and applicable state partnership laws and other laws and regulations. Under Heritage Operating, L.P. s debt agreements, Heritage Operating, L.P. is prohibited from making a distribution to us that would result in a default in its debt agreements. Heritage Operating, L.P. accounts for substantially all of our subsidiaries outstanding indebtedness. Furthermore, applicable state partnership and limited liability company laws restrict our subsidiaries from making distributions to us that would result in their insolvency. Delaware corporate law also provides that Heritage Service Corp. may only declare dividends either out of its surplus or net profits. If Energy Transfer Partners, L.P. is unable to obtain the funds necessary to pay the principal amount at maturity of its debt securities, or to repurchase its debt securities upon the occurrence of a change of control, Energy Transfer Partners, L.P. may be required to adopt one or more alternatives, such as a refinancing of the debt securities. We cannot assure you that Energy Transfer Partners, L.P. would be able to so refinance its debt securities.

Your right to receive payments on the securities is unsecured and will be effectively subordinated to our existing and future secured indebtedness and to indebtedness of any of our subsidiaries who do not guarantee the securities.

Any debt securities, including any guarantees, issued by Energy Transfer Partners, L.P., Heritage Operating, L.P. or the Subsidiary Guarantors will be effectively subordinated to the claims of our secured creditors. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of Energy Transfer Partners, L.P., Heritage Operating, L.P. or any Subsidiary Guarantors, their secured creditors would generally have the right to be paid in full before any distribution is made to the holders of the debt securities. Furthermore, if any of our subsidiaries do not guarantee the debt securities, the debt securities will be effectively subordinated to the claims of all creditors, including trade creditors and tort claimants, of those subsidiaries. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of a subsidiary that is not a guarantor, creditors of that subsidiary would generally have the right to be paid in full before any distribution is made to the issuer of the debt securities or the holders of the debt securities. As of August 31, 2003, Energy Transfer Partners, L.P. had no outstanding indebtedness. Heritage Operating, L.P. had outstanding approximately $404.2 million of secured indebtedness and approximately $21.2 million of unsecured indebtedness. Our other subsidiaries had approximately $300,000 of outstanding indebtedness, all of which is secured.

A subsidiary guarantee could be deemed to be a fraudulent conveyance under certain circumstances, and a court may try to subordinate or void the subsidiary guarantees.

Under federal bankruptcy laws and comparable provisions of state fraudulent transfer laws, a guarantee by a subsidiary could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that

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guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee, received less than reasonably equivalent fair value or fair consideration for the incurrence of such guarantee, and

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that subsidiary guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor. The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its assets, including contingent liabilities, were greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets were less than the amount that would be required to pay its procurable liability, including contingent liabilities, on its existing debts, as they become absolute or mature; or
- it could not pay its debts as they become due.

Energy Transfer Partners, L.P. and Heritage Operating, L.P. are required to distribute all of their available cash to their unitholders and are not required to accumulate cash for the purpose of meeting their future obligations to holders of their debt securities, which may limit the cash available to service those debt securities.

The partnership agreements of Energy Transfer Partners, L.P. and Heritage Operating, L.P. require us to distribute all of our available cash each fiscal quarter to our partners. Available cash is generally defined to mean all cash on hand at the end of the quarter, plus certain working capital borrowings after the end of the quarter, less reserves established by the general partner in its sole discretion to provide for the proper conduct of our business (including reserves for future capital expenditures), to comply with applicable law or agreements, including debt agreements, or to provide funds for future distributions to partners. Depending on the timing and amount of our cash distributions to unitholders and because we are not required to accumulate cash for the purpose of meeting obligations to holders of any debt securities, such distributions could significantly reduce the cash available to us in subsequent periods to make payments on any debt securities.

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FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus, any prospectus supplement and the documents we incorporate by reference contain forward-looking statements. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to us, based on the current beliefs of our management as well as assumptions made by, and information currently available to, management. Words such as may, will, anticipate, believe, expect, estimate, intend, project a similar phrases or expressions identify forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus, any prospectus supplement and the documents we have incorporated by reference.

Although we believe these forward-looking statements to be reasonable, they are based upon a number of assumptions, any or all of which ultimately may prove to be inaccurate. These statements are subject to numerous assumptions, uncertainties and risks including, but not limited to, the following:

- the general economic conditions in the United States of America as well as the general economic conditions and currencies in foreign countries;
- the political and economic stability of petroleum producing nations;
- the effect of weather conditions on demand for propane;
- the effectiveness of risk-management policies and procedures and the ability of our liquids marketing counterparties to satisfy their financial commitments;
- energy prices generally and specifically, and the price of natural gas, the price of NGLs and the price of propane to the consumer compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability and price of propane supplies;
- our ability to obtain adequate supplies of propane for retail sale in the event of an interruption in supply or transportation and the availability of capacity to transport propane to market areas;
- hazards or operating risks incidental to transporting, storing and distributing propane that may not be fully covered by insurance;
- the maturity of the propane industry and competition from other propane distributors;
- energy efficiencies and technological trends;

loss of key personnel;

the availability and cost of capital and our ability to access certain capital sources;

changes in laws and regulations to which we are subject, including tax, environmental, transportation and employment regulations;

the costs and effects of legal and administrative proceedings; and

our ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results.

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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. Our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our other filings with the SEC. For additional information, please read our other current filings with the SEC under the Exchange Act and the Securities Act. Other unknown or unpredictable factors also could have material adverse effects on our future results. You should not put undue reliance on any future-looking statements. When considering forward-looking statements, please review the risk factors described under Risk Factors beginning on page 3 of this prospectus.

USE OF PROCEEDS

Unless we specify otherwise in any prospectus supplement, we will use the net proceeds (after the payment of offering expenses and underwriting discounts and commissions) from the sale of securities for general partnership purposes, which may include, among other things:

- paying or refinancing all or a portion of our indebtedness outstanding at the time; and
- funding working capital, capital expenditures or acquisitions.

The actual application of proceeds from the sale of any particular offering of securities using this prospectus will be described in the applicable prospectus supplement relating to such offering. The precise amount and timing of the application of these proceeds will depend upon our funding requirements and the availability and cost of other funds.

We will not receive any of the proceeds from any sale of common units by the selling unitholders.

RATIO OF EARNINGS TO FIXED CHARGES

In August 2000, Heritage Propane Partners, L.P. acquired all of the propane operations of U.S. Propane, L.P., an entity that was formed when TECO Energy, Inc., AGL Resources, Inc., Piedmont Natural Gas Company, Inc., and Atmos Energy Corporation contributed each company s propane operations, Peoples Gas Company, AGL Propane, Inc., Piedmont Propane Company, and United Cities Propane Gas, Inc., respectively, to U.S. Propane, L.P. in exchange for equity interests in U.S. Propane, L.P. Simultaneously with the transaction, U.S. Propane, L.P. acquired all of the outstanding common stock of our former general partner, Heritage Holdings, Inc., thereby acquiring control of us. The transaction was accounted for as an acquisition using the purchase method of accounting with Peoples Gas Company being treated as the acquiror for accounting purposes as a result of Peoples Gas Company being the acquiror in the transaction that formed U.S. Propane, L.P. However, Heritage Propane Partners, L.P. is the surviving entity for legal purposes.

Because the fiscal year of Heritage Propane Partners, L.P. ended on August 31 and Peoples Gas Company had a fiscal year-end of December 31, the eight-month period ended August 31, 2000 was treated as a transition period under the rules of the Securities and Exchange Commission and is presented separately below. However, we continue to have an August 31 fiscal year-end.

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The table below sets forth the ratio of earnings to fixed charges of Heritage Propane Partners, L.P. and subsidiaries on a consolidated basis for the periods indicated. The ratio of earnings to fixed charges presented below for the years ending December 31, 1997, 1998 and 1999 includes information with respect to Heritage Propane Partners, L.P. (formerly Peoples Gas). The ratio of earnings to fixed charges presented below for the eight months ended August 31, 2000 includes information with respect to Heritage Propane Partners, L.P. (formerly Peoples Gas), and beginning August 10, 2000 the propane operations of U.S. Propane, L.P. and Heritage Propane Partners, L.P. (Predecessor Heritage).

On February 2004, Heritage Propane Partners, L.P. changed its name to Energy Transfer Partners, L.P.

Ratio of Earnings to Fixed Charges (formerly Peoples Gas):

	Year Ended December 31,			Eight Months Ended August 31,	Year Ended August 31,		
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Ratio of Earnings to Fixed Charges	76.38x	436.37x	242.25x	(A)	1.53x	1.12x	1.88x

(A) Earnings for the eight months ended August 31, 2000, were insufficient to cover fixed charges by $3.5 million.

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The table below sets forth the ratio of earnings to fixed charges of Heritage Propane Partners, L.P. and subsidiaries (Predecessor Heritage) on a consolidated basis for the periods indicated and does not include information with respect to Peoples Gas or the propane operations of U.S. Propane, L.P. during those periods (which were prior to the acquisition of U.S. Propane, L.P., by Heritage Propane Partners, L.P.).

Ratio of Earnings to Fixed Charges (Predecessor Heritage):

	Year Ended August 31,		Period Ended August 9,
	1998	1999	2000
Ratio of Earnings to Fixed Charges	1.57x	1.58x	1.35x

For these ratios, earnings is the amount resulting from adding the following items:

pre-tax income from continuing operations, before minority interest and equity in earnings of affiliates;

distributed income of equity investees; and

fixed charges.

The term fixed charges means the sum of the following:

interest expensed;

amortized debt issuance costs; and

estimated interest element of rentals.

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ENERGY TRANSFER TRANSACTION

On November 7, 2003, we publicly announced the signing of definitive agreements to combine our operations with those of La Grange Energy, L.P., a company engaged in the midstream natural gas business. La Grange Energy conducts its midstream operations through its subsidiary, La Grange Acquisition, L.P., under the name Energy Transfer Company. The assets of Energy Transfer Company are primarily located in major natural gas producing regions of Texas and Oklahoma. This transaction, which we refer to as the Energy Transfer Transaction, was completed in January 2004. The Energy Transfer Transaction created a combined entity with substantially greater scale and scope of operations. We believe our larger size and our entry into the midstream natural gas business will provide us with substantial internal and external growth opportunities and reduce the seasonality associated with our propane operations.

The value of this transaction was approximately $1.0 billion based on the average market price of our common units for the three trading days prior to and the three trading days after the time we signed the agreements related to the transaction. At the closing of this transaction in January 2004, the following transactions occurred:

- La Grange Energy contributed its interest in Energy Transfer Company and certain related assets to us in exchange for the following consideration:
  - An amount in cash equal to $300 million, less the amount of Energy Transfer Company debt in excess of $151.5 million, less accounts payable and other specified liabilities of Energy Transfer Company, plus an agreed upon amount for the reimbursement of capital expenditures paid by La Grange Energy relating to the Energy Transfer Company business prior to closing;
  - the retirement at closing of Energy Transfer Company s then outstanding debt;
  - the assumption at closing of Energy Transfer Company s then existing accounts payable and other specified liabilities;
  - 4,419,177 of our common units and 7,721,542 class D units, representing a value of approximately $433.9 million; and
  - 3,742,515 special units, representing a value of approximately $133.8 million.
- La Grange Energy purchased all of the partnership interests of U.S. Propane, L.P., our general partner, and all of the member interests of U.S. Propane, L.L.C., the general partner of U.S. Propane, L.P., from the current owners for $30 million in cash. La Grange Energy is owned by Natural Gas Partners VI, L.P., a private equity fund, Ray C. Davis, Kelcy L. Warren and a group of institutional investors.
- We acquired from an affiliate of the then current owners of our general partner all of the stock of Heritage Holdings, Inc., which owned approximately 4.4 million of our common units, for $50 million in cash and a $50 million two-year promissory note secured by a pledge of the units held by Heritage Holdings, and we inherited approximately $104.7 million in liabilities of Heritage

Holdings. Substantially all of these liabilities are deferred tax liabilities arising from differences in the book and tax basis of Heritage Holdings assets. The promissory note bears interest at a rate of 7% per annum.

We completed an offering of 8.0 million common units, resulting in proceeds, before expenses, of approximately $292.5 million.

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The amounts necessary to pay the cash portion of the purchase price, retire the debt of Energy Transfer Company, satisfy the accounts payable and other specified liabilities of Energy Transfer Company and fund the expenses associated with the offering completed in January 2004, a new Energy Transfer Company credit facility arranged in January 2004 and the Energy Transfer Transaction were raised from the proceeds of the January 2004 offering and borrowings under the new Energy Transfer Company credit facility. The following table sets forth an estimated breakdown of the sources and uses of the consideration to be paid in this transaction:

	Amounts (In Millions)
Sources of Consideration:	
Gross proceeds from the January 2004 this common unit offering	$ 309.5
Units issued to La Grange Energy(a)	567.7
Note payable to acquire Heritage Holdings	50.0
Borrowings under new Energy Transfer Company credit facility	275.0
General partner cash contributions to maintain its 2% general partner interest	14.6
	$ 1,216.8
Uses of Consideration:	
Cash payable to La Grange Energy(b)(c)	$ 86.8
Estimated reimbursement of capital expenditures	5.0
Units issued to La Grange Energy(a)	567.7
Energy Transfer Company debt, including accrued interest, retired(b)(c)	227.0
Energy Transfer Company accounts payable and other specified liabilities assumed(b)(c)	137.2
Energy Transfer Transaction consideration(a)	1,023.7
Cash payable to acquire Heritage Holdings	50.0
Note payable to acquire Heritage Holdings	50.0
Transaction costs, including underwriting discount	26.5
Cash on the balance sheet	66.6
	$ 1,216.8

(a) For purposes of this table, the value attributable to the units issued to La Grange Energy is based on the average market price for our common units for the three trading days prior to and the three trading days after execution of the agreements relating to the Energy Transfer Transaction, which was $35.74 per common unit. At the time these agreements were entered into, the parties determined the value of the units based on the prior 45 day average market price, which was $33.40 per common unit, resulting in a value of $987 million at such time for the Energy Transfer Transaction.

(b) Determined as of August 31, 2003.

(c) The cash payable to La Grange Energy, the Energy Transfer Company debt to be retired and the Energy Transfer Company accounts payable and other specified liabilities to be assumed will equal $451.0 million in aggregate.

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Upon consummation of the Energy Transfer Transaction:

- Energy Transfer Company became a wholly owned subsidiary of us.

