INERGY L P
Form 10-K
November 29, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number: 000-32453

INERGY, L.P.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(816) 842-8181

(Registrant s telephone number including area code)

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

GUIDE TO READING THIS REPORT

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

Throughout this report,

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

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

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

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

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

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

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

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

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

Table of Contents

INERGY, L.P.

INDEX TO ANNUAL REPORT ON FORM 10-K

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	18
Item 1B.	Unresolved Staff Comments	34
Item 2.	Properties	34
Item 3.	Legal Proceedings	34
Item 4.	Removed and Reserved	35
	PART II	
Item 5.	Market for the Registrant s Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities	36
Item 6.	Selected Financial Data	37
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	66
Item 8.	Financial Statements and Supplementary Data	67
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	67
Item 9A.	Controls and Procedures	67
Item 9B.	Other Information	68
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	69
Item 11.	Executive Compensation	73
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters	88
Item 13.	Certain Relationships, Related Transactions and Director Independence	89
Item 14.	Principal Accountant Fees and Services	93
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	94

Table of Contents

PART I

Item 1. Business.

Recent Developments

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

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

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

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

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

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

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

Table of Contents

General

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

Industry Background and Competition

Propane

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

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

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

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

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

The ability to compete effectively further depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. We believe that our safety programs, policies and procedures are more comprehensive than many of our smaller, independent competitors and give us a competitive advantage over such retailers. We also believe that our service capabilities and customer responsiveness differentiate us from many of these smaller competitors. Our employees are on call 24-hours and seven-days-a-week for emergency repairs and deliveries.

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

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

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

Midstream

Natural Gas Storage Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

NGL Business

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

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

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

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

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

Salt Mining

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

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

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

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

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

Business Strategy

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

Competitive Strengths

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

Proven Acquisition Expertise

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

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

Management Experience

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

Flexible Financial Structure

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

Propane Business Strengths

Focus on High Percentage of Retail Sales to Residential Customers

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

Regionally Branded Operating Structure

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

Operations in Attractive Propane Markets

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

Comprehensive Propane Logistics and Distribution Business

One of our distinguishing strengths is our propane procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2010, we delivered 415.3 million gallons of propane on a wholesale basis to our various customers. These operations are significantly larger on a relative basis than the wholesale operations of most publicly-traded propane businesses. We also provide transportation services to these distributors through our fleet of transport vehicles, and price risk management services to our customers through a variety of financial and other instruments. The presence of our trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities. Because we sell on a wholesale basis to many residential and commercial retailers, we have an ongoing relationship with a large number of businesses that may be attractive acquisition opportunities for us. We believe that we will have an adequate supply of propane to support our growing retail operations at prices that are generally available only to large wholesale purchasers. This purchasing scale and resulting expertise also helps us avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors.

Midstream Business Strengths

Strategically Located Assets

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

Ability to Leverage Industry Relationships

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

Stable Cash Flows

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

Operations

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

Table of Contents

Propane Operations

Retail Propane

Customer Service Centers

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

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

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

11

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

Customer Deliveries

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

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

- 65% to residential customers;
- 25% to industrial and commercial customers; and
- 10% to agricultural customers.

No single retail customer accounted for more than 1% of our revenue during the fiscal year ended September 30, 2010. Approximately half of our residential customers receive their propane supply under an automatic delivery program. Under the automatic delivery program, we deliver propane to our heating customers approximately six times during the year. We determine the amount of propane delivered based on weather conditions and historical consumption patterns. Our automatic delivery program eliminates the customer s need to make an affirmative purchase decision, promotes customer retention by ensuring an uninterrupted supply and enables us to efficiently route deliveries on a regular basis. We promote this program by offering level payment billing, discounts, fixed price options and price caps. In addition, we generally provide emergency service 24 hours a day, seven days a week, 52 weeks a year.

Seasonality

The retail propane business is seasonal with weather conditions significantly affecting demand for propane. We believe that the geographic diversity of our areas of operations helps to minimize our exposure to regional weather. Although overall demand for propane is affected by climate, changes in price and other factors, we believe our residential and commercial business to be relatively stable due to the following characteristics:

- residential and commercial demand for propane has not been significantly affected by general economic conditions due to the largely non-discretionary nature of most propane purchases by our customers;
- loss of customers to competing energy sources has been low;
- the tendency of our customers to remain with us due to the product being delivered pursuant to a regular delivery schedule and to our ownership of approximately 90% of the storage tanks utilized by our customers; and

our ability to offset customer losses through a combination of acquisitions and to a lesser extent, sales to new customers in existing markets.

Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which we operate can significantly affect the total volumes of propane we sell and the margins we realize and, consequently, our results of operations. We believe that sales to the commercial and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

Transportation Assets and Truck Maintenance

Our transportation assets are operated by L&L Transportation, LLC, a wholly-owned subsidiary of Inergy Propane. The transportation of propane requires specialized equipment. Propane trucks carry specialized steel tanks that maintain the propane in a liquefied state. As of September 30, 2010, we owned a fleet of 143 tractors, 234 transports, 1,341 bobtail and rack trucks and 885 other service vehicles. In addition to supporting our retail and wholesale propane operations, our fleet is also used to deliver butane and ammonia for third parties and to distribute natural gas for various processors and refiners.

We own truck maintenance facilities located in Indiana, Ohio and Mississippi. We also have a trucking operation located in California as part of our NGL business. We believe that our ability to maintain the trucks we use in our propane operations significantly reduces the costs we would otherwise incur with third parties in maintaining our fleet of trucks.

Pricing Policy

Our pricing policy is an essential element in our successful marketing of propane. We base our pricing decisions on, among other things, prevailing supply costs, local market conditions and local management input. We rely on our regional management to set prices based on these factors. Our local managers are advised regularly of any changes in the posted prices of our propane suppliers. We believe our propane pricing methods allow us to respond to changes in supply costs in a manner that protects our customer base and gross margins. In some cases, however, our ability to respond quickly to cost increases could cause our retail prices to rise more rapidly than those of our competitors, possibly resulting in a loss of customers.

Billing and Collection Procedures

We retain our customer billing and account collection responsibilities at the local level. We believe that this decentralized approach is beneficial for a number of reasons:

- customers are billed on a timely basis;
- customers are more likely to pay a local business;
- cash payments are received faster; and
- local personnel have current account information available to them at all times in order to answer customer inquiries.

Trademarks and Trade Names

We use a variety of trademarks and trade names which we own, including Inergy and Inergy Services. We believe that our strategy of retaining the names of the companies we acquire has maintained the local identification of such companies and has been important to the continued success of the acquired businesses. We regard our trademarks, trade names and other proprietary rights as valuable assets and believe that they have significant value in the marketing of our products.

Wholesale Supply, Marketing and Distribution Operations

We currently provide wholesale supply, marketing and distribution services to independent dealers, multi-state marketers, petrochemical companies, refinery and gas processors and a number of other NGL marketing and

13

distribution companies, primarily in the Midwest and Southeast. While our wholesale supply, marketing and distribution operations accounted for 27% of total revenue, this business represented 4% of our gross profit during the fiscal year ended September 30, 2010.

Marketing and Distribution

Because of the size of our wholesale operations one of our distinguishing strengths is our procurement and distribution expertise and capabilities. This is partly the result of the unique background of our management team, which has significant experience in the procurement aspects of the propane business. We also offer transportation services to these distributors through our fleet of transport trucks and price risk management services to our customers through a variety of financial and other instruments. Our wholesale supply, marketing and distribution business provides us with an additional income stream as well as extensive market intelligence and acquisition opportunities. In addition, these operations provide us with more secure supplies and better pricing for our customer service centers. Moreover, the presence of our trucks across the Midwest and Southeast allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time.

Supply

We obtain a substantial majority of our propane from domestic suppliers, with our remaining propane requirements provided by Canadian suppliers. During the fiscal year ended September 30, 2010, a majority of our sales volume was purchased pursuant to contracts that have a term of one year or less; the balance of our sales volume was purchased on the spot market. The percentage of our contract purchases varies from year to year. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major storage points, and some contracts include a pricing formula that typically is based on such market prices. Some of these agreements provide maximum and minimum seasonal purchase guidelines.

Two suppliers, BP Amoco Corp. (17%) and Sunoco, Inc. (11%), accounted for 28% of propane purchases during the past fiscal year. We believe that contracts with these suppliers will enable us to purchase most of our supply needs at market prices and ensure adequate supply. No other single supplier accounted for more than 10% of propane purchases in the current year.

Propane generally is transported from refineries, pipeline terminals, storage facilities and marine terminals to our approximate 700 bulk storage tank facilities. We accomplish this by using our transports and contracting with common carriers, owner-operators and railroad tank cars. Our customer service centers and satellite locations typically have one or more 12,000 to 30,000 gallon storage tanks, which are generally adequate to meet customer usage requirements for seven days during normal winter demand. Additionally, we lease underground storage facilities from third parties under annual lease agreements.

We engage in risk management activities in order to reduce the effect of price volatility on our product costs and to help ensure the availability of propane during periods of short supply. We are currently a party to propane forward and option contracts with various third parties to purchase and sell propane at fixed prices in the future. We monitor these activities through enforcement of our risk management policy.

Midstream Operations

Natural Gas Storage Operations

Stagecoach was acquired in August 2005, and is a high performance, multi-cycle natural gas storage facility with 26.25 bcf of working storage capacity of natural gas, maximum withdrawal capability of 500 MMcf/day and maximum injection capability of 250 MMcf/day. Located approximately 150 miles northwest of New York City,

Table of Contents

the Stagecoach facility is currently connected to Tennessee Gas Pipeline Company s (TPG) 300 Line and the Millennium Pipeline and is a significant participant in the northeast United States natural gas distribution system. The Stagecoach facility is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2014. We currently have pending, before the Federal Energy Regulatory Commission (FERC), two applications for Natural Gas Act Section 7(c) certificate authorization to construct and operate expansions of the Stagecoach facility: the North/South expansion project (proposed additional compression and measurement facilities to serve shippers seeking to wheel gas on a firm basis through existing North and/or South Laterals of Stagecoach) and the Marc I Hub Line expansion project (proposed 43 mile, 30 inch bi-directional gas pipeline connecting the Stagecoach South Lateral pipeline interconnect at TGP s 300 line to Transcontinental Pipe Line Company, LLC s (Transco) Leidy Line. If certificated as requested, it is anticipated that these expansion projects will allow shippers to wheel/transport gas bi-directionally on a firm basis approximately 75 miles between the Millennium Pipeline and Transco s Leidy Line and all points in between.

ASC was acquired in October 2007 and was the majority owner and operator of Steuben. During this fiscal year we acquired the minority interests in Steuben and ASC is now the sole owner and operator of Steuben, which owns a natural gas storage facility located in Steuben County, New York, with 6.2 bcf of working gas capacity, maximum withdrawal capability of 60 MMcf/day and maximum injection capability of 30 MMcf/day. The facility was developed and placed in commercial service in 1991. The storage capacity at Steuben is fee based-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2011. Located approximately 30 miles northwest of Corning, New York, the Steuben facility is currently connected to Dominion Gas Transmission s Woodhull line and is a critical component of the northeast United States natural gas market.

Thomas Corners, a 7 bcf (working) natural gas storage facility located in Steuben County, New York, was placed into service in November 2009. The facility is fee-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2015. From November 2009 through March 2010, Thomas Corners generated revenue from interruptible storage contracts. This facility has maximum withdrawal and injection capabilities of 140 MMcf/day and 70 MMcf/day, respectively. Thomas Corners is connected with the Tennessee Gas Pipeline Company s Line 400 and Columbia Gas Transmission s A-5 line (which was acquired by the Millennium Pipeline and as such the Thomas Corners facility is also connected with the Millennium Pipeline).

In October 2010, we completed the acquisition of the Tres Palacios natural gas storage facility located in Matagorda County, Texas. Tres Palacios is a high deliverability, salt dome natural gas storage facility with approximately 38.4 bcf of working gas capacity (Caverns 1-3). The facility is expandable by an additional 9.5 bcf of working gas capacity which we expect to place in service by or before 2014 (Cavern 4). Caverns 1 and 2 are currently 90% contracted with primarily investment grade-rated companies until 2013. Located approximately 100 miles southwest of Houston, Tres Palacios is currently connected to a total of ten intrastate and interstate pipelines offering connectivity to multiple demand markets including the Houston and San Antonio metropolitan areas and the broader Texas markets as well as markets in the Northeast, Midwest, Southeast, Florida and Mid-Atlantic United States and Mexico.

On January 11, 2010, we announced that we had executed a definitive agreement to purchase the Seneca Lake natural gas storage facility located in Schuyler County, New York (Seneca Lake) and two related pipelines for approximately $65 million. Seneca Lake is an approximate 2.0 bcf underground salt cavern storage facility located on our US Salt property outside Watkins Glen, New York, and has a maximum withdrawal capability of 145 MMcf/day and maximum injection capability of 75 MMcf/day. Seneca Lake is connected to the Dominion Transmission System via the 16-inch diameter, 20 mile Seneca West Pipeline and indirectly to the city gate of Binghamton, New York, via the 12-inch diameter, 37.5 mile Seneca East Pipeline, which runs within approximately 4 miles of our Stagecoach North Lateral interconnect with the Millennium Pipeline. The acquisition is subject to customary closing conditions and regulatory approvals.

Table of Contents

LPG Storage Operations

Our Finger Lakes LPG facility, acquired in October 2006, is currently a 1.7 million barrel salt cavern storage facility located near Bath, New York, approximately 210 miles northwest of New York City and approximately 60 miles from our Stagecoach facility. The facility is fee-based and is currently 100% contracted primarily with investment grade-rated companies with term contracts having a weighted-average maturity extending to 2011. The facility is supported by both rail and truck terminals capable of loading and unloading 20-23 rail cars per day and 17 truck transports per day. The facility is currently fully contracted under long-term agreements for butane and propane storage. The Finger Lakes LPG expansion project is expected to convert certain of the caverns at US Salt into LPG storage with a capacity of up to 5 million barrels. This project is expected to be completed in the first half of calendar 2011.

NGL Operations

Our NGL business, acquired in 2003, is located near Bakersfield, California. The facility includes a 25.0 MMcf/day natural gas processing plant, a 12,000 bpd NGL fractionation plant, an 8,000 bpd butane isomerization plant, NGL rail and truck terminals, a 24.0 million gallon NGL storage facility and NGL transportation/marketing operations.

Salt Operations

Our US Salt facility, acquired in August 2008, is located in Schuyler County, New York, and produces salt using solution mining and mechanical evaporation. The facility is strategically located between our Stagecoach and Steuben facilities. The facility produces and sells over 300,000 tons of salt each year. In addition to the 5 million barrel Finger Lakes LPG storage expansion that we are currently developing, there is also existing cavern space that we intend to convert to approximately 10 bcf of natural gas storage. With each new brine well that we drill we create additional potential storage capacity.

For more information on our reportable business segments, see Note 14 to our consolidated financial statements.

Employees

As of October 29, 2010, we had 2,997 full-time employees and 85 part-time employees. Of the 3,082 employees, 128 were general and administrative and 2,954 were operational. Of the operational employees, 262 were members of labor unions. We believe that our relationship with our employees is satisfactory.

Government Regulation

National Fire Protection Association Pamphlets No. 54 and No. 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the law in substantially all of the states in which we operate. In some states these laws are administered by state agencies, and in others they are administered on a county or municipal level. Regarding the transportation of propane, ammonia and butane by truck, we are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations. We believe that the procedures currently in effect at all of our facilities for the handling, storage and distribution of propane and the transportation of ammonia and butane are consistent with industry standards and are in compliance in all material respects with applicable laws and regulations.

Our midstream operations are subject to extensive federal, state and local regulation. In particular, our Stagecoach, Steuben, Thomas Corners and Tres Palacios natural gas storage facilities are subject to regulation by the FERC.

Under the Natural Gas Act, the FERC has authority to regulate gas transportation services in interstate commerce, including natural gas storage services. The FERC exercises jurisdiction over rates charged for services and the terms and conditions of service; the certification and construction of new facilities; the extension or abandonment of services and facilities; the maintenance of accounts and records, the acquisition and disposition of facilities; standards of conduct between affiliated entities; and various other matters. Regulated natural gas companies are prohibited from charging rates determined by the FERC to be unjust, unreasonable, or unduly discriminatory, and both the existing tariff rates and the proposed rates of regulated natural gas companies are subject to challenge.

The rates and terms and conditions of our natural gas storage and hub services are found in the FERC-approved tariffs of Central New York Oil and Gas Company, LLC (CNYOG), the owner of the Stagecoach facility; Steuben Gas Storage Company, the owner of the Steuben facility; ASC, the owner of the Thomas Corners facility; and Tres Palacios Gas Storage, LLC (TPG Storage), the owner of the Tres Palacios facility. CNYOG, ASC and TPG Storage are authorized to charge and collect market-based rates for services provided at the Stagecoach, Thomas Corners and Tres Palacios facility, respectively. Steuben Gas Storage Company is authorized to charge and collect cost-of-service rates at the Steuben facility. A loss of market-based rate authority, or any successful complaint or protest against the rates charged or provided by CNYOG, ASC or TPG Storage could have an adverse impact on our revenues.

Our natural gas and LPG storage operations are also subject to non-rate regulation by state agencies. For example, the Railroad Commission of Texas (RRC) has jurisdiction over oil and gas wells drilled and produced, underground natural gas storage caverns and related facilities and pipelines used to transport oil or gas resources in Texas, and the New York State Department of Environmental Conservation (NYSDEC) has jurisdiction over the underground storage of natural gas and LPG and well drilling, conversion and plugging in New York. As a result, the RRC regulates aspects of the Tres Palacios facility and the NYSDEC regulates aspects of our Stagecoach, Thomas Corners, and Steuben natural gas storage facilities and our LPG storage facilities (including both our Bath facility and our Finger Lakes facility under development). Our inability to obtain, maintain or renew any material permit required to operate or expand our storage projects could have an adverse impact on our revenues.

Certain aspects of our midstream operations are also subject to the Pipeline Safety Act of 2002, as amended by the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006, which provides guidelines in the area of testing, education, training and communication. In addition to pipeline integrity tests, pipeline and storage companies are required to implement a qualification program to make certain that employees are properly trained. The United States Department of Transportation has approved our qualification program. We believe that we are in substantial compliance with these requirements and have integrated appropriate aspects of the law into our Operator Qualification Program, which is in place and functioning.

In response to recent major pipeline accidents, including an explosion in a residential neighborhood in San Bruno, California, Congress is considering several bills proposing increased pipeline safety requirements. Among the changes being considered are significantly higher maximum civil penalties, new standards for excess flow and shutoff valves, public accessibility of pipeline information and expansion of safety requirements to classes of pipeline that were formerly exempt. We cannot predict the final outcome of these legislative efforts or the precise impact that compliance with any resulting new requirements may have on our business. Any new or expanded pipeline safety requirements could increase our cost of operation and impair our ability, or the ability of interconnected transportation facilities, to provide service during the period in which assessments and repairs take place, adversely affecting our business.

Additionally, we are subject to stringent federal, state and local environmental, health and safety laws and environmental regulations governing our operations. These laws and regulations impose limitations on the discharge and emission of pollutants and establish standards for the handling of solid and hazardous wastes. Applicable laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental

Response, Compensation and Liability Act (CERCLA), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state or local statutes. CERCLA, also known as the Superfund law, imposes joint and several liability without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. While propane is not a hazardous substance within the meaning of CERCLA, other chemicals used in our operations may be classified as hazardous substances. Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties, the imposition of remedial liabilities and the issuance of injunctions restricting or prohibiting our activities. We have not received any notices that we have violated these environmental laws and regulations in any material respect and we have not otherwise incurred any material liability or capital expenditure thereunder.