- There were approximately 26,722,234 common units and 7,721,542 class D units outstanding, of which 4,419,177 common units and all 7,721,542 class D units were owned by La Grange Energy. The class D units are similar to the common units and are entitled to the same cash distributions as common units, provided that the class D units right to share in quarterly cash distributions and distributions on liquidation are subordinated to our common units right to share in quarterly cash distributions and distributions on liquidation. The class D units will be converted into an equal number of common units following the approval by our unitholders of such conversion, and we will be obligated to seek this approval by our unitholders promptly after the closing of the Energy Transfer Transaction.

- La Grange Energy also owns all 3,742,515 special units, a new class of our units that were issued in the Energy Transfer Transaction. The special units are non-voting and are not entitled to share in any partnership distributions. The special units will be converted into an equal number of common units following the occurrence of both: (1) the approval by our unitholders of such conversion and (2) the Bossier Pipeline becoming commercially operational, which we expect to occur by mid-2004. We will be obligated to seek this approval by our unitholders promptly after the closing of the Energy Transfer Transaction.

- In connection with the Energy Transfer Transaction, Heritage Holdings became one of our wholly owned subsidiaries, and its 4,426,916 common units were converted into an equal number of class E units, a new class of our units. These class E units are the only outstanding class E units. These class E units are entitled to aggregate cash distributions equal to 11.1% of the total amount of cash distributed to all unitholders, including the class E unitholders, up to $2.82 per unit per year.

- There are 1,000,000 class C units outstanding. The class C units are entitled to receive any cash distributions to which the incentive distribution rights are entitled as a result of our receiving proceeds from outstanding litigation filed by us. The class C units are not entitled to any other distributions, do not generally have voting rights and are not convertible into any other class of units.

We do not include the class C units, class E units and special units in our pro forma per unit financial results included elsewhere in this prospectus. Please read Description of Units in this prospectus for a more complete discussion of the terms of our outstanding units.

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ENERGY TRANSFER SELECTED HISTORICAL

FINANCIAL DATA

Although Heritage Propane Partners, L.P. was the surviving parent entity for legal purposes, Energy Transfer Company was the acquiror for accounting purposes. As a result, following the Energy Transfer Transaction, the historical financial statements of Energy Transfer Company for periods prior to the closing of the transaction became our historical financial statements. Energy Transfer Company was formed on October 1, 2002 and has an August 31 year-end. Energy Transfer Company s predecessor entities had a December 31 year-end. Accordingly, Energy Transfer Company s 11-month period ended August 31, 2003 is treated as a transition period.

Energy Transfer Company s historical financial information for the period from October 1, 2002 to August 31, 2003 has been derived from the historical financial statements of Energy Transfer Company included elsewhere in this prospectus. During this time period, Energy Transfer Company owned the Southeast Texas System and the Elk City System. From October 1, 2002 through December 27, 2002, Energy Transfer Company also owned a 50% equity interest in Oasis Pipe Line Company, which owns the Oasis Pipeline. After December 27, 2002, Energy Transfer Company owned a 100% interest in Oasis Pipe Line. In addition, on December 27, 2002, an affiliate of La Grange Energy s general partner contributed to Energy Transfer its marketing business and the Vantex System, the Rusk County Gathering System, the Whiskey Bay System and the Chalkley Transmission System.

Energy Transfer Company s historical financial information for periods prior to October 1, 2002 has been derived from the historical financial statements of Aquila Gas Pipeline. Prior to October 1, 2002, Aquila Gas Pipeline owned the Southeast Texas System, the Elk City System and a 50% equity interest in Oasis Pipe Line. All of these assets were acquired by Energy Transfer Company on October 1, 2002.

The financial information below for Aquila Gas Pipeline for the nine months ended September 30, 2002 and the years ended December 31, 2001 and 2000 and as of September 30, 2002 and December 31, 2001 has been derived from the audited consolidated financial statements of Aquila Gas Pipeline included elsewhere in this prospectus. The financial information below for Aquila Gas Pipeline for the years ended December 31, 1999 and 1998 and as of December 31, 2000, 1999 and 1998 has been derived from unaudited consolidated financial statements of Aquila Gas Pipeline, which are not included in this prospectus.

The selected historical financial data should be read in conjunction with the financial statements of Energy Transfer Company and Aquila Gas Pipeline included elsewhere in this prospectus and with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	Aquila Gas Pipeline					
	Year Ended December 31,				Nine Months Ended September 30,	Eleven Months Ended August 31,
	1998	1999	2000	2001		

					2002	2003(a)
	(Unaudited)		(In thousands)			
Statement of Operations Data:						
Revenues						
Midstream segment	$ 902,045	$ 1,030,554	$ 1,758,530	$ 1,813,850	$ 933,099	$ 978,106(b)
Transportation segment						30,617
Total revenues	902,045	1,030,554	1,758,530	1,813,850	933,099	1,008,723
Gross profit	80,631	94,109	117,663	98,589	53,035	109,184
Depreciation and amortization	26,417	27,061	30,049	30,779	22,915	13,461
Operating income	16,596	30,795	31,024	42,990	2,862	61,589
Interest expense	14,125	12,894	12,098	6,858	3,931	12,057
Income before income taxes	3,711	17,502	18,892	41,161	4,272	51,057
Provision for income taxes	(1,157)	5,913	7,657	15,403	(467)	4,432(c)
Net income	4,868	11,589	11,235	25,758	4,739	46,625
Balance Sheet Data (at period end):						
Current assets	109,286	108,552	231,260	144,396	116,831	183,770(d)
Total assets	632,112	620,920	724,161	633,260	601,528	600,693
Current liabilities	133,299	160,419	313,506	194,816	144,076	168,063
Long-term debt, including current maturities	197,450	163,273	110,721	78,750	66,250	226,000
Stockholders equity/Partners equity	226,755	237,877	254,248	249,520	254,259	181,088
Other Financial Data:						
Cash flow from operating activities	45,709	43,182	76,011	65,198	12,987	70,916
Cash flow used in investing activities	(20,755)	(13,785)	(23,459)	(20,727)	(487)	(341,177)
Cash flow from (used in) financing activities	(28,109)	(34,544)	(52,552)	(44,471)	(12,500)	323,383

(a) On December 27, 2002, Energy Transfer Company purchased the remaining 50% of Oasis Pipe Line. Prior to December 27, 2002, the interest in Oasis Pipe Line was treated as an equity method investment. After this date, Oasis Pipe Line s results of operations are consolidated with Energy Transfer Company as a wholly-owned subsidiary.

(b) For purposes of this presentation, the elimination of intersegment revenues of $10.5 million has been classified as a reduction of the midstream segment s revenues for the 11 months ended August 31, 2003.

(c) As a partnership, Energy Transfer is not subject to income taxes. However, its subsidiary, Oasis Pipe Line, is a corporation that is subject to income taxes at an effective rate of 35%. As a result, all income tax expense for Energy Transfer for the 11 months ended August 31, 2003 is directly related to Oasis Pipe Line. Prior to 2003, Oasis Pipe Line was an equity method investment of Energy Transfer, and taxes were netted against the equity method earnings. Aquila Gas Pipeline was a tax paying corporation, and as such recognized income taxes related to its earnings in all periods presented.

(d) Prior to the closing of the Energy Transfer Transaction, Energy Transfer Company will distribute its cash and cash equivalents and accounts receivable to La Grange Energy. Cash and cash equivalents and accounts receivable were $159.1 million as of August 31, 2003.

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HERITAGE PROPANE PARTNERS SELECTED HISTORICAL

FINANCIAL AND OPERATING DATA

The following table sets forth, for the periods and as of the dates indicated, selected historical financial and operating data for Heritage Propane Partners, L.P. and its subsidiaries. Information presented represents financial and operating data prior to and following the transactions with U.S. Propane and Peoples Gas that occurred in August 2000 and is described in detail in our Annual Report on Form 10-K for the fiscal year ended August 31, 2003. Although Heritage Propane Partners was the surviving entity for legal purposes in this transaction, Peoples Gas was the acquiror for accounting purposes. The years ended December 31, 1998 and 1999, and the eight-month period ended August 31, 1999 reflect the results of Peoples Gas on a stand-alone basis. The eight-month period ended August 31, 2000 was treated as a transition period, and represents seven months of Peoples Gas stand-alone and one month of Heritage Propane Partners. The years ended August 31, 2001, 2002 and 2003 reflect the results of Heritage Propane Partners following the transactions with U.S. Propane. This selected historical financial and operating data should be read in conjunction with the financial statements of Heritage Propane Partners, L.P. included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2003, which is incorporated by reference in this prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	Years Ended December 31,		Eight Months Ended August 31,		Years Ended August 31,		
	1998	1999	1999	2000	2001	2002	2003
			(Unaudited)		(In thousands, except per unit amounts)		
Statements of Operating Data:							
Revenues	$ 30,187	$ 34,045	$ 21,766	$ 51,534	$ 543,975	$ 462,325	$ 571,476
Gross profit(a)	17,904	19,196	13,299	21,572	237,419	224,140	274,320
Depreciation and amortization	2,855	3,088	2,037	4,686	40,431	36,998	37,959
Operating income (loss)	3,961	2,885	2,666	(714)	54,423	40,961	70,193
Interest expense				2,409	35,567	37,341	35,740
Income (loss) before income taxes and minority interests	3,483	2,895	2,677	(3,547)	20,524	5,476	33,041
Provision for income taxes	1,412	1,127	1,035	379			1,023
Net income (loss)	2,071	1,768	1,642	(3,846)	19,710	4,902	31,142
Basic net income (loss) per unit(b)	1.19	1.02	0.94	(0.37)	1.43	0.25	1.79
Cash dividends/distributions per unit	1.13	1.30	1.30	0.87	2.38	2.55	2.60
Balance Sheet Data (at period end):							
Current assets	$ 4,310	$ 6,643	$ 4,326	$ 84,869	$ 138,263	$ 95,387	$ 94,138
Total assets	37,206	43,724	39,481	615,779	758,167	717,264	738,839
Current liabilities	13,671	19,636	15,716	102,212	127,655	122,069	151,027
Long-term debt		525		361,990	423,748	420,021	360,762
Minority interests				4,821	5,350	3,564	4,002
Total partners capital	15,596	15,107	14,981	146,756	201,414	171,610	223,048
Other Financial and Operating Data (unaudited):							
EBITDA, as adjusted(c)	$ 6,816	$ 5,973	$ 4,703	$ 4,507	$ 97,444	$ 81,536	$ 110,963

Cash flows from operating activities	9,219	9,353		14,508	28,056	65,453	95,199
Cash flows used in investing activities	(7,047)	(7,191)		(183,037)	(122,313)	(33,412)	(48,389)
Cash flows from (used in) financing activities	(2,317)	(2,257)		173,353	95,038	(33,071)	(44,289)
Capital expenditures(d)							
Maintenance	5,328	6,176	2,544	3,559	8,504	12,831	15,136
Growth and acquisition	1,719	1,015	1,015	177,067	110,210	33,983	37,114
Retail gallons sold	30,921	33,608	22,118	38,268	330,242	329,574	375,939

(a) Gross profit is computed by reducing total revenues by the direct cost of the products sold.

(b) Net income per unit is computed by dividing the limited partner s interest in net income by the weighted average number of units outstanding.

(c) EBITDA, as adjusted is defined as our earnings before interest, taxes, depreciation, amortization and other non-cash items, such as compensation charges for unit issuances to employees, gain or loss on

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disposal of assets, and other expenses. We present EBITDA, as adjusted, on a partnership basis which includes both the general and limited partner interests. Non-cash compensation expense represents charges for the value of the common units awarded under our compensation plans that have not yet vested under the terms of those plans and are charges which do not, or will not, require cash settlement. Non-cash income such as the gain arising from our disposal of assets is not included when determining EBITDA, as adjusted. EBITDA, as adjusted (i) is not a measure of performance calculated in accordance with GAAP and (ii) should not be considered in isolation or as a substitute for net income, income from operations or cash flow as reflected in our consolidated financial statements.

EBITDA, as adjusted is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of our fundamental business activities. Management believes that the presentation of EBITDA, as adjusted is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of our ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, management believes that EBITDA, as adjusted provides additional and useful information to our investors for trending, analyzing and benchmarking our operating results from period to period as compared to other companies that may have different financing and capital structures. The presentation of EBITDA, as adjusted allows investors to view our performance in a manner similar to the methods used by management and provides additional insight to our operating results.

EBITDA, as adjusted is used by management to determine our operating performance, and along with other data as internal measures for setting annual operating budgets, assessing financial performance of our numerous business locations, as a measure for evaluating targeted businesses for acquisition and as a measurement component of incentive compensation. We have a large number of business locations located in different regions of the United States. EBITDA, as adjusted can be a meaningful measure of financial performance because it excludes factors which are outside the control of the employees responsible for operating and managing the business locations, and provides information management can use to evaluate the performance of the business locations, or the region where they are located, and the employees responsible for operating them. To present EBITDA, as adjusted on a full partnership basis, we add back the minority interest of the general partner because net income is reported net of the general partner s minority interest. Our EBITDA, as adjusted includes non-cash compensation expense which is a non-cash expense item resulting from our unit based compensation plans that does not require cash settlement and is not considered during management s assessment of the operating results of our business. Adding these non-cash compensation expenses in EBITDA, as adjusted allows management to compare our operating results to those of other companies in the same industry who may have compensation plans with levels and values of annual grants that are different than us. Other expenses include other finance charges and other asset non-cash impairment charges that are reflected in our operating results but are not classified in interest, depreciation and amortization. We do not include gain on the sale of assets when determining EBITDA, as adjusted since including non-cash income resulting from the sale of assets increases the performance measure in a manner that is not related to the true operating results of our business. In addition, our debt agreements contain financial covenants based on EBITDA, as adjusted. For a description of these covenants, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Description of Indebtedness.

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There are material limitations to using a measure such as EBITDA, as adjusted, including the difficulty associated with using it as the sole measure to compare the results of one company to another, and the inability to analyze certain significant items that directly affect a company s net income or loss. In addition, our calculation of EBITDA, as adjusted may not be consistent with similarly titled measures of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP. EBITDA, as adjusted for the periods described herein is calculated in the same manner as presented by us in the past. Management compensates for these limitations by considering EBITDA, as adjusted in conjunction with its analysis of other GAAP financial measures, such as gross profit, net income (loss), and cash flow from operating activities. A reconciliation of EBITDA, as adjusted to net income (loss) is presented below. Please read Reconciliation of EBITDA, As Adjusted to Net Income below.