For acquisitions that involve the purchase of real estate, we conduct due diligence investigations to assess whether any material or waste has been sold from, or stored on, or released or spilled from any of that real estate prior to its purchase. This due diligence includes questioning the seller, obtaining representations and warranties concerning the seller s compliance with environmental laws and performing site assessments. During these due diligence investigations, our employees, and, in certain cases, independent environmental consulting firms, review historical records and databases and conduct physical investigations of the property to look for evidence of contamination, compliance violations and the existence of underground storage tanks.

On June 26, 2009, the U.S. House of Representatives approved adoption of the American Clean Energy and Security Act of 2009, also known as the Waxman-Markey cap-and-trade legislation or ACESA. The purpose of ACESA is to control and reduce emissions of greenhouse gases, or GHGs in the United States. GHGs are certain gases, including carbon dioxide and methane, which may contribute to the warming of the Earth s atmosphere and other climatic changes. ACESA would establish an economy-wide cap on emissions of GHGs in the United States and would require certain regulated entities to obtain GHG emission allowances corresponding to the annual emission of GHGs attributable to their products or operations. Regulated entities under ACESA include producers of NGLs (i.e., natural gas fractionators), local natural gas distribution companies and certain industrial facilities. Under ACESA, the number of authorized emission allowances would decline each year, resulting in an expected and progressive increase in the cost or value of the allowances. The net effect of maintaining emission allowances under ACESA would be to increase the costs associated with the combusting of carbon-based fuels such as natural gas, NGLs (including propane) and refined petroleum products. The U.S. Senate has begun work on its own legislation for controlling and reducing domestic GHG emissions, and President Obama has indicated his support of legislation to reduce GHG emissions through an emission allowance system.

Future developments, such as stricter environmental, health or safety laws and regulations, or more stringent enforcement of existing requirements could affect our operations. We do not anticipate that our compliance with or liabilities under environmental, health and safety laws and regulations, including CERCLA, will require any material increase in our capital expenditures or otherwise have a material adverse effect on us. To the extent that any environmental liabilities, or environmental, health or safety laws, or regulations are made more stringent, there can be no assurance that our results of operations will not be materially and adversely affected.

Item 1A. Risk Factors

Risks Inherent in Our Business

Future acquisitions and completion of expansion projects will require significant amounts of debt and equity financing which may not be available to us on acceptable terms, or at all.

We plan to fund our acquisitions and expansion capital expenditures, including any future expansions we may undertake, with proceeds from sales of our debt and equity securities and borrowings under our revolving credit facility; however, we cannot be certain that we will be able to issue our debt and equity securities on terms or in

Table of Contents

the proportions that we expect, or at all, and we may be unable refinance our revolving credit facility when it expires. In addition, we may be unable to obtain adequate funding under our current revolving credit facility because our lending counterparties may be unable to meet their funding obligations.

Global financial markets and economic conditions have been, and continue to be, disrupted and volatile. The debt and equity capital markets have been distressed. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk and the current weak economic conditions may make it difficult to obtain funding.

The cost of raising money in the debt and equity capital markets has increased while the availability of funds from those markets generally has diminished. Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets generally has increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at maturity or on terms similar to our current debt and reduced and, in some cases, ceased to provide funding to borrowers.

A significant increase in our indebtedness, or an increase in our indebtedness that is proportionately greater than our issuances of equity, as well as the credit market and debt and equity capital market conditions discussed above could negatively impact our credit ratings or our ability to remain in compliance with the financial covenants under our revolving credit agreement which could have a material adverse effect on our financial condition, results of operations and cash flows. If we are unable to finance acquisitions or our expansion projects as expected, we could be required to seek alternative financing, the terms of which may not be attractive to us, or to revise or cancel our expansion plans.

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

Due to increased competition from alternative energy sources the propane industry is not a growth industry. In addition, as a result of long-standing customer relationships that are typical in the retail home propane industry, the inconvenience of switching tanks and suppliers and propane s higher cost as compared to other energy sources, we may have difficulty in increasing our retail customer base other than through acquisitions. Therefore, while our operating objectives include promoting internal growth, our ability to grow depends principally on acquisitions. Our future financial performance depends on our ability to continue to make acquisitions at attractive prices. There is no assurance that we will be able to continue to identify attractive acquisition candidates in the future or that we will be able to acquire businesses on economically acceptable terms. In particular, competition for acquisitions in the propane business has intensified and become more costly. We may not be able to grow as rapidly as we expect through our acquisition of additional businesses for various reasons, including the following:

- We will use our cash from operations primarily to service our debt and for distributions to unitholders and reinvestment in our business. Consequently, the extent to which we are unable to use cash or access capital to pay for additional acquisitions may limit our growth and impair our operating results. Further, we are subject to certain debt incurrence covenants under our bank credit agreement and the indentures that govern our senior notes that may restrict our ability to incur additional debt to finance acquisitions.

- Although we intend to use our securities as acquisition currency, some prospective sellers may not be willing to accept our securities as consideration.

- We will use cash for capital expenditures related to expansion projects, which will reduce our cash available to pay for additional acquisitions.

Moreover, acquisitions involve potential risks, including:

- our inability to integrate the operations of recently acquired businesses;

- the diversion of management s attention from other business concerns;

Table of Contents

- customer or key employee loss from the acquired businesses; and
- a significant increase in our indebtedness.

Our growth strategy includes acquiring entities with lines of business that are distinct and separate from our existing operations which could subject us to additional business and operating risks.

Consistent with our announced growth strategy and our acquisition of the US Salt facility and related assets, we may acquire assets that have operations in new and distinct lines of business from our existing operations. Integration of new business segments is a complex, costly and time-consuming process and may involve assets in which we have limited operating experience. Failure to timely and successfully integrate acquired entities new lines of business with our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating new business segments with existing operations include, among other things:

- operating distinct business segments that require different operating strategies and different managerial expertise;
- the necessity of coordinating organizations, systems and facilities in different locations;
- integrating personnel with diverse business backgrounds and organizational cultures; and
- consolidating corporate and administrative functions.

In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of the new business segments, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial condition or prospects. Furthermore, new lines of business will subject us to additional business and operating risks which could have a material adverse effect on our financial condition or results of operations.

We may be unable to successfully integrate our recent acquisitions.

One of our primary business strategies is to grow through acquisitions. There is no assurance that we will successfully integrate acquisitions into our operations, or that we will achieve the desired profitability from our acquisitions. Failure to successfully integrate these substantial acquisitions could adversely affect our operations. The difficulties of combining the acquired operations include, among other things:

- operating a significantly larger combined organization and integrating additional retail and wholesale distribution operations to our existing supply, marketing and distribution operations;
- coordinating geographically disparate organizations, systems and facilities;
- integrating personnel from diverse business backgrounds and organizational cultures;
- consolidating corporate, technological and administrative functions;
- integrating internal controls, compliance under the Sarbanes-Oxley Act of 2002 and other corporate governance matters;

- the diversion of management s attention from other business concerns;
- customer or key employee loss from the acquired businesses;
- a significant increase in our indebtedness; and
- potential environmental or regulatory liabilities and title problems.

In addition, we may not realize all of the anticipated benefits from our acquisitions, such as cost-savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel, higher costs, unknown liabilities and fluctuations in markets.

Table of Contents

Our indebtedness may limit our ability to borrow additional funds, make distributions to our unitholders, or capitalize on acquisition or other business opportunities, in addition to impairing our ability to fulfill our debt obligation under our senior notes.

As of September 30, 2010, we had $1.7 billion of total outstanding indebtedness. Our leverage, various limitations in the agreements governing our credit facility, other restrictions governing our indebtedness and the indentures governing our senior notes may reduce our ability to incur additional indebtedness, to engage in some transactions and to capitalize on acquisition or other business opportunities.

Our indebtedness and other financial obligations could have important consequences. For example, they could:

- make it more difficult for us to make distributions to our unitholders;
- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general partnership purposes or other purposes;
- result in higher interest expense in the event of increases in interest rates since some of our debt is, and will continue to be, at variable rates of interest;
- have a material adverse effect on us if we fail to comply with financial and restrictive covenants in our debt agreements and an event of default occurs as a result of that failure that is not cured or waived;
- require us to dedicate a substantial portion of our cash flow to payments of our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general partnership requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the propane industry; and
- place us at a competitive disadvantage compared to our competitors that have proportionately less debt.

If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional equity capital or sell our assets. We may then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all.

A change of control could result in us facing substantial repayment obligations under our credit facility and our senior notes.

Our bank credit agreement and the indentures governing our senior notes contain provisions relating to change of control of our managing general partner, our partnership and our operating company. If these provisions are triggered, our outstanding bank indebtedness may become due. In such an event, there is no assurance that we would be able to pay the indebtedness, in which case the lenders under our credit facility would have the right to foreclose on our assets, which would have a material adverse effect on us. There is no restriction on the ability of our general partners to enter into a transaction which would trigger the change of control provisions.

Restrictive covenants in the agreements governing our indebtedness may reduce our operating flexibility.

The indentures governing our outstanding senior notes and agreements governing our revolving credit facilities and other future indebtedness contain or may contain various covenants limiting our ability and the ability of our specified subsidiaries to, among other things:

pay distributions on, redeem or repurchase our equity interests or redeem or repurchase our subordinated debt;

make investments;

incur or guarantee additional indebtedness or issue preferred securities;

Table of Contents

- create or incur certain liens;
- enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us;
- consolidate, merge or transfer all or substantially all of our assets;
- engage in transactions with affiliates;
- create unrestricted subsidiaries; and
- create non-guarantor subsidiaries.

These restrictions could limit our ability and the ability of our subsidiaries to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. Our bank credit agreement contains covenants requiring us to maintain specified financial ratios and satisfy other financial conditions. We may be unable to meet those ratios and conditions. Any future breach of these covenants and our failure to meet any of those ratios and conditions could result in a default under the terms of our bank credit agreement, which could result in the acceleration of our debt and other financial obligations. If we were unable to repay these amounts, the lenders could initiate a bankruptcy proceeding or liquidation proceeding or proceed against the collateral.

We are subject to operating and litigation risks that could adversely affect our operating results to the extent not covered by insurance.

Our operations are subject to all operating hazards and risks incident to handling, storing, transporting and providing customers with combustible products such as propane and natural gas. As a result, we have been, and likely will be, a defendant in legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in such amounts and with such coverages and deductibles as we believe are reasonable and prudent. However, our insurance may not be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage. In addition, the occurrence of a serious accident, whether or not we are involved, may have an adverse effect on the public s desire to use our products.

Since we and Holdings announced on August 7, 2010, our entry into the original Merger Agreement, two unitholder class action lawsuits have been filed by Inergy unitholders against us, Inergy Holdings, Inergy GP, certain executive officers and certain members of the Inergy Holdings board of directors. The allegations and status of these lawsuits are more fully described under Part 1, Item 3. Legal Proceedings. The plaintiffs in these lawsuits seek to have the Merger rescinded. The plaintiffs also seek damages and attorneys fees from all defendants.

While we do not believe the lawsuits have merit and intend to defend the lawsuits vigorously, we cannot predict the outcome of the lawsuits, or other potential lawsuits related to the transactions contemplated by the Merger Agreement, nor can we predict the amount of time and expense that will be required to resolve the lawsuits. An unfavorable resolution of any such litigation surrounding the transactions contemplated by the Merger Agreement could delay or prevent the consummation of such transactions. In addition, the cost to us of defending the litigation, even if resolved in our favor, could be substantial. Such litigation could also divert the attention of management and resources in general from day-to-day operations.

Our operations are subject to compliance with environmental laws and regulations that can adversely affect our results of operations and financial condition.

Our operations are subject to stringent environmental laws and regulations of federal, state and local authorities. Such environmental laws and regulations impose numerous obligations, including the acquisition of permits to conduct regulated activities, the incurrence of capital expenditures to comply with applicable laws and restrictions on the generation, handling, treatment, storage, disposal and transportation of certain materials and wastes. Failure to comply with such environmental laws and regulations can result in the assessment of substantial administrative, civil and criminal penalties, the imposition of remedial liabilities and even the issuance of injunctions restricting or prohibiting our activities. Certain environmental laws impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances have been disposed or otherwise released. In the course of our operations, materials or wastes may have been spilled or released from properties owned or leased by us or on or under other locations where these materials or wastes have been taken for disposal. In addition, many of the properties owned or leased by us were previously operated by third parties whose management, disposal or release of materials and wastes was not under our control. Accordingly, we may be liable for the costs of cleaning up or remediating contamination arising out of our operations or as a result of activities by others who previously occupied or operated on properties now owned or leased by us. It is also possible that adoption of stricter environmental laws and regulations or more stringent interpretation of existing environmental laws and regulations in the future could result in additional costs or liabilities to us as well as the industry in general.

Cost reimbursements due our managing general partner may be substantial and will reduce the cash available for principal and interest on our outstanding indebtedness.

We reimburse our managing general partner and its affiliates, including officers and directors of our managing general partner, for all expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to make payments of principal and interest on our outstanding indebtedness. Our managing general partner has sole discretion to determine the amount of these expenses. In addition, our managing general partner and its affiliates provide us with services for which we are charged reasonable fees as determined by our managing general partner in its sole discretion.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could cause us to incur additional expenditures of time and financial resources.

We have completed the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm on our controls over financial reporting. If, in the future, we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause us to incur substantial expenditures of management time and financial resources to identify and correct any such failure.

Climate change legislation or regulations restricting emissions of greenhouse gasses could result in increased operating costs and reduced demand for our midstream services.

On December 15, 2009, the U.S. EPA published its findings that emissions of carbon dioxide, methane and other greenhouse gases, or GHGs, present an endangerment to public heath and the environment because emissions of such gasses are, according to the EPA, contributing to the warming of the earth s atmosphere and other climate changes. These findings allow the EPA to adopt and implement regulations that would restrict emissions of GHGs under existing provisions of the federal Clean Air Act. The EPA has adopted two sets of regulations under the Clean Air Act. The first limits emissions of GHGs from motor vehicles beginning with the 2012 model year. The EPA has asserted that these final motor vehicle GHG emission standards trigger Clean Air Act construction and operating permit requirements for stationary sources, commencing when the motor vehicle standards take effect on January 2, 2011. On June 3, 2010, the EPA published its final rule to address the permitting of GHG emissions from stationary sources under the Prevention of Significant Deterioration (PSD) and Title V permitting programs. This rule tailors these permitting programs to apply to certain stationary sources of GHG emissions in a multi-step process, with the largest sources first subject to permitting. It is widely expected that facilities required to obtain PSD permits for their GHG emissions also will be required to reduce those emissions according to best available control technology standards for GHG that have yet to be developed. In addition, in April 2010, the EPA proposed to expand its existing GHG reporting rule to include onshore oil and natural gas production, processing, transmission, storage and distribution facilities. If the proposed rule is finalized as proposed, reporting of GHG emissions from such facilities would be required on an annual basis, with reporting beginning in 2012 for emissions occurring in 2011.

In addition, both houses of Congress have actively considered legislation to reduce emissions of GHGs, and more than one-third of the states, including California, have already taken legal measures to reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. Most of these cap and trade programs work by requiring either major sources of emissions such as electric power plants or major producers of fuels such as refineries or natural gas processing plants to acquire and surrender emission allowances, with the number of allowances available for purchase reduced each year until the overall GHG emission reduction goal is achieved. The adoption of any legislation or regulations that requires reporting of GHGs or otherwise limits emissions of GHGs from our equipment and operations could require us to incur costs to monitor and report on GHG emissions or reduce emissions of GHGs associated with our operations, and such requirements also could adversely affect demand for our midstream services. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth s atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our assets and operations.

Risks Related to Our Propane Operations

Since weather conditions may adversely affect the demand for propane, our financial condition and results of operations are vulnerable to, and will be adversely affected by, warm winters.

Weather conditions have a significant impact on the demand for propane because many of our customers depend on propane principally for heating purposes. As a result, warm weather conditions will adversely impact our operating results and financial condition. Actual weather conditions can substantially change from one year to the next. Furthermore, warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume of propane we sell. Consequently, our operating results may vary significantly due to actual changes in temperature. During seven of the last ten fiscal years temperatures were significantly warmer than normal in our areas of operation (based on the 30-year average consisting of years 1976 through 2005 published by the National Oceanic and Atmospheric Administration). We believe that our results of operations during these periods were adversely affected as a result of this warm weather.

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 wholesale prices of propane caused by changes in supply or other market conditions. 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. We have no control over supply or market conditions. 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.

Table of Contents

The highly competitive nature of the retail propane business could cause us to lose customers or affect our ability to acquire new customers, thereby reducing our revenues.

We have competitors and potential competitors who are larger and have substantially greater financial resources than we do. Also, because of relatively low barriers to entry into the retail propane business, numerous small retail propane distributors, as well as companies not engaged in retail propane distribution, may enter our markets and compete with us. Most of our propane retail branch locations compete with several marketers or distributors. 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. If a competitor attempts to increase market share by reducing prices, we may lose customers, which would reduce our revenues.

If we are not able to purchase propane from our principal suppliers, our results of operations would be adversely affected.

Most of our total volume purchases are made under supply contracts that have a term of one year, are subject to annual renewal, and provide various pricing formulas. Two of our suppliers, BP Amoco Corp. (17%) and Sunoco, Inc. (11%), accounted for 28% of propane purchases during the fiscal year ended September 30, 2010. In the event that we are unable to purchase propane from our significant suppliers, our failure to obtain alternate sources of supply at competitive prices and on a timely basis may hurt our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations.

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

Competition from other energy sources, including natural gas and electricity, has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity. 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 availability of natural gas in many areas that previously depended upon propane could cause us to lose customers, thereby reducing our revenues.

Our business would be adversely affected if service at our principal storage facilities or on the common carrier pipelines we use is interrupted.

Historically, a substantial portion of the propane purchased to support our operations has originated at Conway, Kansas, Hattiesburg, Mississippi and Mont Belvieu, Texas and has been shipped to us through major common carrier pipelines. Any significant interruption in the service at these storage facilities or on the common carrier pipelines we use would adversely affect our ability to obtain propane.

If we are not able to sell propane that we have purchased through wholesale supply agreements to either our own retail propane customers or to other retailers and wholesalers, the results of our operations would be adversely affected.

We currently are party to propane supply contracts and expect to enter into additional propane supply contracts which require us to purchase substantially all the propane production from certain refineries. Our inability to sell the propane supply in our own propane distribution business, to other retail propane distributors or to other propane wholesalers would have a substantial adverse impact on our operating results and could adversely impact our capital liquidity. We are also a party to fixed price sale contracts with certain customers that are backed-up by propane supply contracts. If a significant number of our customers default under these fixed price contracts the results of our operations would be adversely affected.

Energy efficiency and new technology may reduce the demand for propane and adversely affect our operating results.

Increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, have adversely affected the demand for propane by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices might reduce demand for propane and adversely affect our operating results.

Due to our limited asset diversification, adverse developments in our propane business could adversely affect our operating results and reduce our ability to make distributions to our unitholders.

We rely substantially on the revenues generated from our propane business. Due to our limited asset diversification, an adverse development in this business would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

Risks Related to Our Midstream Operations

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

Our operations are subject to federal, state and local regulatory authorities. Specifically, our natural gas storage facilities are subject to the regulation of the Federal Energy Regulatory Commission, or FERC.