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Reconciliation of EBITDA, As Adjusted, to Net Income

The following tables set forth the reconciliation of EBITDA, as adjusted, to our net income for the periods indicated:

	Years Ended December 31,		Eight Months Ended August 31,		Years Ended August 31,		
	1998	**1999**	**1999**	**2000**	**2001**	**2002**	**2003**
				(In thousands)			
Net income reconciliation							
Net income (loss)	$ 2,071	$ 1,768	$ 1,642	$ (3,846)	$ 19,710	$ 4,902	$ 31,142
Depreciation and amortization	2,855	3,088	2,037	4,686	40,431	36,998	37,959
Interest				2,409	35,567	37,341	35,740
Taxes	1,412	1,127	1,035	379			1,023
Non-cash compensation expense				549	1,079	1,878	1,159
Other expenses	478	(10)	(11)	478	394	294	3,213
Depreciation, amortization, and interest and taxes of investee				73	792	743	901
Minority interest in the Operating Partnership				(100)	283	192	256
Less: Gain on disposal of assets				(121)	(812)	(812)	(430)
EBITDA, as adjusted	$ 6,816	$ 5,973	$ 4,703	$ 4,507	$ 97,444	$ 81,536	$ 110,963

(d) Capital expenditures fall generally into three categories: (1) maintenance capital expenditures, which include expenditures for repairs that extend the life of the assets and replacement of property, plant and equipment, (2) growth capital expenditures, which include expenditures for purchase of new propane tanks and other equipment to facilitate retail customer base expansion, and (3) acquisition expenditures which include expenditures related to the acquisition of retail propane operations and other business, and the portion of the purchase price allocated to intangibles associated with such acquired businesses.

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HERITAGE PROPANE PARTNERS PRO FORMA FINANCIAL DATA

The following unaudited pro forma financial data reflects the historical results of Heritage Propane Partners, L.P. as adjusted on a pro forma basis to give effect to the consummation of the Energy Transfer Transaction, the borrowing under the new Energy Transfer Company credit facility arranged in January 2004 and described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, and the offering completed in January 2004 and the use of proceeds from the borrowing and that offering as if these transactions occurred on September 1, 2002 for income statement purposes and August 31, 2003 for balance sheet purposes. Although Heritage Propane Partners, L.P. will be the surviving parent entity for legal purposes, Energy Transfer Company will be the acquiror for accounting purposes. As a result, following the closing of the Energy Transfer Transaction, the historical financial statements of Energy Transfer Company for periods prior to the closing became our historical financial statements. For a discussion of the assumptions and specific adjustments used in preparing the pro forma financial data, please read the pro forma financial statements included elsewhere in this prospectus.

	Twelve Months Ended August 31, 2003
	(In thousands, except per unit amounts)
Statement of Operations Data:	
Revenues	$ 1,714,440
Costs and expenses:	
Costs of products sold	1,309,497
Operating expenses	175,301
Depreciation and amortization	56,245
Selling, general and administrative	31,789
Total costs and expenses	1,572,832
Operating income	141,608
Other income (expense):	
Interest expense	(54,070)
Equity in earnings of affiliates	1,120
Gain on disposal of assets	273
Other	(2,912)
Income before minority interests and income taxes	86,019
Minority interests	558
Income before income taxes	85,461
Income taxes	10,924
Net income	74,537
General partner s interest in net income	1,491
Limited partners interest in net income	$ 73,046
Net income per unit	$ 2.24

Balance Sheet Data (at end of period):		
Cash and cash equivalents	$	72,091
Working capital		36,252
Property, plant and equipment (net)		861,604
Total assets		1,428,948
Long term debt, less current maturities		685,762
Partners capital		429,925
Other Financial Data:		
EBITDA, as adjusted(a)	$	200,475

(a) EBITDA, as adjusted is defined as our earnings before interest, taxes, depreciation, amortization and other non-cash items, such as compensation charges for unit issuances to employees, gain or loss on disposal of assets, and other expenses. We present EBITDA, as adjusted, on a partnership basis which includes both the general and limited partner interests. Non-cash compensation expense represents charges for the value of the common units awarded under our compensation plans that have not yet vested under the terms of those plans and are charges which do not, or will not, require cash settlement. Non-cash income such as the gain arising from our disposal of assets is not included when determining EBITDA, as adjusted. EBITDA, as adjusted (i) is not a measure of performance calculated in accordance with generally accepted accounting principles, or GAAP, and (ii) should not be considered in isolation or as a substitute for net income, income from operations or cash flow as reflected in our consolidated financial statements.

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EBITDA, as adjusted is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of our fundamental business activities. Management believes that the presentation of EBITDA, as adjusted is useful to lenders and investors because of its use in the propane and midstream natural gas industries and for master limited partnerships as an indicator of the strength and performance of our ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, management believes that EBITDA, as adjusted provides additional and useful information to our investors for trending, analyzing and benchmarking our operating results from period to period as compared to other companies that may have different financing and capital structures. The presentation of EBITDA, as adjusted allows investors to view our performance in a manner similar to the methods used by management and provides additional insight to our operating results.

EBITDA, as adjusted is used by management to determine our operating performance, and along with other data as internal measures for setting annual operating budgets, assessing financial performance of our numerous business locations, as a measure for evaluating targeted businesses for acquisition and as a measurement component of incentive compensation. We have a large number of business locations located in different regions of the United States. EBITDA, as adjusted can be a meaningful measure of financial performance because it excludes factors which are outside the control of the employees responsible for operating and managing the business locations, and provides information management can use to evaluate the performance of the business locations, or the region where they are located, and the employees responsible for operating them. To present EBITDA, as adjusted on a full partnership basis, we add back the minority interest of the general partner because net income is reported net of the general partner s minority interest. Our EBITDA, as adjusted includes non-cash compensation expense which is a non-cash expense item resulting from our unit based compensation plans that does not require cash settlement and is not considered during management s assessment of the operating results of our business. Adding these non-cash compensation expenses in EBITDA, as adjusted allows management to compare our operating results to those of other companies in the same industry who may have compensation plans with levels and values of annual grants that are different than us. Other expenses include other finance charges and other asset non-cash impairment charges that are reflected in our operating results but are not classified in interest, depreciation and amortization. We do not include gain

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on the sale of assets when determining EBITDA, as adjusted since including non-cash income resulting from the sale of assets increases the performance measure in a manner that is not related to the true operating results of our business. In addition, our debt agreements contain financial covenants based on EBITDA, as adjusted. For a description of these covenants, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Description of Indebtedness.

There are material limitations to using a measure such as EBITDA, as adjusted, including the difficulty associated with using it as the sole measure to compare the results of one company to another, and the inability to analyze certain significant items that directly affect a company s net income or loss. In addition, our calculation of EBITDA, as adjusted may not be consistent with similarly titled measures of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP. EBITDA, as adjusted for the periods described herein is calculated in the same manner as presented by us in the past. Management compensates for these limitations by considering EBITDA, as adjusted in conjunction with its analysis of other GAAP financial measures, such as gross profit, net income (loss), and cash flow from operating activities. A reconciliation of EBITDA, as adjusted to net income (loss) is presented below. Please read Reconciliation of EBITDA, As Adjusted, to Pro Forma Net Income below.

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Reconciliation of Pro Forma EBITDA, As Adjusted, to Pro Forma Net Income

The following table sets forth the reconciliation of pro forma EBITDA, as adjusted, to our pro forma net income for the twelve months ended August 31, 2003:

	Twelve Months Ended August 31, 2003
	(In thousands)
Net income	$ 74,537
Depreciation and amortization	56,245
Interest	54,070
Taxes	10,924
Non-cash compensation expense	1,159
Other expenses	2,912
Depreciation, amortization, and interest and taxes of investee	901
Less: Gain on disposal of assets	(273)
EBITDA, as adjusted	$ 200,475

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the historical and pro forma combined financial statements and notes thereto included elsewhere in this prospectus supplement. For more detailed information regarding the basis of presentation for the following information, you should read the notes to the historical and pro forma financial statements included in this prospectus supplement.

Overview

We are a publicly traded Delaware limited partnership formed in conjunction with our initial public offering as Heritage Propane Partners, L.P. in June 1996. We are engaged in the natural gas midstream business through our operating subsidiary, La Grange Acquisition, L.P., and in the retail propane marketing business through our operating subsidiary, Heritage Operating, L.P. Following the completion of our transaction in January 2004, in which we combined the retail propane operations of Heritage Propane Partners with the natural gas midstream operations of Energy Transfer Company, we changed our name to Energy Transfer Partners, L.P. In the following discussion, references to Heritage Propane or Heritage Propane Partners refer to Heritage Propane Partners, L.P. and its subsidiaries and their business and operations prior to the completion of the Energy Transfer Transaction, and references to Energy Transfer or Energy Transfer Company refer to LaGrange Acquisition, L.P. and its subsidiaries and their business and operations conducted under the name Energy Transfer Company prior to the completion of the Energy Transfer Transaction.

Heritage Propane Partners

We are one of the largest retail propane marketers in the United States, serving more than 650,000 customers from over 300 customer service locations in 31 states. Our operations extend from coast to coast, with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States. We are also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership in which we own a 60% interest, engaged in wholesale distribution and in supplying our northern U.S. locations. We are a publicly traded Delaware limited partnership formed in conjunction with our initial public offering in June of 1996. Our business has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since our inception through August 31, 2003, we have completed 97 acquisitions for an aggregate purchase price of approximately $675 million. Volumes of propane sold to retail customers have increased steadily from 63.2 million gallons for the fiscal year ended August 31, 1992 to 375.9 million gallons for the fiscal year ended August 31, 2003.

The retail propane business is a margin-based business in which gross profits depend on the excess of sales price over propane supply costs. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which we will have no control. Product supply contracts are typically one-year agreements subject to annual renewal and generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery or storage points. In addition, some contracts include a pricing formula that typically is based on these market prices. Most of these agreements provide maximum and minimum seasonal purchase guidelines. The number of contracts entered into may vary from year to year. Since rapid increases in the wholesale cost of propane may not be immediately passed on to retail customers, such increases could reduce gross profits. We generally have attempted to reduce

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price risk by purchasing propane on a short-term basis. We have on occasion purchased significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at our customer service locations and in major storage facilities for future resale.

Our retail propane business consists principally of transporting propane purchased in the contract and spot markets, primarily from major fuel suppliers, to our customer service locations and then to tanks located on the customers premises, as well as to portable propane cylinders. In the residential and commercial markets, propane is primarily used for space heating, water heating and cooking. In the agricultural market, propane is primarily used for crop drying, tobacco curing, poultry brooding and weed control. In addition, propane is used for certain industrial applications, including use as an engine fuel for internal combustion engines that power vehicles and forklifts and as a heating source in manufacturing and mining processes.

Our propane distribution business is largely seasonal and dependent upon weather conditions in our service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements. Historically, approximately two-thirds of our retail propane volume and in excess of 80% of our EBITDA is attributable to sales during the six-month peak-heating season of October through March. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues, and in some cases, net losses or lower net income during the period from April through September of each year. Consequently, sales and operating profits are concentrated in the first and second fiscal quarters, while cash flow from operations is generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season. Sales to industrial and agricultural customers are much less weather sensitive.

A substantial portion of our propane is used in the heating-sensitive residential and commercial markets resulting in the temperatures realized in our areas of operations, particularly during the six-month peak-heating season, having a significant effect on our financial performance. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. We use information based on normal temperatures in understanding how temperatures that are colder or warmer than normal affect historical results of operations and in preparing forecasts of future operations.

Gross profit margins are not only affected by weather patterns, but also vary according to customer mix. For example, sales to residential customers generate higher margins than sales to certain other customer groups, such as commercial or agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues.

The Energy Transfer Transaction

On November 7, 2003, we publicly announced the signing of definitive agreements to combine our operations with those of La Grange Energy, which is engaged in the midstream natural gas business. La Grange Energy conducts its midstream operations through La Grange Acquisition, whose midstream operations are conducted under the name Energy Transfer Company. La Grange Energy is owned by Natural Gas Partners VI, L.P., a private equity fund, Ray C. Davis, Kelcy L. Warren and a group of institutional investors.

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In connection with the transaction, La Grange Energy contributed interests in Energy Transfer and certain related assets to us in exchange for:

$300 million in cash, subject to certain adjustments including (1) a reduction for any accounts payable and other specified liabilities of Energy Transfer at closing, (2) a reduction to the extent that the long-term debt of Energy Transfer at closing is greater than $151.5 million, (3) an increase to the extent that the long-term debt of Energy Transfer at closing is less than $151.5 million and (4) an increase by up to $80 million to reimburse La Grange Energy for certain mutually agreed upon capital expenditures paid by La Grange Energy to third parties prior to the closing, and

the retirement at closing of Energy Transfer s debt;

the assumption at closing of Energy Transfer s accounts payable and other specified liabilities;

15,883,234 units, comprising limited partner interests in us. The units are comprised of the following:

4,419,177 common units;

7,721,542 class D units; and

3,742,515 special units.

Please read Description of Units Class D Units and Special Units for a more detailed description of our class D units and special units.

In conjunction with this transaction, Energy Transfer distributed its cash and accounts receivable to La Grange Energy, and an affiliate of La Grange Energy contributed an office building to Energy Transfer, in each case prior to the contribution of Energy Transfer Company to us.

The amounts necessary to pay the cash portion of the purchase price, retire outstanding indebtedness under the credit facilities of Energy Transfer Company, satisfy Energy Transfer Company s accounts payable and other specified liabilities and to fund the expenses associated with the Energy Transfer Transaction were raised from the proceeds of a public offering of common units completed in January 2004 and borrowings under the new Energy Transfer Company credit facility.

Please read Liquidity and Capital Resources Financing and Sources of Liquidity Energy Transfer Facilities.

As a part of the above transaction, La Grange Energy purchased all of the partnership interests of U.S. Propane, L.P., our general partner, and all of the member interests of U.S. Propane, L.L.C., the general partner of U.S. Propane, L.P. (which are collectively referred to as our general partner), from subsidiaries of AGL Resources, Inc., Atmos Energy Corporation, TECO Energy, Inc. and Piedmont Natural Gas Company, Inc.

(the Previous Owners) for $30 million in cash. Prior to the sale of our general partner to La Grange Energy, certain assets of our general partner, including all of the stock of Heritage Holdings and 180,028 common units, were distributed by our general partner to an affiliate of the Previous Owners. At the time of this transaction, U.S. Propane, L.P. owned a 1% general partner interest in us and a 1.01% general partner interest in our

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operating partnership, Heritage Operating, L.P. As part of the acquisition of our general partner, U.S. Propane, L.P. made a capital contribution of its interest in the operating partnership to us in exchange for an additional 1% general partner interest in us, such that following the capital contribution, U.S. Propane, L.P. became the owner of a 2% general partner interest in us.

Also in conjunction with these transactions, we acquired from this affiliate of the Previous Owners all of the stock of Heritage Holdings, which owned approximately 4,426,916 common units, for $100 million in cash. In addition, we inherited approximately $104.7 million in liabilities of Heritage Holdings. Substantially all of these liabilities are deferred tax liabilities arising from differences in the book and tax basis of Heritage Holdings assets. After our purchase of Heritage Holdings, the common units owned by Heritage Holdings were converted into class E units. Please read Description of Units for a description of the class E units.

In connection with these transactions, La Grange Energy and its affiliates, including Ray C. Davis and Kelcy L. Warren, agreed not to engage, invest or participate, directly or indirectly, in any business activities involving (a) the purchase, sale, exchange, marketing, trading, storage or transportation of propane or (b) the purchase, gathering, treating, processing, marketing, sales, storage, transportation, fractionation or distribution of natural gas and NGLs, subject to certain limited exceptions. Each of La Grange Energy and its affiliates agreed not to engage in these activities until the earlier of (i) the third anniversary of the closing of the Energy Transfer Transaction or (ii) the date such party ceases to be engaged in the business of Heritage or the business of Energy Transfer as an owner, officer, director or employee, as the case may be.

Also in connection with the transactions, the Previous Owners agreed not to engage, invest or participate, directly or indirectly, in any business activities involving the purchase, sale, exchange, marketing, trading, storage or transportation of propane, subject to certain limited exceptions, until the third anniversary of the closing of the Energy Transfer Transaction.

We have previously entered into employment agreements with our executive officers, H. Michael Krimbill, R.C. Mills, Michael L. Greenwood, Bradley K. Atkinson, Mark A. Darr, Thomas H. Rose and Curtis L. Weishahn. The consummation of the Energy Transfer Transaction constituted a change of control under these employment agreements. As a result, upon the consummation of the Energy Transfer Transaction, we were obligated to make a cash payment to each of our executive officers in an amount equal to their base salary and were also required to make a bonus payment in common units to each of our executive officers. The aggregate cash payment was approximately $1.6 million and that the aggregate bonus payment was 150,018 common units. Each employment agreement also provides that if any payment received by the executive officer is subject to the 20% federal excise tax under Section 4999(a) of the Internal Revenue Code, the payment will be grossed up to permit the executive officer to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional amount not been payable. In addition, pursuant to the terms of the employment agreement of Michael L. Greenwood, 20,000 common units to which he is entitled were awarded.

The consummation of the Energy Transfer Transaction also constituted a change of control under our Second Amended and Restated Restricted Unit Plan. As a result, all rights to acquire common units pursuant to the Restricted Unit Plan became vested. As of December 31, 2003, unvested rights to acquire 26,100 common units were outstanding under the Restricted Unit Plan. Of these unvested rights, rights to acquire 4,500 common units were held by non-employee directors and rights to acquire 21,600 common units were held by employees that are not executive officers.

Each of these employment agreements and the Restricted Unit Plan is described in more detail in our Annual Report on Form 10-K for the fiscal year ended August 31, 2003.

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Energy Transfer

Energy Transfer is a Texas limited partnership formed in September 2002 to own, operate and acquire midstream assets from Aquila Gas Pipeline, an affiliate of Aquila, Inc. Energy Transfer s operations are concentrated in the Austin Chalk trend of southeast Texas, the Anadarko Basin of western Oklahoma and the Permian Basin of west Texas. It divides its operations into the following two business segments:

Midstream Segment, which focuses on the gathering, compression, treating, processing and marketing of natural gas, primarily in the Southeast Texas System and the Elk City System. For the 11 months ended August 31, 2003, approximately 72% of Energy Transfer s gross margin was derived from this segment.

Transportation Segment, which focuses on the transportation of natural gas through the Oasis Pipeline. For the 11 months ended August 31, 2003, approximately 28% of Energy Transfer s gross margin was derived from this segment.

During the 11 months ended August 31, 2003, Energy Transfer generated approximately 46% of its gross margin from fees it charged for providing its services, including a transportation fee it charges the producer services business for natural gas that the producer service business transports on the Oasis Pipeline equal to the fee it charges third parties. This transportation fee accounted for 7% of its total gross margin for this period. Energy Transfer generated the remaining 54% of its gross margin from discount-to-index, percentage-of-proceeds and keep-whole arrangements and from its producer services business. We intend to seek to increase the percentage of Energy Transfer s business conducted under fee-based arrangements in order to reduce our exposure to increases and decreases in the price of natural gas and NGLs. However, in order to remain competitive, Energy Transfer will need to offer other contractual arrangements to attract certain natural gas supplies to its systems.

The Midstream Segment

Results from the Midstream segment are determined primarily by the volumes of natural gas gathered, compressed, treated, processed, purchased and sold through Energy Transfer s pipeline and gathering systems and the level of natural gas and NGL prices. Energy Transfer generates its revenues and its gross margins principally under the following types of arrangements:

Fee-based arrangements. Under fee-based arrangements, Energy Transfer receives a fee or fees for one or more of the following services: gathering, compressing, treating or processing natural gas. The revenue it earns from these arrangements is directly related to the volume of natural gas that flows through its systems and is not directly dependent on commodity prices. To the extent a sustained decline in commodity prices results in a decline in volumes, however, its revenues from these arrangements would be reduced.

Other arrangements. Energy Transfer also utilizes other types of arrangements in its Midstream segment, including:

Discount-to-index price arrangements. Under discount-to-index price arrangements, Energy Transfer generally purchases natural gas at either (1) a percentage discount to a specified index price, (2) a specified index price less a fixed amount or (3) a percentage discount to a specified index price less an

additional fixed amount. It then gathers and delivers the natural gas to pipelines where it resells the natural gas at the index price. The gross margins Energy Transfer realizes under the arrangements described in clauses (1) and (3) above decrease in periods of low natural gas prices because these gross margins are based on a percentage of the index price.

Percentage-of-proceeds arrangements. Under percentage-of-proceeds arrangements, Energy Transfer generally gathers and processes natural gas on behalf of producers, sells the resulting residue gas and NGL volumes at market prices and remits to producers an agreed upon percentage of the proceeds based on an index price. In other cases, instead of remitting cash payments to the producer, Energy Transfer delivers an agreed upon percentage of the residue gas and NGL volumes to the producer and sells the volumes it keeps to third parties at market prices. Under these types of arrangements, Energy Transfer s revenues and gross margins increase as natural gas prices and NGL prices increase, and its revenues and gross margins decrease as natural gas prices and NGL prices decrease.

Keep-whole arrangements. Under keep-whole arrangements, Energy Transfer gathers natural gas from the producer, processes the natural gas and sells the resulting NGLs to third parties at market prices. Because the extraction of the NGLs from the natural gas during processing reduces the Btu content of the natural gas, Energy Transfer must either purchase natural gas at market prices for return to producers or make a cash payment to the producers equal to the value of this natural gas. Accordingly, under these arrangements, Energy Transfer s revenues and gross margins increase as the price of NGLs increases relative to the price of natural gas, and its revenues and gross margins decrease as the price of natural gas increases relative to the price of NGLs. In the latter case, Energy Transfer is generally able to reduce its commodity price exposure by bypassing its processing plants and not processing the natural gas, as described below.

In many cases, Energy Transfer provides services under contracts that contain a combination of more than one of the arrangements described above. The terms of its contracts vary based on gas quality conditions, the competitive environment at the time the contracts are signed and customer requirements. Its contract mix and, accordingly, its exposure to natural gas and NGL prices, may change as a result of changes in producer preferences, its expansion in regions where some types of contracts are more common and other market factors.

A significant benefit of Energy Transfer s ownership of the Oasis Pipeline is that Energy Transfer typically can elect not to process the natural gas at the La Grange processing plant when processing margins are unfavorable. Instead of processing the natural gas, Energy Transfer is able to bypass the La Grange processing plant and deliver natural gas meeting pipeline quality specifications by blending rich natural gas from the Southeast Texas System with lean natural gas transported on the Oasis pipeline.

Energy Transfer can also generally bypass the Elk City processing plant. The natural gas supplied to the Elk City System has a relatively low NGL content and does not require processing to meet pipeline quality specifications. During periods of unfavorable processing margins, Energy Transfer can bypass the Elk City processing plant and deliver the natural gas directly into connecting pipelines.

Both the Southeast Texas System and Elk City System are geographically located in natural gas producing areas that had large production volumes in the past several decades, and these systems were built to accommodate those larger volumes. Both of these producing areas have matured in recent years, and production has declined over time. As a result, utilization of these systems has also declined. At the time of Energy

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Transfer s acquisition of the Southeast Texas System and the Elk City System, both of these systems were not being fully utilized. By aggressively marketing directly to producers and consumers and adding connections to new customers, during 2003, Energy Transfer has increased the utilization of the Southeast Texas System and the Elk City System by approximately 30% and 50%, respectively. Energy Transfer believes that it has the opportunity to further leverage its existing asset base in order to more fully utilize the capacity of its systems and thereby increase throughput and cash flows. Generally, adding additional volumes to the Southeast Texas System s and the Elk City System s pipelines requires only minimal incremental capital expenditures. As a result, transporting additional volumes of natural gas through these pipelines generally provides incremental operating income without the need for additional capital.

Energy Transfer believes that it is more cost effective to install a pipeline with throughput capacity in excess of the natural gas production that is initially contracted for transportation on the pipeline. The capacity of a six-inch pipeline is more than double that of a four inch pipeline, yet the costs of construction are substantially less than double. In addition, the costs to operate and maintain the larger pipeline are generally no greater than the costs to operate and maintain the smaller pipeline.

However, Energy Transfer has a different approach to the construction and operation of processing and treating plants. Unutilized capacity in processing and treating facilities negatively impacts the per unit profitability of these facilities. Energy Transfer seeks to maximize throughput of its plants at both the time of installation and subsequently as production declines, by idling underutilized plants and aggregating its processing and treating operations at more efficient facilities to minimize the per unit cost of those plants. Idle or unused facilities can be relocated to other parts of Energy Transfer s systems if necessary or sold to third parties. Because aggregation can result in higher capital costs, the decision by Energy Transfer to idle a plant and aggregate processing and treating operations at a more efficient facility is made only when management believes that the per unit cost reduction justifies the capital expenditure. For the eleven months ended August 31, 2003, Energy Transfer s utilization of capacity at its Southeast Texas System processing and treating facilities were 40% and 32% respectively. For the reasons discussed above, this excess capacity negatively affected Energy Transfer s profitability that was reflected in its historical numbers. A portion of the excess capacity at the Southeast Texas System processing facility was directly attributable to its election to not process or treat natural gas and deliver the natural gas directly into the Oasis Pipeline in order to take advantage of high natural gas prices relative to NGL prices. Additionally, in September 2003, Energy Transfer enhanced its utilization by moving an idle 145 MMcf/d treating facility from the Southeast Texas System to the Elk City System to take advantage of additional natural gas volumes.

Energy Transfer conducts its marketing operations through its producer services business, in which Energy Transfer markets the natural gas that flows through its assets, which Energy Transfer refers to as on-system gas, and attracts other customers by marketing volumes of natural gas that do not move through its assets, which Energy Transfer refers to as off-system gas. For both on-system and off-system gas, Energy Transfer purchases natural gas from natural gas producers and other supply points and sells that natural gas to utilities, industrial consumers, other marketers and pipeline companies, thereby generating gross margins based upon the difference between the purchase and resale prices.

Most of Energy Transfer s marketing activities involve the marketing of its on-system gas. For the 11 months ended August 31, 2003, Energy Transfer marketed approximately 524 MMcf/d of natural gas, 86% of which was on-system gas. Substantially all of its on-system marketing efforts involve natural gas that flows

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through either the Southeast Texas System or the Oasis Pipeline. Energy Transfer markets only a small amount of natural gas that flows through the Elk City System.

For its off-system gas, Energy Transfer purchases gas or acts as an agent for small independent producers that do not have marketing operations. Energy Transfer develops relationships with natural gas producers which facilitates its purchase of their production on a long-term basis. Energy Transfer believes that this business provides it with strategic insights and valuable market intelligence which may impact its expansion and acquisition strategy.

The Transportation Segment

Results from Energy Transfer s Transportation segment are determined primarily by the amount of capacity Energy Transfer s customers reserve as well as the actual volume of natural gas that flows through the Oasis Pipeline. Under Oasis Pipeline customer contracts, Energy Transfer charges its customers a demand fee, a transportation fee, or a combination of both, generally payable monthly.

Demand Fee. The demand fee is a fixed fee for the reservation of an agreed amount of capacity on the Oasis Pipeline for a specified period of time. The customer is obligated to pay Energy Transfer the demand fee even if the customer does not transport natural gas on the Oasis Pipeline.

Transportation Fee. The transportation fee is based on the actual throughput of natural gas by the customer on the Oasis Pipeline.

For the 11 months ended August 31, 2003, Energy Transfer transported approximately 30% of its natural gas volumes on the Oasis Pipeline pursuant to long-term contracts. Its long-term contracts have a term of one year or more. Energy Transfer also enters into short-term contracts with terms of less than one year in order to utilize the capacity that is available on the Oasis Pipeline after taking into account the capacity reserved under Energy Transfer s long-term contracts. For the 11 months ended August 31, 2003, the Oasis Pipeline accounted for approximately 57% of Energy Transfer s fee-based gross margin.

Operating Expenses and Administrative Costs

Energy Transfer realizes significant economies of scale related to the Midstream segment as well as the Transportation segment. As additional volumes of natural gas move through Energy Transfer s systems, its incremental operating and administrative costs do not increase materially. Operating expenses are costs directly associated with the operations of a particular asset and include direct labor and supervision, property insurance, ad valorem taxes, repair and maintenance expenses, measurement and utilities. These costs are generally fixed across broad volume ranges. Energy Transfer s fuel expense to operate its pipelines and plants is more variable in nature and is sensitive to changes in volume and commodity prices.

Effects of Changes in Commodity Price

Energy Transfer s profitability is affected by volatility in prevailing NGL and natural gas prices. Historically, changes in the prices of most NGL products have generally correlated with changes in the price of crude oil. NGL and natural gas prices have been subject to significant volatility in recent years in response to changes in the supply and demand for NGL products and natural gas market uncertainty. For a discussion of the

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volatility of natural gas and NGL prices, please read Risk Factors Energy Transfer s profitability is dependent upon prices and market demand for natural gas and NGLs, which are beyond its control and have been volatile. The current mix of Energy Transfer s contractual arrangements described above together with its ability to bypass the processing plants significantly mitigates its exposure to the volatility of natural gas and NGL prices. Gas prices can also affect Energy Transfer s profitability indirectly by influencing drilling activity and related opportunities for natural gas gathering, compression, treating, processing, transportation and marketing.