Under the NGA, FERC has authority to regulate our natural gas facilities that provide natural gas transportation services in interstate commerce, including storage services. FERC s authority to regulate those services includes the rates charged for the services, terms and conditions of service, certification and construction of new facilities, the extension or abandonment of services and facilities, the maintenance of accounts and records, the acquisition and disposition of facilities, the initiation and discontinuation of services, relationships with affiliated entities and various other matters. Natural gas companies may not charge rates that, upon review by FERC, are found to be unjust and unreasonable or unduly discriminatory. In addition, FERC prohibits natural gas companies from unduly preferring or unreasonably discriminating against any person with respect to pipeline transportation rates or terms and conditions of service. The rates and terms and conditions for interstate services provided by the Steuben facility are found in the FERC-approved tariff of Steuben Gas Storage Company. The rates and terms and conditions for interstate services provided by Stagecoach are found in the FERC-approved tariff of CNYOG, our subsidiary and owner of the Stagecoach facility. The rates and terms and conditions for interstate services provided by the Thomas Corners facility are found in the FERC-approved tariff of ASC, our subsidiary and owner of the Thomas Corners facility. The rates and terms and conditions for interstate services provided by Tres Palacios are found in the FERC-approved rates of Tres Palacios Gas Storage, our subsidiary and owner of the Tres Palacios facility.

Pursuant to the NGA, existing interstate transportation and storage rates may be challenged by complaint and are subject to prospective change by FERC. Additionally, rate increases proposed by the regulated pipeline or storage provider may be challenged by protest and such increases may ultimately be rejected by FERC. We currently hold authority from FERC to charge and collect market-based rates for services provided at the Stagecoach facility, the Thomas Corners facility and the Tres Palacios facility. There can be no guarantee that we will be allowed to continue to operate under such a rate structure for the remainder of those facilities operating lives. Any successful complaint or protest against rates charged for our storage and related services, or our loss of market-based rate authority, could have an adverse impact on our revenues.

In addition, our market-based rate authority would be subject to further review if we acquire transportation facilities or additional storage capacity, if we or one of our affiliates provides storage or transportation services in the same market area or acquires an interest in another storage field that can link our facilities to the market area or if we or one of our affiliates acquire an interest in or is acquired by an interstate pipeline.

There can be no assurance that FERC will continue to pursue its approach of pro-competitive policies as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas transportation capacity, transportation and storage facilities. Any successful complaint or protest against our rates or loss of our market-based rate authority could have an adverse impact on our revenues associated with providing storage services. Failure to comply with applicable regulations under the NGA, Natural Gas Policy Act of 1978, Pipeline Safety Act of 1968 and certain other laws, and with implementing regulations associated with these laws, could result in the imposition of administrative and criminal remedies and civil penalties of up to $1,000,000 per day, per violation.

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

Our Stagecoach natural gas storage business depends on Tennessee Gas Pipeline Company s 300-Line and the Millennium Pipeline, currently the only pipelines to which it is interconnected, the Steuben natural gas storage facility depends on the Dominion Transmission System and the Thomas Corners natural gas storage facility depends on Tennessee Gas Pipeline Company s 400-Line and the Millennium Pipeline. These pipelines are owned by parties not affiliated with us. Any interruption of service on the pipeline or lateral connections or adverse change in the 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 have a corresponding material adverse effect on our storage revenues. In addition, the rates charged by the 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 these 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 expect to derive a significant portion of our revenues from our natural gas and LPG storage operations from a limited number of customers, and the loss of one or more of these customers could result in a significant loss of revenues and cash flow.

We expect to derive a significant portion of our revenues and cash flow in connection with our natural gas and LPG storage operations from a limited number of customers. The loss, nonpayment, nonperformance or impaired creditworthiness of one of these customers could have a material adverse effect on our business, results of operations and financial condition.

We compete with other natural gas storage companies and services that can substitute for storage services.

Our principal competitors in our natural gas storage market include other storage providers including among others Dominion Resources, Inc., NiSource Inc. and El Paso Corporation. These major pipeline natural gas transmission companies have existing storage facilities connected to their systems that compete with certain of our facilities. FERC has adopted policy that favors authorization of new storage projects, and there are numerous natural gas storage options in the New York/Pennsylvania geographic market. Pending and future construction projects, if and when brought on line, may also compete with our natural gas storage operations. Such projects may include FERC-certificated storage expansions and greenfield construction projects. We also compete with the numerous alternatives to storage available to customers, including pipeline balancing/no-notice services, seasonal/swing services provided by pipelines and marketers and on-system LNG facilities.

Expanding our business by constructing new midstream assets subjects us to risks.

One of the ways we have grown our business is through the expansion of our existing assets, such as the Thomas Corners development, the West Coast expansion project and the Finger Lakes LPG storage expansion project. The construction of additional storage facilities or new pipeline interconnects involves numerous regulatory, environmental, political and legal uncertainties beyond our control and may require the expenditure of significant amounts of capital. When 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 midstream asset, the construction will occur over an extended period of time, and we will not receive material increases in revenues until the project is placed in service. Moreover, we may construct facilities to capture anticipated future growth in production and/or demand 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.

Certain of our expansion projects must receive certificate authority from FERC prior to construction, such as our currently proposed expansions of the Stagecoach natural gas storage facility (CNYOG s North/South expansion project and Marc I hub line expansion project). We cannot guarantee such certificate authorization will be granted or, if granted, that such authorization will be free of burdensome or expensive conditions.

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 storage providers, and the price of, and demand for, natural gas in the markets we serve. The inability 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.

The fees charged by us to third parties under transmission, transportation and storage agreements may not escalate sufficiently to cover increases in costs and the agreements may not be renewed or may be suspended in some circumstances.

Our costs may increase at a rate greater than the rate that the fees we charge to third parties increase pursuant to our contracts with them. Furthermore, third parties may not renew their contracts with us. Additionally, some third parties obligations under their agreements with us may be permanently or temporarily reduced upon the occurrence of certain events, some of which are beyond our control, including force majeure events wherein the supply of either natural gas are curtailed or cut off. Force majeure events include (but are not limited to) revolutions, wars, acts of enemies, embargoes, import or export restrictions, strikes, lockouts, fires, storms, floods, acts of God, explosions, mechanical or physical failures of our equipment or facilities or those of third parties. If the escalation of fees is insufficient to cover increased costs, if third parties do not renew or extend their contracts with us or if any third party suspends or terminates its contracts with us, our financial results would be negatively impacted.

Our business would be adversely affected if operations at any of our facilities were interrupted.

Our operations are dependent upon the infrastructure that we have developed, including, storage facilities and various means of transportation. Any significant interruption at these facilities or pipelines or our customers inability to transmit natural gas to or from these facilities or pipelines for any reason would adversely affect our results of operations.

Risks Inherent in an Investment in Us

Unitholders have less ability to elect or remove management than holders of common stock in a corporation.

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, and do not have the right to elect, our managing general partner or its board of directors on an annual or other continuing basis. The board of directors of our managing general partner is chosen by the sole member of our managing general partner, Inergy Holdings, L.P. John J. Sherman, who currently is the only voting member of the general partner of Inergy Holdings, effectively has the authority to appoint all of our directors. Although our managing general partner has a fiduciary duty to manage our partnership in a manner beneficial to Inergy, L.P. and our unitholders, the directors of our managing general partner also have a fiduciary duty to manage our managing general partner in a manner beneficial to its member, Inergy Holdings, L.P.

If unitholders are dissatisfied with the performance of our managing general partner, they will have little ability to remove our managing general partner. Our managing 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.

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

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

Our managing general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our unitholders. Furthermore, there is no restriction in our partnership agreement on the ability of the owner of our managing general partner, Inergy Holdings, L.P., from transferring its ownership interest in our managing general partner to a third party. The new owner of our managing general partner would then be in a position to replace the board of directors and officers of our managing general partner with its own choices and to control the decisions taken by our board of directors and officers.

Cost reimbursements due our managing general partner may be substantial and reduce our ability to pay the minimum quarterly distribution.

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

We may issue additional common units without unitholder approval, which would dilute our unitholders existing ownership interests.

We may issue an unlimited number of limited partner interests of any type without the approval of unitholders. The issuance of additional common units or other equity securities of equal rank will have the following effects:

- the proportionate ownership interest of our existing 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 will be diminished; and
- the market price of the common units or partnership securities may decline.

29

Table of Contents

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

Inergy Holdings, L.P. owns and controls our managing general partner. Conflicts of interest could arise in the future as a result of relationships between Inergy Holdings, L.P., our general partners and their affiliates, on the one hand, and the partnership or any of the limited partners, on the other hand. As a result of these conflicts our managing general partner may favor its own interests and those of its affiliates over the interests of our unitholders. The nature of these conflicts includes the following considerations:

- Our managing general partner may limit its liability and reduce its fiduciary duties, while also restricting the 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.

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

- Our managing 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 managing general partner determines whether to issue additional units or other equity securities of the partnership.

- Our managing general partner determines which costs are reimbursable by us.

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

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

- Our managing 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 managing 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.

The president and chief executive officer of our managing general partner effectively controls us through his control of the general partner of Inergy Holdings and our managing general partner.

The president and chief executive officer of both the general partner of Inergy Holdings and our managing general partner has voting control of the general partner of Inergy Holdings. He therefore controls the general partner of Inergy Holdings and through it, our managing general partner and may be able to influence unitholder votes. Control over these entities gives our president and chief executive officer substantial control over our business and operations.

Our cash distribution policy limits our ability to grow.

Because we distribute all of our available cash, our growth may not be as rapid as businesses that reinvest their available cash to expand ongoing operations. If we issue additional units or incur debt to fund acquisitions and growth capital expenditures, the payment of distributions on those additional units or interest on that debt could increase the risk that we will be unable to maintain or increase our per unit distribution level.