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Significant Acquisitions

Energy Transfer acquired most of its assets in two strategic acquisitions. In October 2002, Energy Transfer acquired the Southeast Texas System, the Elk City System and a 50% equity interest in the Oasis Pipeline from Aquila Gas Pipeline, an affiliate of Aquila, Inc., for $264 million in cash. In December 2002, Energy Transfer acquired the remaining 50% equity interest in the Oasis Pipeline from an affiliate of The Dow Chemical Company for $87 million in cash.

Energy Transfer operates its assets differently than did Aquila Gas Pipeline. The differences in operations are as follows:

Aquila Gas Pipeline owned only a 50% equity interest in the Oasis Pipeline. As a result of Energy Transfer s 100% ownership of the Oasis Pipeline, it is able to achieve operating efficiencies that previously could not be achieved. These operating efficiencies include:

bypassing the La Grange processing plant when processing margins are unfavorable;

blending natural gas into the Oasis Pipeline instead of treating this natural gas; and

reducing general and administrative costs.

Aquila Gas Pipeline had more extensive marketing and trading operations than Energy Transfer does primarily as a result of the marketing and trading of substantial amounts of off-system gas which utilized storage facilities owned by its affiliates. Unlike Aquila Gas Pipeline, Energy Transfer does not own storage facilities, and Energy Transfer focuses its marketing activities on its on-system gas. As a result of Energy Transfer s focus on marketing its on-system gas, its ability to bypass the La Grange processing plant and its efforts to manage commodity price risk by balancing its purchases of natural gas with physical forward contracts and certain financial derivatives, we believe that Energy Transfer s revenues, earnings and gross margins will be substantially less volatile than Aquila Gas Pipeline s historical results.

In addition to the midstream business, Aquila, Inc. also participates in other areas of the energy industry including the regulated distribution of natural gas and electricity and non-regulated electric power generation. We believe that Energy Transfer s focus on midstream activities, as opposed to the diversified operations of Aquila Gas Pipeline s parent, will enable Energy Transfer to achieve additional operational efficiencies.

Results of Operations

Heritage Propane Partners

Amounts discussed below reflect 100% of the results of M-P Energy Partnership. M-P Energy Partnership is a general partnership in which we own a 60% interest. Because M-P Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to our net income is not significant and the minority interest of this partnership is excluded from the EBITDA, as adjusted, calculation. All other financial

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information and operating data included in management s discussion and analysis of financial condition and results of operations includes references to the foreign wholesale results of M-P Energy Partnership.

Fiscal Year Ended August 31, 2003 Compared to the Fiscal Year Ended August 31, 2002

Volume. Total retail gallons sold in fiscal year 2003 were 375.9 million, an increase of 46.3 million from the 329.6 million gallons sold in fiscal year 2002. Of the increase in volume, approximately 6.0 million gallons was attributable to the volume added through acquisitions and approximately 40.3 million gallons was attributable to more favorable weather conditions in 2003 in some of our areas of operations, offset by warmer than normal weather conditions in other areas of operations.

We sold approximately 74.3 million wholesale gallons during fiscal year 2003 of which 15.3 million were domestic wholesale and 59.0 million were foreign wholesale. In fiscal year 2002, we sold 16.8 million domestic wholesale gallons and 65.3 million foreign wholesale gallons. The 6.3 million gallon decrease in foreign wholesale volumes of M-P Energy Partnership was primarily due to an exchange contract that was in effect during fiscal year 2002, which was not economical to renew during fiscal year 2003.

Revenues. Total revenues for fiscal year 2003 were $571.4 million, an increase of $109.1 million, as compared to $462.3 million in fiscal year 2002. Retail revenues for fiscal year 2003 were $463.4 million as compared to $365.3 million for fiscal year 2002, an increase of $98.1 million, of which $40.9 million was primarily due to higher selling prices, and $49.8 million was primarily due to the increase in gallons sold as a result of colder weather conditions, and $7.4 million was due to the increase in gallons sold by customer service locations added through acquisitions. Selling prices in all the reportable segments increased from last year in response to higher supply costs. Domestic wholesale revenues increased $0.7 million to $10.7 million, due to an increase of approximately $1.7 million related to higher selling prices, offset by a decrease of approximately $1.0 million related to a decrease in gallons sold. Foreign wholesale revenues were $36.6 million for fiscal year 2003 as compared to $31.2 million for fiscal year 2002, an increase of $5.4 million primarily due to an approximate $9.3 million increase related to higher selling prices offset by an approximate $3.9 million related to decreased volumes as described above. Net liquids marketing revenues increased to $1.3 million in fiscal year 2003 from $0.5 million in fiscal year 2002, primarily due to more favorable movement in product prices in the current fiscal year. Other domestic revenues increased by $4.1 million to $59.4 million for fiscal year 2003, compared to $55.3 million for fiscal year ended 2002 primarily as a result of acquisitions.

Cost of Products Sold. Total cost of sales increased $58.9 million to $297.1 million as compared to $238.2 million for fiscal year 2002. Retail fuel cost of sales increased $51.7 million to $236.3 million for fiscal year 2003, of which approximately $29.1 million was due to increased volumes, and approximately $22.6 million was due to higher supply costs. U.S. wholesale cost of sales decreased $0.1 million to $9.6 million. Foreign wholesale cost of sales increased $4.7 million to $34.0 million, of which approximately $8.4 million was due to increased product costs this fiscal year, offset by an approximate decrease of $3.7 million attributable to the decreased volumes described above. Other cost of sales increased $2.6 million to $17.2 million for fiscal year 2003 primarily due to acquisitions.

Gross Profit. Total gross profit increased to $274.3 million in fiscal year 2003 as compared to $224.1 million in fiscal year 2002, due to the aforementioned increases in volumes and revenues described above, and the results of acquisitions, offset in part by the increases in product costs. For fiscal year 2003, retail fuel gross profit was $227.1 million, domestic wholesale fuel gross profit was $1.1 million, liquids marketing gross profit

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was $1.3 million, other gross profit was $42.2 million, and foreign wholesale gross profit was $2.6 million. As a comparison, for fiscal year 2002, we recorded retail fuel gross profit of $180.7 million, domestic wholesale fuel gross profit of $0.3 million, liquids marketing gross profit of $0.5 million, other gross profit of $40.6 million and foreign wholesale gross profit of $2.0 million.

Operating Expenses. Operating expenses were $152.1 million for fiscal year 2003 as compared to $133.2 million for fiscal year 2002. The increase of $18.9 million is primarily the result of $6.8 million of additional operating expenses incurred for employee wages and benefits related to the growth of us from acquisitions made during fiscal year 2002, an increase of $5.5 million in the performance-based compensation plan expense due to higher operating performance, an increase of approximately $5.5 million in operating expenses in certain areas of our operations due to acquisitions and to accommodate increased winter demand and industry-wide increases in business insurance costs of $1.1 million.

Selling, General and Administrative. Selling, general and administrative expenses were $14.0 million for fiscal year 2003 as compared to $13.0 million for fiscal year 2002. This increase is primarily related to the performance-based compensation plan expense in 2003 that was not incurred in 2002, offset by a $0.7 million decrease in deferred compensation expense related to the adoption of FASB Statement No. 123 *Accounting for Stock-Based Compensation* (SFAS 123).

Depreciation and Amortization. Depreciation and amortization for fiscal year 2003 was $37.9 million, an increase of $0.9 million as compared to $37.0 million in fiscal year 2002. The increase is attributable to current year acquisitions.

Operating Income. We reported operating income of $70.2 million in fiscal year 2003 as compared to the operating income of $41.0 million for fiscal year 2002. This increase is a combination of increased gross profit and a $0.7 million increase due to the adoption of SFAS 123, offset by increased operating expenses described above.

Interest Expense. Interest expense for fiscal year 2003 was $35.7 million, a decrease of $1.6 million as compared to $37.3 million in fiscal year 2002. The decrease was primarily attributable to the retirement of a portion of outstanding debt during the year.

Other Expense. Other expense for fiscal year 2003 was $3.2 million, an increase of $2.9 million as compared to $0.3 million in fiscal year 2002. The increase was primarily attributable to the reclassification into earnings of a $2.8 million loss on marketable securities in fiscal year 2003 that was previously recorded as accumulated other comprehensive loss on the balance sheet.

Taxes. Taxes for the year ended August 31, 2003 were $1.0 million due to the tax expense incurred by our corporate subsidiaries and other franchise taxes owed. Of the $1.0 million increase, $0.3 million was incurred in connection with the liquidation of Guilford Gas Service, Inc. during the fiscal year ended August 31, 2003. There was no tax expense for these subsidiaries for the year ended August 31, 2002.

Net Income. We reported net income of $31.1 million, or $1.79 per limited partner unit, for fiscal year 2003, an increase of $26.2 million from net income of $4.9 million for fiscal year 2002. The increase is primarily the result of the increase in operating income, which includes a $0.7 million decrease in expenses due to the adoption of SFAS 123, partially offset by the increase in other expenses and taxes described above.

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EBITDA, *as adjusted.* EBITDA, as adjusted, increased $29.5 million to $111.0 million for fiscal year 2003, as compared to EBITDA, as adjusted, of $81.5 million for fiscal year 2002. This increase is due to the operating conditions described above and is a record level of EBITDA, as adjusted, for our fiscal year results. Please read footnote (c) under Heritage Propane Partners Selected Historical Financial and Operating Data .

Energy Transfer

Energy Transfer commenced operations on October 1, 2002 with the acquisition of the Southeast Texas System, the Elk City System and a 50% equity interest in Oasis Pipe Line Company from Aquila Gas Pipeline. On December 27, 2002, Energy Transfer acquired the remaining interest in Oasis Pipe Line. As a result, Energy Transfer s historical financial information for the period from October 1, 2002 to August 31, 2003, which is Energy Transfer s fiscal year end, has been derived from the historical financial statements of Energy Transfer.

Energy Transfer s historical financial information for periods prior to October 1, 2002 has been derived from the historical financial statements of Aquila Gas Pipeline. Prior to October 1, 2002, Aquila Gas Pipeline owned the Southeast Texas System, the Elk City System and a 50% equity interest in Oasis Pipe Line.

Therefore, we are comparing the results of operations of Energy Transfer for the 11 months ended August 31, 2003 to the results of operations of Aquila Gas Pipeline for the 9 months ended September 30, 2002.

Historical 11 Months Ended August 31, 2003 Compared to Historical 9 Months Ended September 30, 2002

Revenues. Total revenues were $1,008.7 million for the 11 months ended August 31, 2003 compared to $933.1 million for the 9 months ended September 30, 2002, an increase of $75.6 million or 8.1%. On an annualized basis this represents an 11.6% decrease.

Midstream revenues were $978.1 million for the 11 months ended August 31, 2003 compared to $933.1 million for the 9 months ended September 30, 2002, an increase of $45.0 million or 4.8%. However, on an annualized basis this represents a 14.2% decrease. This annualized decrease was directly attributable to a reduction in natural gas and NGL daily sales volumes partially offset by higher natural gas and NGL sales prices.

Natural gas sales volumes were 524,000 MMBtu/d for the 11 months ended August 31, 2003 compared to 1,147,000 MMBtu/d for the 9 months ended September 30, 2002, a decrease of 623,000 MMBtu/d or 54.3%. NGL sales volumes were 12,857 Bbls/d for the 11 months ended August 31, 2003 compared to 18,881 Bbls/d for the 9 months ended September 30, 2002, a decrease of 6,024 Bbls/d or 31.9%. Natural gas sales volumes decreased significantly as a result of the smaller scope of Energy Transfer s marketing activities as compared to Aquila Gas Pipeline s extensive marketing and trading activities. NGL sales volumes decreased due to Energy Transfer s frequent election to bypass its La Grange processing plant and deliver unprocessed natural gas from its Southeast Texas System directly into the Oasis Pipeline during the portion of the 11 month period ended August 31, 2003 that it owned 100% of Oasis. Energy Transfer elected to bypass the La Grange processing plant to avoid unfavorable processing margins.

Average realized natural gas sales prices were $5.03 per MMBtu for the 11 months ended August 31, 2003 compared to $2.72 per MMBtu for the 9 months ended September 30, 2002, an increase of $2.31 per MMBtu or

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85.0%. In addition, average realized NGL sales prices were $0.41 per gallon for the 11 months ended August 31, 2003 compared to $0.32 per gallon for the 9 months ended September 30, 2002, an increase of $0.09 per gallon or 26.8%.

Transportation revenues were $30.6 million for the 11 months ended August 31, 2003. Energy Transfer s results for the 9 month period ended September 30, 2002 and for the 3 month period ended December 27, 2002 exclude revenues of Oasis Pipe Line because Energy Transfer s investment in Oasis Pipe Line was treated as an equity method investment prior to December 27, 2002. Had Oasis Pipe Line been consolidated in both periods, Transportation revenues would have been $38.6 million for the 11 months ended August 31, 2003 and $24.7 million for the 9 months ended September 30, 2002, an increase of $13.9 million or 56.3%. On an annualized basis this represents a 28.0% increase. This increase was due to an increase in volumes transported on the Oasis Pipeline from 912,584 MMBtu/d for the 9 months ended September 30, 2002 to 921,316 MMBtu/d for the 11 months ended August 31, 2003 and to an increase in the transportation rate on the Oasis Pipeline from $0.09 per MMBtu for the 9 months ended September 30, 2002 to $0.12 per MMBtu for the 11 months ended August 31, 2003. The increase in Energy Transfer s average transportation rate was achieved, in part, due to a widening of the difference, also known as the basis differential, between the average price for natural gas at the Katy Hub near Houston, Texas and the average price for natural gas at the Waha Hub in West Texas. The widening of the basis differential allows Energy Transfer to increase the transportation rates it charges between these points. The average basis differential for the 11 months ended August 31, 2003 was approximately $0.28 per MMBtu as compared to $0.11 per MMBtu for the 9 months ended September 30, 2002.

Cost of Sales. Total cost of sales was $899.5 million for the 11 months ended August 31, 2003 compared to $880.1 million for the 9 months ended September 30, 2002, an increase of $19.4 million or 2.2%. On an annualized basis this represents a 16.4% decrease.

Midstream cost of sales was $899.4 million for the 11 months ended August 31, 2003 compared to $880.1 million for the 9 months ended September 30, 2002, an increase of $19.3 million or 2.2%. However, on an annualized basis this represents a 16.4% decrease. This annualized decrease was primarily attributable to a reduction in volumes of natural gas and NGLs, partially offset by the increase in natural gas prices. The Transportation segment sold excess inventory during the 11 months ended August 31, 2003 resulting in a cost of sales of $0.1 million. The Transportation segment only periodically engages in activities that generate cost of sales.