Tax Risks to Common Unitholders

The tax treatment of publicly traded partnerships is subject to potential legislative, judicial or administrative changes. If we were treated as a corporation for federal income tax purposes, or if we were to become subject to a material amount of state or local taxation, then our cash available for distribution to our unitholders would be substantially reduced.

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. Despite the fact that we are organized as a limited partnership under Delaware law, it is possible under current law for a partnership such as ours to be treated as a corporation for federal income tax purposes unless it satisfies requirements regarding the sources of its income. Based on our current operations we believe that we are treated as a partnership rather than a corporation; however, a change in our business could cause us to be treated as a corporation for federal income tax purposes.

In addition, current law may change so as to cause us to be treated as a corporation for federal income tax purposes. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would affect the tax treatment of certain publicly traded partnerships. In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, the cash available to pay distributions would be reduced. We are unable to predict whether any of these changes, or other proposals, will ultimately be enacted.

Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution amount and the target distribution amount will be adjusted to reflect the impact of that law on us.

If we were treated as a corporation for federal income tax purposes, we would be obligated to pay federal income tax on our taxable income at the corporate tax rate, currently a maximum rate of 35%, as well as any applicable state income tax. Distributions to our unitholders generally would be taxed to them in the same manner as distributions from a corporation, and none of our income, gain, loss, deduction or credit would flow through to our unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution would be substantially reduced. Therefore, our treatment as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution to you.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes. The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, the costs of any contest with the IRS will be borne indirectly by you and our managing general partner because the costs will reduce our cash available for distribution.

You may be required to pay taxes even if you do not receive cash distributions from us.

Because you will be treated as a partner in us for federal income tax purposes, we will allocate a share of our taxable income to you which could be different in amount than the cash we distribute to you, and you may be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you do not receive any cash distributions from us.

Tax gain or loss on disposition of our common units could be more or less than expected.

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

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

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

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

To maintain the uniformity of the economic and tax characteristics of our common units, we have adopted certain depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. These positions may result in an understatement of deductions and an overstatement of income to our unitholders. For example, we do not amortize certain goodwill assets, the value of which has been attributed to certain of our outstanding units. A subsequent holder of those units may be entitled to an amortization deduction attributable to that goodwill under Internal Revenue Code Section 743(b). But, because we cannot identify these units once they are traded by the initial holder, we do not allocate any subsequent holder of a unit any such amortization deduction. This approach may understate deductions available to those unitholders who own those units and may result in those unitholders reporting that they have a higher tax basis in their units than would be the case if the IRS strictly applied Treasury Regulations relating to these depreciation or amortization adjustments. This, in turn, may result in those unitholders reporting less gain or more loss on a sale of their units than would be the case if the IRS strictly applied those Treasury Regulations.

The IRS may challenge the manner in which we calculate our unitholder s basis adjustment under Section 743(b). If so, because the specific unitholders to which this issue relates cannot be identified, the IRS may assert adjustments to all unitholders selling units within the period under audit. A successful IRS challenge to this position or other positions we may take could adversely affect the amount of taxable income or loss allocated to our unitholders. It also could affect the gain from a unitholder s sale of common units or result in audit adjustments to our unitholders tax returns without the benefit of additional deductions. Consequently, a successful IRS challenge could have a negative impact on the value of the common units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. Recently, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration method or new Treasury Regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

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

If you loan your units to a short seller to cover a short sale of units, you may be considered as having disposed of the loaned units, and you may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and you may recognize gain or loss from such disposition. During the period of the loan, any of our income, gain, loss or deduction with respect to those units may not be reportable by you and any cash distributions you receive as to those units could be fully taxable as ordinary income. To assure your status as a partner and avoid the risk of gain recognition from a loan to a short seller you are urged to modify any applicable brokerage account agreements to prohibit your broker from borrowing your units.

The sale or exchange of 50% or more of our capital and profits interests within a twelve-month period will result in the termination of our partnership for federal income tax purposes.

A partnership is considered to terminate for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in its capital and profits within a twelve-month period. It is anticipated that the proposed merger of Inergy Holdings, L.P. (Holdings) through a number of steps with and into our wholly owned subsidiary (the Transactions) will result in an exchange of our partnership interests that, together with all other units sold or exchanged within the prior twelve-month period, will represent a sale or exchange of 50% or more of the total interest in our capital and profits. Consequently, we expect that we will be treated as having terminated, and as having been reconstituted, as a partnership for federal income tax purposes as a result of the Transactions. Although our constructive termination should not affect our classification as a partnership for federal income tax purposes, it will result in a deferral of certain deductions allowable in computing our taxable income for the year in which the termination occurs. The effect of this deferral of deductions on unitholders will depend upon each unitholder s particular situation, including when, and at what prices, the unitholder purchased its common units and the ability of the unitholder to utilize any suspended passive losses.

Our unitholders will likely be subject to state and local taxes and return filing requirements in states where they do not live as a result of investing in our common units.

In addition to federal income taxes, our unitholders will likely be subject to other taxes, including state and local taxes, unincorporated business taxes, estate, inheritance or intangible taxes and foreign taxes that are imposed by the various jurisdictions in which we do business or own property and in which they do not reside. We own property and conduct business in various parts of the United States. Unitholders may be required to file state and local income tax returns in many or all of the jurisdictions in which we do business or own property. Further, unitholders may be subject to penalties for failure to comply with those requirements. It is our unitholders responsibility to file all required U. S. federal, state, local and foreign tax returns.

Table of Contents

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

As of October 29, 2010, we owned 212 of our 356 retail propane customer service centers and leased the remaining centers. For more information concerning the location of our customer service centers see Retail Propane under Item 1. We lease our Kansas City, Missouri headquarters. We lease underground storage facilities with an aggregate capacity of 25.8 million gallons of propane and butane at eight locations under annual lease agreements. In addition, we own two underground storage facilities with an aggregate capacity of 29.9 million gallons of propane and butane. We also lease capacity in several pipelines pursuant to annual lease agreements.

Tank ownership and control at customer locations are important components to our retail propane operations and customer retention. As of September 30, 2010, we owned the following:

- 1,375 bulk storage tanks at approximately 700 locations with typical capacities of 12,000 to 30,000 gallons;
- 650,000 stationary customer storage tanks with typical capacities of 100 to 1,200 gallons; and
- 225,000 portable propane cylinders with typical capacities of up to 35 gallons.

We own the following midstream assets as discussed in Item 1:

- the Stagecoach natural gas storage facility;
- Finger Lakes LGP storage facility;
- Steuben natural gas storage facility;
- Thomas Corners natural gas storage facility;
- US Salt plant;
- Tres Palacios natural gas storage facility; and
- an NGL business in Bakersfield, California.

We believe that we have satisfactory title or valid rights to use all of our material properties. Although some of these properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements entered in connection with acquisitions and immaterial encumbrances, easements and restrictions, we do not believe that any of these burdens will materially interfere with our continued use of these properties in our business, taken as a whole. Our obligations under our credit facility are secured by liens and mortgages on our real and personal property.

In addition, we believe that we have, or are in the process of obtaining, all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and have obtained or made all required material registrations, qualifications and filings with, the various state and local governmental and regulatory authorities that relate to ownership of our properties or the operation of our business.

Item 3. Legal Proceedings.

Our operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing for use by consumers of combustible liquids such as propane. As a result, at any given time we are a defendant in various legal proceedings and litigation arising in the ordinary course of business. We

Table of Contents

maintain insurance policies with insurers in amounts and with coverages and deductibles as the managing general partner believes are reasonable and prudent. However, we cannot assure you that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices.

Following the announcement of the Merger Agreement, two unitholder class action lawsuits were filed by our unitholders in the Court of Chancery of the State of Delaware challenging the proposed merger (Joel A. Gerber v. Inergy GP, LLC et al., No. 5864 and G-2 Trading LLC v. Inergy GP, LLC et al., No. 5816) (collectively, the Inergy Unitholder Lawsuits). The plaintiffs in the Inergy Unitholder Lawsuits filed a motion for a temporary injunction and a motion for expedited treatment. The court granted the motion for expedited treatment and consolidated the Inergy Unitholder Lawsuits (the Consolidated Inergy Action). In a Memorandum Opinion, dated October 29, 2010, the Delaware Court of Chancery denied the motion for preliminary injunction.

The Consolidated Inergy Action alleges several causes of action challenging the proposed merger, including that the named directors and officers have breached our limited partnership agreement and their fiduciary duties in connection with the proposed merger. Specifically, the Consolidated Inergy Action alleges that we are paying an excessive price to the Inergy Holdings unitholders, thereby diluting the value of Inergy to its current unitholders. The consideration provided to Inergy Holdings unitholders, the Consolidated Inergy Action alleges, represents a 20.7% premium to Inergy Holdings unitholders and exceeds Inergy Holdings aggregate enterprise value by 27%. The Consolidated Inergy Action further alleges that the proposed merger will reduce the ownership of our public unitholders prior to the Simplification Transaction from 92% to 57% without providing an adequate return to those unitholders so that the named directors and officers can avoid potential tax ramifications related to their Inergy Holdings common units. Additionally, the Consolidated Inergy Action alleges several deficiencies in the process by which the named directors and officers are conducting the proposed transaction. Finally, the plaintiffs in the Consolidated Inergy Action argue that our unitholders must vote on the proposed merger because the Merger Agreement, they allege, constitutes a merger between Inergy and Holdings.

Item 4. Removed and Reserved.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities.

From July 31, 2001 to March 16, 2010, our common units representing limited partner interests were traded on NASDAQ s Global Select National Market under the symbol NRGY. On March 17, 2010, our common units representing limited partner interests began trading on The New York Stock Exchange under the symbol NRGY. The following table sets forth the range of high and low bid prices of the common units, as reported by NASDAQ and the NYSE, as well as the amount of cash distributions declared per common unit for the periods indicated.