Operating Expenses. Operating expenses were $19.1 million for the 11 months ended August 31, 2003 compared to $12.7 million for the 9 months ended September 30, 2002, an increase of $6.4 million or 50.0%. On an annualized basis this represents a 22.8% increase. This increase was due to the inclusion of approximately $4.9 million of operating expenses associated with Oasis Pipe Line subsequent to December 27, 2002. Oasis Pipe Line s operating expenses were not included in Aquila Gas Pipeline s results for the 9 month period ended September 30. 2002, because Aquila Gas Pipeline accounted for its investment in Oasis Pipe Line under the equity method. Oasis Pipe Line s operating expenses on a standalone basis were $4.7 million for the 9 months ended September 30, 2002 and $6.6 million for the 11 months ended August 31, 2003.

General and Administrative Expenses. General and administrative expenses were $16.0 million for the 11 months ended August 31, 2003 compared to $9.6 million for the 9 months ended September 30, 2002, an increase of $6.4 million or 66.7%. On an annualized basis this represents a 36.4% increase. This annualized

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increase resulted primarily from higher employee bonuses and increased travel and insurance costs as well as the inclusion of general and administrative expense of Oasis Pipe Line subsequent to December 27, 2002.

Depreciation and Amortization. Depreciation and amortization expense was $13.4 million for the 11 months ended August 31, 2003 compared to $22.9 million for the 9 months ended September 30, 2002, a decrease of $9.5 million or 41.3%. On an annualized basis this represents a 51.9% decrease. Depreciation and amortization expense decreased for the 11 months ended August 31, 2003 primarily due to the acquisition of midstream assets from Aquila Gas Pipeline, which resulted in a reduction in the depreciable basis on which these assets are depreciated. Aquila Gas Pipeline s book value of the acquired assets significantly exceeded Energy Transfer s book value in them. In addition, Aquila Gas Pipeline amortized $2.4 million during the 9 months ended September 30, 2002 related to a transportation rights contract that has expired. This decrease was partially offset by the inclusion of $2.8 million of depreciation and amortization expense of Oasis Pipe Line subsequent to December 27, 2002.

Unrealized Loss (Gain) on Derivatives. The unrealized gain on derivatives was $0.9 million for the 11 months ended August 31, 2003 compared to an unrealized loss of $5.0 million for the 9 months ended September 30, 2002. Derivative price changes worked to the detriment of Aquila Gas Pipeline during the 9 months ended September 30, 2002.

Equity in Net Income (Loss) of Affiliates. Equity in net income of affiliates was $1.4 million for the 11 months ended August 31, 2003 compared to $5.4 million for the 9 months ended September 30, 2002, a decrease of $4.0 million or 73.8%. This decrease resulted from equity in net income (loss) of affiliates for the 11 months ended August 31, 2003 not reflecting any equity earnings associated with Oasis Pipe Line subsequent to December 27, 2002 while Oasis Pipe Line s earnings were recognized under the equity method of accounting for the 3 months ended December 27, 2002 and the 9 months ended September 30, 2002. Equity earnings from Oasis Pipe Line included in total equity in net income (loss) of affiliates was $1.6 million and $5.4 million for the 3 months ended December 27, 2002 and 9 months ended September 30, 2002, respectively.

Interest Expense. Interest expense was $12.1 million for the 11 months ended August 31, 2003 compared to $3.9 million for the 9 months ended September 30, 2002, an increase of $8.2 million or 210.3%. The increase was primarily due to the increased borrowings used to finance the purchase of midstream assets from Aquila Gas Pipeline and Dow Hydrocarbons Resources, Inc.

Income Tax Expense. Income tax expense was $4.4 million for the 11 months ended August 31, 2003 compared to a benefit of $0.5 million for the 9 months ended September 30, 2002. As a partnership, Energy Transfer is not subject to income taxes. However, Energy Transfer s subsidiary, Oasis Pipe Line, is a corporation that is subject to income taxes at an effective rate of 35%. The benefit for the 9 months ended September 30, 2002 was related to the operating results of Aquila Gas Pipeline, which is a corporation subject to income taxes.

Net Income. Energy Transfer s net income for the 11 months ended August 31, 2003 was $46.6 million compared to $4.7 million for the 9 months ended September 30, 2002, an increase of $41.9 million. The increase in net income was due to the reasons described above.

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Liquidity and Capital Resources

Our ability to satisfy our obligations will depend on our future performance, which will be subject to prevailing economic, financial, business and weather conditions, and other factors, many of which are beyond our control.

Heritage Propane Partners Future Capital Requirements

Our future capital requirements for our retail propane operations will generally consist of:

- maintenance capital expenditures;
- growth capital expenditures, mainly for customer tanks; and
- acquisition capital expenditures.

We believe that cash generated from the operations of our propane business will be sufficient to meet anticipated propane maintenance capital expenditures, which we anticipate will be approximately $15.5 million during fiscal 2004. We will initially finance all our propane capital requirements by cash flows from propane operating activities. To the extent our future propane capital requirements exceed cash flows from propane operating activities:

- propane maintenance capital expenditures will be financed by the proceeds of borrowings under the working capital facility of our operating partnership, Heritage Operating, L.P. described below, which will be repaid by subsequent seasonal reductions in inventory and accounts receivable;
- propane growth capital expenditures will be financed by the proceeds of borrowings under the acquisition facility of Heritage Operating; and
- propane acquisition capital expenditures will be financed by the proceeds of borrowings under the acquisition facility of Heritage Operating, other lines of credit, long-term debt, the issuance of additional common units or a combination thereof.

The assets utilized in the propane business do not typically require lengthy manufacturing process time or complicated, high technology components. Accordingly, we do not have any significant financial commitments for maintenance capital expenditures in our propane business. In addition, we have not experienced any significant increases attributable to inflation in the cost of these assets or in our propane operations.

Acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and intangibles associated with such acquired businesses, were $24.9 million for the fiscal year ended August 31, 2003 as compared to $19.7 million for fiscal year 2002. In addition to the $24.9 million of cash expended for acquisitions of retail propane operations during fiscal year 2003, $15.0 million of common units and $0.9 million for notes payable on non-compete agreements were issued and $1.0 million in liabilities were assumed in connection with certain acquisitions. In comparison, in addition to the $19.7 million of cash expended for acquisitions of retail propane operations during the fiscal year ended August 31, 2002, $2.7 million for notes payable on non-compete agreements were issued in connection with such acquisitions.

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Energy Transfer Future Capital Requirements

We anticipate that our future capital requirements for the Energy Transfer business will consist of:

- maintenance capital expenditures, which include capital expenditures made to connect additional wells to Energy Transfer s systems in order to maintain or increase throughput on existing assets;

- growth capital expenditures, mainly to expand and upgrade gathering systems, transportation capacity, processing plants or treating plants; and

- acquisition capital expenditures, including to construct new pipelines, processing plants and treating plants.

We believe that cash generated from the operations of the Energy Transfer business will be sufficient to meet its anticipated maintenance capital expenditures, which we anticipate will be approximately $6 million during fiscal 2004. We will initially finance all of Energy Transfer s capital requirements by cash flow from the Energy Transfer business. To the extent Energy Transfer s future capital requirements exceed cash flows from the Energy Transfer business:

- Energy Transfer s maintenance capital expenditures will be financed by the proceeds of borrowings under the new Energy Transfer credit facility which will be repaid from subsequent cash flows generated from the Energy Transfer business;

- Energy Transfer s growth capital expenditures will be financed by the proceeds of borrowings under the new Energy Transfer credit facility; and

- Energy Transfer s acquisition capital expenditures will be financed by the proceeds of borrowings under the new Energy Transfer credit facility, other lines of credit, long-term debt, the issuance of additional common units or a combination thereof.

The assets utilized in the Energy Transfer businesses, including pipelines, gathering systems and related facilities, are generally long-lived assets and do not require significant maintenance capital expenditures.

We anticipate that we will continue to invest significant amounts of capital to construct and acquire midstream assets. For example, Energy Transfer has announced that it intends to construct the Bossier Pipeline connecting its Katy Pipeline in Grimes County to natural gas supplies in east Texas. We anticipate that the Bossier Pipeline will require capital expenditures of approximately $75 million to complete, and we expect to complete the Bossier Pipeline by mid-2004.

Heritage Propane Partners Cash Flows

Operating Activities. Cash provided by operating activities for fiscal year 2003 was $95.2 million as compared to cash provided by operating activities of $65.4 million for fiscal year 2002. The net cash provided from operations of $95.2 million for fiscal year 2003 consisted of net income of $31.1 million and non-cash

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charges of $43.2 million, primarily depreciation and amortization, and a decrease in working capital items of $20.9 million.

Investing Activities. We completed six acquisitions during fiscal year 2003 investing $24.9 million, net of cash received. This capital expenditure amount is reflected in the cash used in investing activities of $48.4 million along with $15.1 million invested for maintenance needed to sustain operations at current levels and $12.2 million for customer tanks and other expenditures to support growth of operations. Investing activities also includes proceeds from the sale of property of $3.8 million.

Financing Activities. Cash used in financing activities of $44.3 million during fiscal year 2003 was primarily comprised of a net decrease in short-term debt of $3.5 million, a net decrease in long-term debt of $41.1 million and $43.4 million of cash distributions paid to unitholders and our general partner, offset by $44.5 million of net proceeds from the issuance of common units and $0.2 million contributed by our general partner to maintain its general partner interest in us.

Energy Transfer Company Cash Flows

Operating Activities. Energy Transfer Company s net cash provided by operating activities was $70.9 million for the 11 months ended August 31, 2003. The net cash provided from operations consisted of net income of $46.6 million and non-cash charges of $15.8 million, primarily depreciation and amortization, and a decrease in working capital and certain long-term liabilities of $8.9 million. Additionally, Energy Transfer Company s operating cash flow was negatively impacted by the difference between equity earnings and dividends from equity investments of $0.4 million.

Investing Activities. Energy Transfer Company s net cash used in investing activities was $341.2 million for the 11 months ended August 31, 2003. Approximately $337.1 million (net of acquired cash through acquisitions) was invested by Energy Transfer Company for the acquisition of the midstream assets and the 50% interest in Oasis Pipe Line previously owned by Aquila Gas Pipeline and the purchase of the remaining 50% interest in Oasis Pipe Line previously owned by Dow Hydrocarbons Resources, Inc. During this period, Energy Transfer Company sold its 20% interest in the Nustar Joint Venture, which Energy Transfer Company determined was not a strategic asset. No gain or loss was recognized as a result of the sale. Energy Transfer s net proceeds from the sale of its interest in Nustar was $9.6 million. Capital expenditures were $13.9 million during the 11 months ended August 31, 2003.

Financing Activities. Energy Transfer Company s net cash used in financing activities was $323.4 million for the 11 months ended August 31, 2003. Energy Transfer Company borrowed $239.5 million, net of financing fees, for the purpose of financing the acquisition activity discussed above. Energy Transfer Company retired $20.0 million of this debt during this same period and made a $4.8 million distribution to its partners in April 2003. The partners of Energy Transfer Company contributed $108.7 million to initially capitalize Energy Transfer Company.

Financing and Sources of Liquidity

Following the consummation of the Energy Transfer Transaction, we have maintained separate credit facilities for each of Heritage Operating and Energy Transfer Company. Each credit facility is secured only by

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the assets of the operating partnership that it finances, and neither operating partnerships nor its subsidiaries guarantees the debt of the other operating partnership.

Heritage Propane Partners Facilities. We have a bank credit facility with various financial institutions that is for the exclusive use of Heritage Operating, which includes a working capital facility, providing for up to $65.0 million of borrowings to be used for working capital and other general partnership purposes, and an acquisition facility, providing for up to $50.0 million of borrowings to be used for retail propane acquisitions and improvements. The bank credit facility is secured by all receivables, contracts, equipment, inventory and general intangibles of Heritage Operating. Under the terms of the bank credit facility agreement, the working capital facility is set to expire June 30, 2004 and the acquisition facility was set to expire December 31, 2003, at which time the outstanding balance on the acquisition facility was to convert to a term loan payable in quarterly installments with a final maturity of June 30, 2006. We are currently negotiating and expect to enter into an amendment to the bank credit facility to increase the amount available to be borrowed under each of the working capital facility and the acquisition facility to up to $75 million and to extend the maturity of each facility to December 31, 2006. The weighted average interest rate was 2.49% for the amounts outstanding at August 31, 2003 on both the working capital facility and the acquisition facility. At August 31, 2003, there was $38.3 million available for borrowing under the working capital facility and $25.3 million available under the acquisition facility.

Energy Transfer Facilities. In connection with the Energy Transfer Transaction, Energy Transfer Company entered into a new credit facility with its existing lenders providing for a four-year non- amortizing term loan of up to $325 million and a $125 million revolving credit facility. The term loan, which is in the amount of $325 million, was used to fund a $50.0 million payment related to the Energy Transfer Transaction, to retire Energy Transfer Company s existing credit facilities, satisfy Energy Transfer Company s accounts payable and other specified liabilities as they become due and fund certain other expenses in connection with the Energy Transfer Transaction. The interest rate will fluctuate based on a ratio of total funded debt to EBITDA. At Energy Transfer Company s option, interest shall be payable at the alternative base rate plus an applicable margin ranging from 0.75% to 1.75% or the Eurodollar rate plus an applicable margin ranging from 2.00% to 3.00%. The revolving credit facility provides for up to $125 million in borrowings and may be utilized for general working capital needs, issuance of letters of credit, funding of the construction of the proposed Bossier Pipeline and financing of other capital expenditures for acquisitions and growth projects. The Energy Transfer Company credit facility will be fully secured by substantially all of Energy Transfer Company s assets. We may refinance the Energy Transfer Company credit facility at a later date with other bank debt, private placement debt with institutional investors, a public debt offering, a public equity offering, or a combination of one or more of the foregoing.

Note Obligations. In connection with our initial public offering, on June 25, 1996, Heritage Operating entered into a Note Purchase Agreement whereby Heritage Operating issued $120 million principal amount of 8.55% Senior Secured Notes to institutional investors. Interest is payable semi- annually in arrears on each December 31 and June 30. These notes have a final maturity of June 30, 2011, with ten equal mandatory repayments of principal, which began on June 30, 2002. At August 31, 2003, $96 million principal amount of the notes was outstanding.