Quarters Ended:	Low	High	Cash Distribution Per Unit
Fiscal 2010:			
September 30, 2010	$ 35.56	$ 43.95	$ 0.705
June 30, 2010	30.35	39.94	0.705
March 31, 2010	32.48	38.04	0.695
December 31, 2009	28.70	36.24	0.685
Fiscal 2009:			
September 30, 2009	$ 25.01	$ 30.99	$ 0.675
June 30, 2009	21.54	26.34	0.665
March 31, 2009	17.06	25.23	0.655
December 31, 2008	12.38	22.70	0.645

As of November 15, 2010, we had issued and outstanding 109,349,510 common units, 4,867,252 Class A units and 11,568,560 Class B units, which were held by 154, 2 and 21 unitholders of record, respectively.

Our company makes quarterly distributions to the partners within approximately 45 days after the end of each fiscal quarter in an aggregate amount equal to our available cash (as defined) for such quarter. Available cash generally means, with respect to each fiscal quarter, all cash on hand at the end of the quarter less the amount of cash that the managing general partner determines in its reasonable discretion is necessary or appropriate to:

- provide for the proper conduct of our business;
- comply with applicable law, any of our debt instruments, or other agreements; or
- provide funds for distributions to unitholders and to our non-managing general partner for any one or more of the next four quarters;

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our working capital facility and in all cases are used solely for working capital purposes or to pay distributions to partners. The full definition of available cash is set forth in our partnership agreement (as amended), which is incorporated by reference herein as an exhibit to this report.

Issuance of Class A Units and Class B Units

On November 5, 2010, in connection with the Simplification Transaction, we issued 4,867,252 Class A units and 11,568,560 Class B units.

Table of Contents

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash after a minimum quarterly distribution and certain target distribution levels have been achieved. All incentive distribution rights were eliminated as a result of the Simplification Transaction.

The following table sets forth in tabular format, a summary of our company s equity compensation plan information as of September 30, 2010:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders	42,500	$ 29.60	4,259,774
Total	42,500	$ 29.60	4,259,774

Item 6. Selected Financial Data.

The following tables set forth selected consolidated financial data and other operating data of Inergy, L.P. The selected historical consolidated financial data of Inergy, L.P. as of and for the years ended September 30, 2010, 2009, 2008, 2007 and 2006, are derived from the audited consolidated financial statements of Inergy, L.P and Inergy Partners, LLC. The historical consolidated financial data of Inergy, L.P. and Inergy Partners, LLC include the results of operations of its acquisitions from the effective date of the respective acquisitions.

EBITDA shown in the table below is defined as income before income taxes, plus net interest expense and depreciation and amortization expense. Adjusted EBITDA represents EBITDA excluding the gain or loss on derivative contracts associated with retail propane fixed price sales contracts, the gain or loss on the disposal of assets, long-term incentive and equity compensation expenses and transaction costs. Transaction costs are third party professional fees and other costs that are incurred in conjunction with closing a transaction. EBITDA and Adjusted EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other corporations or partnerships.

Table of Contents

The data in the following tables should be read together with and is qualified in its entirety by reference to, the historical consolidated financial statements and the accompanying notes included in this report. The tables should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7.

	Inergy L.P. Years Ended September 30,				
	2010	2009	2008	2007	2006
	(in millions, except per unit and unit data)				
Statement of Operations Data:					
Revenues	$ 1,786.0	$ 1,570.6	$ 1,878.9	$ 1,483.1	$ 1,390.2
Cost of product sold (excluding depreciation and amortization as shown below):	1,165.9	996.9	1,376.7	1,026.1	993.3
Gross profit	620.1	573.7	502.2	457.0	396.9
Expenses:					
Operating and administrative	309.0	279.6	265.6	247.8	245.2
Depreciation and amortization	161.8	115.8	98.0	83.4	76.7
Loss on disposal of assets	11.5	5.2	11.5	8.0	11.5
Operating income	137.8	173.1	127.1	117.8	63.5
Other income (expense):					
Interest expense, net	(91.0)	(69.7)	(60.9)	(52.0)	(53.8)
Other income	2.0	0.1	1.0	1.9	0.8
Income before income taxes	48.8	103.5	67.2	67.7	10.5
Provision for income taxes	0.1	0.7	0.7	0.7	0.7
Net income	48.7	102.8	66.5	67.0	9.8
Net income attributable to non-controlling partners in ASC s consolidated net income	0.7	1.4	1.4		
Net income attributable to partners	$ 48.0	$ 101.4	$ 65.1	$ 67.0	$ 9.8
Partners interest information:					
Total interest in net income not attributable to limited partners	$ 71.8	$ 50.9	$ 38.2	$ 40.2	$ 19.8
Total limited partners interest in net income (loss)	$ (23.8)	$ 50.5	$ 26.9	$ 26.8	$ (10.0)
Net income (loss) per limited partner unit:					
Basic	$ (0.37)	$ 0.93	$ 0.54	$ 0.56	$ (0.24)
Diluted	$ (0.37)	$ 0.93	$ 0.54	$ 0.56	$ (0.24)
Weighted-average limited partners units outstanding (*in thousands*):					
Basic	64,533	54,036	49,915	47,784	41,426
Diluted	64,533	54,063	49,989	47,965	41,426
Cash distributions paid per unit	$ 2.76	$ 2.60	$ 2.44	$ 2.28	$ 2.14

Table of Contents

	2010	2009	2008	2007	2006
Balance Sheet Data (end of period):					
Total assets[c]	$ 3,097.1	$ 2,133.1	$ 2,077.3	$ 1,722.9	$ 1,606.9
Total debt, including current portion	1,666.2	1,093.3	1,106.6	710.2	659.7
Inergy L.P. partners capital	1,189.3	799.4	637.8	741.2	676.1
Other Financial Data:					
EBITDA (unaudited)	$ 300.7	$ 287.1	$ 223.9	$ 203.1	$ 141.0
Adjusted EBITDA (unaudited)	325.6	296.8	239.0	211.2	175.4
Net cash provided by operating activities	175.3	239.4	183.8	167.9	104.4
Net cash used in investing activities	(926.4)	(230.6)	(386.7)	(187.8)	(210.9)
Net cash provided by (used in) financing activities	883.8	(14.5)	212.5	15.6	109.0
Maintenance capital expenditures[a] (unaudited)	9.9	8.0	5.4	5.1	3.7
Other Operating Data (unaudited):					
Retail propane gallons sold	340.2	310.0	331.9	362.2	360.3
Wholesale propane gallons delivered	415.3	380.6	358.5	383.9	365.3
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:					
Net income attributable to partners	$ 48.0	$ 101.4	$ 65.1	$ 67.0	$ 9.8
Interest of non-controlling partners in ASC s ITDA[b]	(0.2)	(0.5)	(0.8)		
Provision for income taxes	0.1	0.7	0.7	0.7	0.7
Interest expense, net	91.0	69.7	60.9	52.0	53.8
Depreciation and amortization	161.8	115.8	98.0	83.4	76.7
EBITDA	$ 300.7	$ 287.1	$ 223.9	$ 203.1	$ 141.0
Non-cash (gain) loss on derivative contracts	(1.0)	1.4	0.1	(0.6)	20.0
Loss on disposal of assets	11.5	5.2	11.5	8.0	11.5
Long-term incentive and equity compensation expense	10.9	3.1	3.5	0.7	2.9
Transaction costs	3.5				
Adjusted EBITDA	$ 325.6	$ 296.8	$ 239.0	$ 211.2	$ 175.4

(a) Maintenance capital expenditures are defined as those capital expenditures that do not increase operating capacity or revenues from existing levels.
(b) ITDA Interest expense, taxes, depreciation and amortization expense.
(c) These amounts differ from those previously presented as a result of our adoption of FASB Accounting Standards Codification Subtopic 210-20 on October 1, 2008. In conjunction with the adoption of this standard, we elected to change our accounting policy for derivative instruments executed with the same counterparty under a master netting agreement. This change in accounting policy has been presented retroactively.

Table of Contents

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

Forward-Looking Statements

This report, including information included or incorporated by reference in this report, contains forward-looking statements concerning the financial condition, results of operations, plans, objectives, future performance and business of our company and its subsidiaries. These forward-looking statements include:

- statements that are not historical in nature, but not limited to, our belief that our acquisition expertise should allow us to continue to grow through acquisitions; our belief that we will have adequate propane supply to support our retail operations; and our belief that our diversification of suppliers will enable us to meet supply needs; and
- statements preceded by, followed by or that contain forward-looking terminology including the words believe, expect, may, will, should, could, anticipate, estimate, intend or the negation thereof, or similar expressions.

Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- weather conditions;
- price and availability of propane, and the capacity to transport to market areas;
- the ability to pass the wholesale cost of propane through to our customers;
- costs or difficulties related to the integration of the business of our company and its acquisition targets may be greater than expected;
- governmental legislation and regulations;
- local economic conditions;
- the demand for high deliverability natural gas storage capacity in the Northeast;
- the availability of natural gas and the price of natural gas to the consumer compared to the price of alternative and competing fuels;
- our ability to successfully implement our business plan for our natural gas storage facilities;
- labor relations;

- environmental claims;
- competition from the same and alternative energy sources;
- operating hazards and other risks incidental to transporting, storing and distributing propane;
- energy efficiency and technology trends;
- interest rates;
- the price and availability of debt and equity financing; and
- large customer defaults.

We have described under Factors That May Affect Future Results of Operations, Financial Condition or Business additional factors that could cause actual results to be materially different from those described in the forward-looking statements. Other factors that we have not identified in this report could also have this effect. You are cautioned not to put undue reliance on any forward-looking statement, which speaks only as of the date it was made.