On November 19, 1997, Heritage Operating entered into a Note Purchase Agreement that provided for the issuance of up to $100 million of senior secured promissory notes if certain conditions were met, which we refer to as our medium term note program. An initial placement of $32 million (Series A and B), at an average

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interest rate of 7.23% with an average 10-year maturity, was completed at the closing of the medium term note program. Interest is payable semi-annually in arrears on each November 19 and May 19. An additional placement of $15 million (Series C, D and E), at an average interest rate of 6.59% with an average 12-year maturity, was completed in March 1998. Interest is payable on Series C and D semi-annually in arrears on each September 13 and March 13. The proceeds of the placements were used to refinance amounts outstanding under the acquisition facility. No future placements are permitted under the unused portion of the medium term note program. During the fiscal year ended August 31, 2003, Heritage Operating used $3.9 million and $5.0 million of the proceeds from the issuance of 1,610,000 common units to retire the balance of the Series D and Series E senior secured notes. At August 31, 2003, $34.1 million principal amount of medium term notes was outstanding.

On August 10, 2000, Heritage Operating entered into a Note Purchase Agreement that provided for the issuance of up to $250 million of fixed rate senior secured promissory notes if certain conditions were met. An initial placement of $180 million (Series A through F), at an average rate of 8.66% with an average 13-year maturity, was completed in conjunction with our merger with U.S. Propane. Interest is payable quarterly. The proceeds were used to finance the transaction with U.S. Propane and retire a portion of existing debt. On May 24, 2001, Heritage Operating issued an additional $70 million (Series G through I) of the senior secured promissory notes to a group of institutional lenders with 7-, 12- and 15-year maturities and an average coupon rate of 7.66%. Heritage Operating used the net proceeds from the senior secured promissory notes to repay the balance outstanding under the acquisition facility and to reduce other debt. Interest is payable quarterly. During the fiscal year ended August 31, 2003, Heritage Operating used $7.5 million and $19.5 million of the proceeds from our issuance of 1,610,000 common units to retire a portion of the Series G and Series H senior secured promissory notes, respectively. At August 31, 2003, $223 million principal amount of senior secured promissory notes was outstanding.

Covenants. The note agreements for each of the senior secured notes, medium term note program and senior secured promissory notes and the Heritage Operating bank credit facility contain customary restrictive covenants applicable to Heritage Operating, including limitations on the level of additional indebtedness, creation of liens and sale of assets. These covenants require Heritage Operating to maintain ratios of consolidated funded indebtedness to consolidated EBITDA (as these terms are similarly defined in the Heritage Operating bank credit facility and the note agreements) of not more than 5.00 to 1 for the Heritage Operating bank credit facility and not more than 5.25 to 1 for the note agreements and consolidated EBITDA to consolidated interest expense (as these terms are similarly defined in the Heritage Operating bank credit facility and the note agreements) of not less than 2.25 to 1. The consolidated EBITDA used to determine these ratios is calculated in accordance with these debt agreements. For purposes of calculating the ratios under the Heritage Operating bank credit facility and the note agreements, consolidated EBITDA is based upon its EBITDA, as adjusted, during the most recent four quarterly periods and modified to give pro forma effect for acquisitions and divestitures made during the test period and is compared to consolidated funded indebtedness as of the test date and the consolidated interest expense for the most recent twelve months. The debt agreements also provide that Heritage Operating may declare, make, or incur a liability to make a restricted payment during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed available cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such restricted payment and after giving effect thereto. The debt agreements further provide that available cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, available cash is required to reflect a reserve equal to 25%, 50% and 75%, respectively, of the principal amount to be repaid on such payment dates.

The new Energy Transfer credit facility contains customary restrictive covenants applicable to Energy Transfer Company, including limitations on the level of additional indebtedness, creation of liens and sale of assets. These covenants also require Energy Transfer Company to maintain ratios of (1) consolidated funded indebtedness to consolidated EBITDA (as such terms are defined in the new Energy Transfer Company credit facility) of not more than 4.0 to 1, (2) adjusted consolidated funded indebtedness to adjusted consolidated EBITDA (as these terms are defined in the new Energy Transfer Company credit facility) of not more than (x) 5.25 to 1 from the closing date of the Energy Transfer Transaction to November 30, 2005 and (y) 5.0 to 1 on any applicable date of determination thereafter, and (3) consolidated EBITDA to consolidated interest expense (as these terms are defined in the new Energy Transfer Company credit facility) of not less than 2.75 to 1. The financial ratios described in clause (1) and (2) above are calculated quarterly, and the financial ratio described in clause (3) above is calculated with respect to a period of four consecutive quarters. Consolidated EBITDA is based upon the net income of Energy Transfer Company and its consolidated subsidiaries and is modified to give pro forma effect to the Bossier Pipeline for the ratios described in clauses (1) and (2) above and for acquisitions and divestitures made during any period of determination for purposes of all three ratios described above. The credit facility also provides that Energy Transfer Company may make distributions to us or make other specified payments (each referred to as a restricted payment) during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, does not exceed available cash (defined in a manner similar to the definition of available cash in our partnership agreement) with respect to the immediately preceding quarter; and (b) no event of default exists before such restricted payment and after giving effect thereto.

Failure to comply with the various restrictive and affirmative covenants of the Heritage Operating bank credit facility and the note agreements could negatively impact our ability to incur additional debt and to pay distributions. We are required to measure these financial tests and covenants quarterly and were in compliance with all financial requirements, tests, limitations and covenants related to financial ratios under the senior secured notes, medium term note program, senior secured promissory notes and the Heritage Operating bank credit facility at August 31, 2003. Failure to comply with the various restrictive and affirmative covenants of the new Energy Transfer Company credit facility also could negatively impact our ability to incur additional debt and to pay distributions.

Cash Distributions. We use our cash provided by operating activities and borrowings under our working capital facilities to provide distributions to our unitholders. Under our partnership agreement, we will distribute to our general partner and our limited partners, 45 days after the end of each fiscal quarter, an amount equal to all of our available cash for such quarter. Available cash generally means, with respect to any quarter, all cash on hand at the end of such quarter less the amount of cash reserves established by our general partner in its reasonable discretion that are necessary or appropriate to provide for future cash requirements. Our commitment to our unitholders is to distribute increases in our cash flow while maintaining prudent reserves for our operations. The distribution was $0.6375 per unit ($2.55 annually) for each of the quarters ended February 28, 2002 through and including May 31, 2003. We raised the quarterly distribution $0.0125 per unit for the quarter ended August 31, 2003, to $0.65 per unit ($2.60 annually). We have also declared a cash distribution of $0.65 per common unit on our outstanding units for the first quarter of fiscal year 2004, which distribution was paid on January 14, 2004 to holders of record as of December 30, 2003. The current distribution level includes

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incentive distributions payable to our general partner to the extent the quarterly distribution exceeds $0.55 per unit ($2.20 annually).

Heritage Operating Contractual Obligations

The following table summarizes the long-term debt and other contractual obligations of Heritage Operating as of August 31, 2003:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Long-term debt	$ 399,071	$ 38,309	$ 88,762	$ 83,737	$ 188,263
Operating lease obligations	8,856	2,916	3,231	1,863	846
Totals	$ 407,927	$ 41,225	$ 91,993	$ 85,600	$ 189,109

See Note 4 Working Capital Facility and Long-Term Debt to the Consolidated Financial Statements beginning on Page F-1 of our Annual Report on Form 10-K for the fiscal year ended August 31, 2003 for further discussion of the long-term debt classifications and the maturity dates and interest rates related to long-term debt.

Energy Transfer Company Contractual Obligations

The following table summarizes Energy Transfer Company s long-term debt and other contractual obligations as of August 31, 2003:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Long term debt	$ 226,000	$ 30,000	$ 196,000	$	$
Operating lease obligations	2,244	920	1,323	1	
Total	$ 228,244	$ 30,920	$ 197,323	$ 1	$

The above table does not include any commodity physical contract commitments for natural gas or NGLs. Energy Transfer Company has forward commodity contracts, which will be settled by physical delivery. Short-term contracts, which expire in less than one year, require delivery of up to 54,000 MMBtu/d. Long-term contracts require delivery of up to 156,000 MMBtu/d. The long-term contracts run through July 2013.

A portion of the proceeds from the public offering of common units completed in January 2004 were used to retire all of the long term debt described above. In connection with the Energy Transfer Transaction, we obtained a new Energy Transfer Company credit facility described in Liquidity and Capital Resources Financing and Sources of Liquidity Energy Transfer Facilities.

New Accounting Standards

In June 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. We adopted the provisions of SFAS 146 effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material impact on our consolidated financial position or results of operations.

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In November 2002, the FASB issued Financial Interpretation No. 45 *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 expands the existing disclosure requirements for guarantees and requires that companies recognize a liability for guarantees issued after December 31, 2002. The implementation of FIN 45 did not have a significant impact on our financial position or results of operations.

In January of 2003, the FASB issued Financial Interpretation No. 46 *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51*(FIN 46). FIN 46 clarifies Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. If certain conditions are met, this interpretation requires the primary beneficiary to consolidate certain variable interest entities in which equity investors lack the characteristics of a controlling interest or do not have sufficient equity investment at risk to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created or obtained after January 31, 2003. For variable interest entities acquired before February 1, 2003, the interpretation is effective for the first fiscal year or interim period beginning after June 15, 2003. Management does not believe FIN 46 will have a significant impact on our financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. We adopted SFAS 149 as of July 1, 2003. The adoption of SFAS 149 did not have a material impact on our consolidated financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We adopted the provisions of SFAS 150 as of September 1, 2003. The adoption did not have a material impact on our consolidated financial position or results of operations.

Critical Accounting Policies and Estimates

Heritage Propane Partners

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to establish accounting policies and make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate its policies and estimates on a regular basis. Actual results could differ from these estimates.

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Our significant accounting policies are discussed in Note 2 Summary of Significant Accounting Policies and Balance Sheet Detail to the Consolidated Financial Statements beginning on page F-1 of our Annual Report on Form 10-K for the fiscal year ended August 31, 2003. We believe the following are critical accounting policies:

Marketable Securities. We have marketable securities that are classified as available-for-sale. Unrealized holding losses occur as a result of declines in the market value of our holdings. The fair market value of our holdings is determined based upon the market price of the securities, which are publicly traded securities. Based on the performance of the securities over the preceding nine-month period, we review the fair market value to determine if an other-than temporary impairment should be recorded.

Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We perform this review by considering if the carrying values of the assets exceed the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, we reduce the carrying amount of such assets to fair value. We have never recorded an impairment as a result of this review.

Stock Based Compensation Plans. We account for its stock compensation plans following the fair value recognition method. We adopted this accounting method on a prospective basis beginning on September 1, 2002 for all stock based compensation granted to date by us. This method was adopted as we believe it is the preferable method of accounting for stock based compensation. Please see the caption Stock Based Compensation Plans in Note 2 Summary of Significant Accounting Policies and Balance Sheet Detail to the Consolidated Financial Statements beginning on page F-1 of our Annual Report on Form 10-K for the fiscal year ended August 31, 2003 for additional information about this adoption and a comparison to amounts recorded in prior periods.

Depreciation of Property, Plant, and Equipment. We calculate depreciation using the straight-line method based on the estimated useful lives of the assets ranging from 5 to 30 years. Changes in the estimated useful lives of the assets could have a material effect on our results of operation. We do not anticipate future changes in the estimated useful live of its property, plant, and equipment.

Amortization of Intangible Assets. We calculate amortization using the straight-line method over periods ranging from 2 to 15 years. We use amortization methods and determines asset values based on management s best estimate using reasonable and supportable assumptions and projections. Changes in the amortization methods or asset values could have a material effect on our results of operations. We do not anticipate future changes in the estimated useful lives of our intangible assets.

Fair Value of Derivative Commodity Contracts. We enter into commodity forward, swaps and options contracts involving propane and related products, which, in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities , are not accounting hedges, but are used for risk management trading purposes. To the extent such contracts are entered into at fixed prices and thereby subject us to market risk, the contracts are accounted for using the fair value method. Under this valuation method, derivatives are carried in the consolidated balance sheets at fair value with changes in value recognized in earnings. We classify all gains and losses from these derivative contracts entered into for risk management purposes as liquids marketing revenue in the consolidated statement of operations. We utilize published settlement prices for

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exchange-traded contracts, quotes provided by brokers and estimates of market prices based on daily contract activity to estimate the fair value of these contracts. Changes in the methods used to determine the fair value of these contracts could have a material effect on our results of operations. We do not anticipate future changes in the methods used to determine the fair value of these derivative contracts.

Energy Transfer

The following discussion summarizes Energy Transfer s critical accounting policies.

Revenue Recognition. Energy Transfer recognizes revenue for sales of natural gas and NGLs upon delivery. Service revenues, including transportation, compression, treating and gas processing, are recognized at the time service is performed. Transportation capacity payments are recognized when earned in the period the capacity was made available.

Commodity Risk Management. In 1999, Aquila Gas Pipeline transferred all of its trading operations to Aquila Energy Marketing, a wholly owned subsidiary of Aquila, Inc. Aquila Energy Marketing entered into forward physical contracts with third parties for the benefit of Aquila Gas Pipeline and where deemed necessary entered into intercompany financial derivative positions, such as swaps, futures and options, with Aquila Gas Pipeline and other affiliates to assist them in managing their exposures. As a result, Aquila Gas Pipeline had forward physical contracts with third parties and financial derivative positions with Aquila Energy Marketing and its affiliates. Aquila Gas Pipeline received the margins associated with these transactions, and Aquila Energy Marketing charged Aquila Gas Pipeline for its share of Aquila Energy Marketing s cost to manage Aquila Gas Pipeline s positions.

Aquila Gas Pipeline accounted for its derivative positions, both speculative forward positions and financial derivatives, under Emerging Issues Task Force Issue 98-10 *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 98-10). Under EITF 98-10, Aquila Gas Pipeline valued the derivative positions at market value with all changes being recognized in earnings. Realized gains and losses were included in revenues, while unrealized gains and losses were classified as such in the consolidated statements of income. Aquila Gas Pipeline s derivative positions were classified on its balance sheet as current or long-term price risk management assets and liabilities based on their maturity. Although Energy Transfer is also involved in energy marketing activities and use derivatives to manage its exposures, Energy Transfer did not purchase the derivative positions of Aquila Gas Pipeline when it purchased the assets of Aquila Gas Pipeline.

Effective in the fourth quarter of 2002, the Emerging Issues Task Force issued Issue 02-03, which rescinded EITF 98-10. As a result all energy trading derivative transactions are now governed by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). SFAS No. 133 as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Activities and Certain Hedging Activities* (SFAS 138), requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair market value. The statements require that changes in the derivative s fair value be recognized currently in earnings unless specific hedge criteria are met. Special accounting for qualifying hedges allows a derivative s gain and loss to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

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Energy Transfer utilizes various exchange-traded and over-the-counter commodity financial instrument contracts to limit its exposure to margin fluctuations in natural gas and NGL prices. These contracts consist primarily of futures and swaps. As its financial derivative positions are typically short-term positions, Energy Transfer has generally elected not to designate them as hedges under SFAS No. 133, although Energy Transfer believes some of them would qualify as hedges if they were designated as such. As a result, the net gain or loss arising from marking to market these positions is recognized currently in earnings.

In the course of normal operations, Energy Transfer also routinely enters into forward physical contracts for the purchase and sale of natural gas and NGLs along various points of its systems. These positions require physical delivery and are treated as normal purchases and sales contracts under SFAS No. 133. Accordingly, unlike Aquila Gas Pipeline under EITF 98-10, under EITF 02-03 and SFAS No. 133, Energy Transfer does not mark these contracts to market on its financial statements. They are accounted for at the time of delivery.

The market prices used to value forward physical contracts and financial derivatives at Aquila Gas Pipeline and financial derivatives at Energy Transfer reflect management s estimates considering various factors, including closing exchange and over-the-counter quotations and the time value of the underlying commitments. The values have been adjusted to reflect the potential impact of liquidating a position in an orderly manner over a reasonable period of time under existing market conditions.

Property, Plant and Equipment. Pipeline, property, plant, and equipment are stated at cost. Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of Energy Transfer s assets and to extend their useful lives. Maintenance capital expenditures also include capital expenditures made to connect additional wells to Energy Transfer s systems in order to maintain or increase throughput on its existing assets. Expansion capital expenditures are capital expenditures made to expand the existing operating capacity of its assets, whether through construction or acquisition. Energy Transfer treats repair and maintenance expenditures that do not extend the useful life of existing assets as operating expenses as Energy Transfer incurs them. Upon disposition or retirement of pipeline components or gas plant components, any gain or loss is recorded to accumulated depreciation. When entire pipeline systems, gas plants or other property and equipment are retired or sold, any gain or loss is included in operations.

Depreciation of the pipeline systems, gas plants and processing equipment is provided using the straight-line method based on an estimated useful life of primarily twenty years. The Oasis Pipeline is depreciated based on an estimated useful life of sixty-five years.

Energy Transfer reviews its assets for impairment whenever facts and circumstances indicate impairment may be present. When impairment indicators are present, Energy Transfer evaluates whether the assets in question are able to generate sufficient cash flows to recover their carrying value on an undiscounted basis. If not, Energy Transfer impairs the assets to the fair value, which may be determined based on discounted cash flows.

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Quantitative and Qualitative Disclosures About Market Risk

Heritage Propane Partners

Interest Rate Exposure. We have little cash flow exposure due to interest rate changes for long-term debt obligations. We had $51.4 million of variable rate debt outstanding as of August 31, 2003. The variable rate debt consists of the bank credit facility described elsewhere in this report. The balance in the bank credit facility generally fluctuates throughout the year. A theoretical change of 1% in the interest rate on the balance outstanding at August 31, 2003 would result in an approximate $514 thousand change in net income. We primarily incur debt obligations to support general corporate purposes including capital expenditures and working capital needs. Our long-term debt instruments are typically issued at fixed interest rates. When these debt obligations mature, we may refinance all or a portion of such debt at then- existing market interest rates which may be more or less than the interest rates on the maturing debt.

Commodity price risk arises from the risk of price changes in the propane inventory that we buy and sell. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which we have no control. In the past, price changes have generally been passed along to our customers to maintain gross margins, mitigating the commodity price risk. In order to help ensure adequate supply sources are available to us during periods of high demand, we at times will purchase significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at our customer service locations and in major storage facilities and for future resale.

Propane Hedging. We also attempt to minimize the effects of market price fluctuations for our propane supply by entering into certain financial contracts. In order to manage a portion of our propane price market risk, we use contracts for the forward purchase of propane, propane fixed-price supply agreements and derivative commodity instruments such as price swap and option contracts. The swap instruments are a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a fixed price bid by the buyer and a floating price determination for the seller based on certain indices at the end of the relevant trading period. We have entered into these swap instruments in the past to hedge the projected propane volumes to be purchased during each of the one-month periods during the projected heating season.

At August 31, 2003, we had no outstanding propane hedges. We continue to monitor propane prices and may enter into additional propane hedges in the future. Inherent in the portfolio from our liquids marketing activities are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counter parties to a contract. We take an active role in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. We monitor market risk through a variety of techniques, including routine reporting to senior management. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures.

Liquids Marketing. We buy and sell derivative financial instruments, which are within the scope of SFAS 133 and that are not designated as accounting hedges. We also enter into energy trading contracts, which are not derivatives, and therefore are not within the scope of SFAS 133. EITF Issue No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 98-10), applied to energy trading

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contracts not within the scope of SFAS 133 that were entered into prior to October 25, 2002. The types of contracts we utilize in our liquids marketing segment include energy commodity forward contracts, options and swaps traded on the over-the-counter financial markets. In accordance with the provisions of SFAS 133, derivative financial instruments utilized in connection with our liquids marketing activity are accounted for using the mark-to-market method. Additionally, all energy trading contracts entered into prior to October 25, 2002 were accounted for using the mark-to-market method in accordance with the provisions of EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options and storage contracts are reflected at fair value and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. As of August 31, 2002, we adopted the applicable provisions of EITF Issue No. 02-3, *Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 02-3), which requires that gains and losses on derivative instruments be shown net in the statement of operations if the derivative instruments are held for trading purposes. Net realized and unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the statement of operations as liquids marketing revenue. Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions and the timing and settlement of contracts. EITF 02-3 also rescinds EITF 98-10 for all energy trading contracts entered into after October 25, 2002 and specifies certain disclosure requirements. Consequently, we do not apply mark-to-market accounting for any contracts entered into after October 25, 2002 that are not within the scope of SFAS 133. We attempt to balance our contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on management s assessment of anticipated market movements.

The notional amounts and terms of these financial instruments as of August 31, 2003 and 2002 include fixed price payor for 45,000 and 1,180,000 barrels of propane, respectively, and fixed price receiver of 195,000 and 1,076,900 barrels of propane, respectively. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure our exposure to market or credit risks.

The fair value of the financial instruments related to liquids marketing activities as of August 31, 2003 and 2002 was assets of $83 thousand and $2.3 million, respectively, and liabilities of $80 thousand and $1.8 million, respectively.

Sensitivity Analysis. Estimates related to our liquids marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in an approximate $345 thousand change in the market value of the contracts as there were approximately 6.3 million gallons of net unbalanced positions at August 31, 2003.

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Disclosures about Liquids Marketing Activities Accounted for at Fair Value. The following table summarizes the fair value of our contracts, aggregated by method of estimating fair value of the contracts as of August 31, 2003 and 2002, where settlement had not yet occurred. Our contracts all have a maturity of less than 1 year. The market prices used to value these transactions reflect management s best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs.

Source of Fair Value	August 31, 2003	August 31, 2002
	(In thousands)	
Prices actively quoted	$ 80	$ 1,276
Prices based on other valuation methods	3	1,025
Assets from liquids marketing	$ 83	$ 2,301
Prices actively quoted	$ 80	$ 669
Prices based on other valuation methods		1,149
Liabilities from liquids marketing	$ 80	$ 1,818
Unrealized gains	$ 3	$ 483

The following table summarizes the changes in the unrealized fair value of our contracts where settlement had not yet occurred for the fiscal years ended August 31, 2003, 2002 and 2001.

	August 31, 2003	August 31, 2002	August 31, 2001
		(In thousands)	
Unrealized gains (losses) in fair value of contracts outstanding at the beginning of the period	$ 483	$ (665)	$ 591
Unrealized gains (losses) recognized at inception of contracts			
Unrealized gains (losses) recognized as a result of changes in valuation techniques and assumptions			
Other unrealized gains (losses) recognized during the period	850	1,207	250
Less: Realized gains (losses) recognized during the period	1,330	59	1,506
Unrealized gains (losses) in fair value of contracts outstanding at the end of the period	$ 3	$ 483	$ (665)

Energy Transfer

Energy Transfer s primary market risk is commodity price risk. Commodity price risk is present in Energy Transfer s inventory and exchange positions, Energy Transfer s forward physical contracts and commodity derivative positions.

Energy Transfer s inventory and exchange position is generally not material and the imbalances turn over monthly. Inventory imbalances generally arise when actual volumes delivered differ from nominated amounts or due to other timing differences. Energy Transfer attempts to balance its purchases and sales each month to prevent inventory imbalances from occurring and if necessary attempts to clear any imbalance that arises in the following month. As a result, the volumes involved are generally not significant and turn over quickly. Because Energy Transfer believes that the cost approximates the market value at the end of each month, Energy Transfer has adopted a policy of valuing inventory and imbalances at market value at the end of each month.

Energy Transfer enters into forward physical commitments as a convenience to its customers or to take advantage of market opportunities. Energy Transfer generally attempts to mitigate any market exposure to its forward commitments by either entering into offsetting forward commitments or financial derivative positions.

Energy Transfer enters into commodity derivative contracts to manage its exposure to commodity prices for both natural gas and NGLs.

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The following summarizes Energy Transfer s open commodity derivative positions:

Basis Swaps	Commodity	Notional Volume MMBTU	Maturity	Energy Transfer Pays	Energy Transfer Receives	Fair Value
HSC	Gas	6,865,000	2003	Nymex	IFERC	$ (250,650)
	Gas	14,870,000	2003	IFERC	Nymex	1,000,713
HSC	Gas	900,000	2004	Nymex	IFERC	2,250
	Gas	450,000	2004	IFERC	Nymex	(1,125)
Waha	Gas	2,400,000	2003	Nymex	IFERC	64,200
	Gas	7,230,000	2003	IFERC	Nymex	(325,525)
Waha	Gas		2004	Nymex	IFERC	
	Gas	1,780,000	2004	IFERC	Nymex	(62,300)
						$ 427,563

Futures	Commodity	Long/ Short	Notional Volume MMBTU	Maturity	Average Strike Price	Fair Value
	Gas	Long	3,085,000	2003	$ 4.979	$ (52,970)
	Gas	Short	5,910,000	2003	$ 5.039	533,865
	Gas	Short	60,000	2004	$ 5.285	7,480
	Gas	Long	30,000	2004	$ 5.257	(2,890)
						$ 485,485

Energy Transfer is exposed to market risk for changes in interest rates related to its term note. An interest rate swap agreement is used to manage a portion of the exposure to changing interest rates by converting floating rate debt to fixed-rate debt. The interest rate swap has a notional value of $75 million and is tied to the maturity of the term note. Under the terms of the interest rate swap agreement, Energy Transfer pays a fixed rate of 2.76% and receives three-month LIBOR. Management has elected not to designate the swap as a hedge for accounting purposes. The fair value of the interest rate swap at August 31, 2003 is a liability of $807,000 and has been recognized as a component of interest expense.

Unrealized gains recognized in earnings related to Energy Transfer s commodity derivative activities were $912,000 for the 11 months ended August 31, 2003. The realized losses on commodity derivatives, which were included in revenue, for the 11 months ended August 31, 2003, were $2,001,000. Realized losses on the interest rate swap included in interest expense were $312,000.

Management believes that many of its derivatives positions would qualify as hedges if management had designated them as such for accounting purposes. Had Energy Transfer designated its derivatives as hedges for accounting purposes, a substantial portion of the fair value of its derivatives at August 31, 2003 would not have been recognized through earnings.

Credit Risk. Energy Transfer is diligent in attempting to ensure that it issues credit only to credit-worthy counterparties. However, its purchase and resale of gas exposes Energy Transfer to significant credit risk because the margin on any sale is generally a very small percentage of the total sales price. Therefore, a credit loss can be very large relative to Energy Transfer s overall profitability. Historically, Energy Transfer s credit losses have not been significant.

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BUSINESS

Overview

We are one of the ten largest publicly traded master limited partnerships in the United States. We are engaged in the natural gas midstream business through our operating subsidiary, La Grange Acquisition, L.P., and a retail marketer of propane in the United States through our operating subsidiary, Heritage Operating, L.P. We are a publicly traded Delaware limited partnership formed in conjunction with our initial public offering as Heritage Propane Partners, L.P. in June of 1996. Following the completion of our transaction in January 2004, in which we combined the retail propane operations of Heritage Propane Partners with the natural gas midstream operations of Energy Transfer Company, we changed our name to Energy Transfer Partners, L.P.

Through La Grange Acquisition, a Texas limited partnership formed in October 2002, our midstream operations are conducted under the name Energy Transfer Company. Energy Transfer Company s operations are concentrated in the Austin Chalk trend of southeast Texas, the Anadarko Basin of western Oklahoma and the Permian Basin of west Texas. Through our ownership of the Energy Transfer Company operations, we own or have an interest in approximately 4,500 miles of natural gas gathering and transportation pipelines, three natural gas processing plants connected to our gathering systems and seven natural gas treating facilities.

Energy Transfer Company s operations are divided into two business segments, consisting of the midstream segment and the transportation segment. The midstream segment operations are conducted primarily in the Southeast Texas System and the Elk City System, and focus on the gathering of natural gas from over 1,400 producing wells, the compression of natural gas to facilitate its flow through Energy Transfer Company s gathering systems, the treating of natural gas to remove impurities to ensure that the natural gas meets pipeline quality specifications, the processing of natural gas to extract natural gas liquids, and the marketing of natural gas and natural gas liquids to third parties. Our transportation segment focuses on the transportation of natural gas through the Oasis Pipeline, a 583 mile natural gas pipeline that directly connects the Waha Hub, a major natural gas market center located in the Permian Basin of west Texas to the Katy Hub, a major natural gas market center near Houston, Texas.

Through Heritage Operating, we are the fourth largest retail propane marketer in the United States, serving more than 650,000 customers from over 300 customer service locations in 31 states. Our propane operations extend from coast to coast, with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States. Volumes of propane sold to retail customers have increased steadily from 63.2 million gallons for the fiscal year ended August 31, 1992, to 375.9 million gallons for the fiscal year ended August 31, 2003.

Energy Transfer Company

Energy Transfer Company is a growth-oriented midstream natural gas company with operations primarily located in major natural gas producing regions of Texas and Oklahoma. Its primary assets consist of two large gathering systems in the Gulf Coast area of Texas and western Oklahoma and the Oasis Pipeline, an intrastate natural gas pipeline that runs from the Permian Basin in west Texas to natural gas supply and market areas in southeast Texas.

Energy Transfer Company owns or has an interest in over 3,850 miles of natural gas pipeline systems, three natural gas processing plants connected to its gathering systems with a total processing capacity of

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approximately 400 MMcf/d and seven natural gas treating facilities with a total treating capacity of approximately 425 MMcf/d.