Table of Contents

General

We are a Delaware limited partnership formed to own and operate a growing retail and wholesale propane supply, marketing and distribution business. We also own and operate a growing midstream business that includes four natural gas storage facilities (Stagecoach , Steuben , Thomas Corners and Tres Palacios), a liquefied petroleum gas (LPG) storage facility (Finger Lakes LPG), a natural gas liquids (NGL) business and a solution-mining and salt production company (US Salt). We further intend to pursue our growth objectives in the propane business through, among other things, future acquisitions. Our acquisition strategy focuses on propane companies that meet our acquisition criteria, including targeting acquisition prospects that maintain a high percentage of retail sales to residential customers, operating in attractive markets and focusing our operations under established and locally recognized trade names. Our midstream growth objectives focus both on organically expanding our existing assets and acquiring future operations that leverage our existing operating platform, produce predominantly fee-based cash flow characteristics and have future organic or commercial expansion characteristics.

Both of our operating segments, propane and midstream, are supported by business development personnel groups employed by the Partnership. These groups daily responsibilities include research, sourcing, financial analysis and due diligence of potential acquisition targets and organic growth opportunities. These employees work closely with the operators of both of our segments in the course of their work to ensure the appropriate growth opportunities are pursued. During fiscal 2010, they evaluated approximately 90 potential acquisitions.

We have grown primarily through acquisitions. Since the inception of our predecessor in November 1996 through September 30, 2010, we have acquired 86 companies, 80 propane companies and 6 midstream businesses, for an aggregate purchase price of approximately $2.1 billion, including working capital, assumed liabilities and acquisition costs.

On December 31, 2009, we acquired the partnership interests of Liberty Propane, LP (Liberty) headquartered in Overland Park, Kansas. At the time it was acquired, Liberty delivered propane to nearly 100,000 customers from 38 customer service centers in the Northeast, Mid-Atlantic and Western regions of the United States. On January 12, 2010, we acquired the propane assets of MGS Corporation (MGS), headquartered in Hackensack, New Jersey. At the time it was acquired, MGS delivered propane to nearly 6,400 customers from five customer service centers. The purchase price allocations for these acquisitions were completed during the year ended September 30, 2010. Changes to final asset valuation of prior fiscal year acquisitions have been included in our consolidated financial statements but are not material.

The results of operations discussed below are those of Inergy, L.P. Audited financial statements for Inergy, L.P. are included elsewhere in this Form 10-K.

The retail propane distribution business is largely seasonal due to propane s primary use as a heating source in residential and commercial buildings. As a result, cash flows from operations are generally highest from November through April when customers pay for propane purchased during the six-month peak heating season of October through March. Our propane operations generally experience net losses in the six-month off season of April through September.

Because a substantial portion of our propane is used in the weather-sensitive residential markets, the temperatures realized in our areas of operations, particularly during the six-month peak heating season, have a significant effect on our financial performance. In any given area, 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. Therefore, we use information on normal temperatures in understanding how historical results of operations are affected by temperatures that are colder or warmer than normal and in preparing forecasts of future operations, which are based on the assumption that normal weather will prevail in each of our operating regions. Heating degree days are a general indicator of how weather impacts propane usage and are calculated for any given period by adding the difference between 65 degrees and the average temperature of each day in the period (if less than 65 degrees). While a substantial portion of our propane is used by our customers for heating needs, our propane operations are geographically diversified and not all of our propane sales are weather sensitive. Together, these factors may make it difficult to draw definitive conclusions as to the correlation of our gallon sales to weather calculations comparing weather in a year to normal or to the prior year.

In determining actual and normal weather for a given period of time, we compare the actual number of heating degree days for the period to the average number of heating degree days for a longer, historical time period assumed to more accurately reflect the average normal weather, in each case as such information is published by the National Oceanic and Atmospheric Administration, for each measuring point in each of our regions. When we discuss normal weather in our results of operations presented below we are referring to a 30-year average consisting of the years 1980 through 2010. We then calculate weighted-averages, based on retail volumes attributable to each measuring point, of actual and normal heating degree days within each region. Based on this information, we calculate a ratio of actual heating degree days to normal heating degree days, first on a regional basis consistent with our operational structure and then on a partnership-wide basis.

The retail propane business is a margin-based business where the level of profitability is largely dependent on the difference between sales prices and product costs. Propane prices continued to be volatile during 2010. At the main pricing hub of Mount Belvieu Texas during the fiscal year ended September 30, 2010, propane prices ranged from a low of $0.93 per gallon to a high of $1.44 per gallon and a price of $1.20 per gallon at September 30, 2010. Our ability to pass on price increases to our customers and our hedging program limits the impact that such volatility has had on our results from operations. In the future, we will continue to hedge virtually 100% of our exposure from fixed price sales. While we have historically been successful in passing on any price increases to our customers, there can be no guarantees that this trend will continue in the future. In periods of increasing costs, we have experienced a decline in our gross profit as a percentage of revenues. In addition, during those periods we have historically experienced conservation of propane gallons used by our customers which has resulted in a decline in gross profit. In periods of decreasing costs, we have experienced an increase in our gross profit as a percentage of revenues. There is no assurance that because propane prices decline customers will use more propane and thus historical gallon sales declines we have attributed to customer conservation will reverse. Propane is a by-product of both crude oil refining and natural gas processing and thus typically follows the same pricing pattern as these two commodities with crude oil pricing being the more influential of the two historically. The prices of crude oil and natural gas had maintained historically high costs in calendar year 2007 and 2008 before both began to fall rather dramatically in late 2008 and throughout the 2008-2009 winter season. While natural gas pricing has remained at historically low levels since the decline, crude oil costs leveled off in the spring 2009 before beginning another increase that persisted through the 2009-2010 winter season with propane prices following a similar pattern for the majority of this time. As such, our selling prices of propane have been at higher levels in order to attempt to maintain our historical gross margin per gallon. We do not attempt to predict or control the underlying commodity prices; however, we monitor these prices daily and adjust our operations and retail prices to maintain expected margins by passing on the wholesale costs to end users of our product. We believe that volatility in commodity prices will continue, and our ability to adjust to and manage our operations in response to this volatility may impact our operations and financial results.

We believe that the economic downturn that began in the second half of 2008 has caused certain of our retail propane customers to conserve and thereby purchase less propane. This trend is expected to continue throughout the life of the economic downturn. In addition, although we believe the economic downturn has not currently had a material impact on our cash collections, it is possible that a prolonged economic downturn could have a negative impact on our future cash collections.

We believe our wholesale supply, marketing and distribution business complements our retail distribution business. Through our wholesale operations, we distribute propane and also offer price risk management services to propane retailers, resellers and other related businesses as well as energy marketers and dealers, through a variety of financial and other instruments, including:

- forward contracts involving the physical delivery of propane;

Table of Contents

- swap agreements which require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for propane; and

- options, futures contracts on the New York Mercantile Exchange and other contractual arrangements.

We engage in derivative transactions to reduce the effect of price volatility on our product costs and to help ensure the availability of propane during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes only when we have a matching purchase commitment from our wholesale customers. However, we may experience net unbalanced positions from time to time.

Our midstream operations primarily include the storage, processing, fractionation and sale of natural gas and NGLs and, to a lesser extent, the wholesale distribution of salt from the solution mining operations of US Salt. The cash flows from these operations are predominantly fee-based under one to ten year contracts with substantial, creditworthy counterparties and, therefore, are generally economically stable and not significantly affected in the short term by changing commodity prices, seasonality or weather fluctuations.

We believe our midstream operations could be negatively affected in the long term by sustained downturns or sluggishness in the economy, which could affect long-term demand and market prices for natural gas and NGLs, all of which are beyond our control and could impair our ability to meet our long-term goals. However, we also believe that the predominantly contractual fee-based nature of our midstream operations may serve to mitigate this potential risk.

The majority of our operating cash flows in our midstream operations are generated by our natural gas storage operations. Most of our natural gas storage revenues are based on regulated market-based tariff rates, which are driven in large part by competition and demand for our storage capacity and deliverability. Demand for storage in our key midstream markets in the northeastern and southeastern United States is projected to continue to be strong, driven by a shortage in storage capacity and a higher than average annual growth in natural gas demand. This demand growth is primarily driven by the natural gas-fired electric generation sector. The natural gas industry is currently experiencing a significant shift in the sources of supply, and this dramatic change could affect our operations. Traditionally, supply to our markets has come from the Gulf Coast region, onshore and offshore, as well as from Canada. The national supply profile is shifting to new sources of natural gas from basins in the Rockies, Mid-Continent, Appalachia and East Texas. In addition, the natural gas supply outlook includes new LNG regasification facilities under various stages of development in multiple locations. LNG can be a new source of potential supply, but the timing and extent of incremental supply ultimately realized from LNG is yet to be determined and, at present, LNG remains a small percentage of the overall supply to the markets we serve. These supply shifts and other changes to the natural gas market may have an impact on our storage operations and our development plans in the northeastern United States and may ultimately drive the need for more domestic capacity for natural gas storage.

Currently, we have three significant capital projects related to our midstream operations: (1) Finger Lakes LPG storage expansion, (2) North/South Pipeline Compression Project and (3) MARC I Hub Line Project. The Finger Lakes LPG storage expansion project relates to the development of certain caverns acquired in the acquisition of US Salt in August 2008. The solution mining process creates caverns that can be developed into LPG or Natural Gas storage after the salt has been extracted. The Finger Lakes LPG expansion project is expected to convert certain of the caverns at US Salt into LPG storage with a capacity of up to 5 million barrels. This project is expected to be completed in spring 2011.

The North/South Project consists of adding additional compression and measurement facilities to our existing Stagecoach Laterals and when completed is expected to have firm transportation capacity of 325,000 dekatherms per day. The North/South Project is supported by long-term contracts and is expected to be placed into service by late 2011.

The MARC I Hub Line Project is a 43 mile, 30 bi-directional pipeline located in Bradford, Sullivan, and Lycoming counties in Pennsylvania. The planned pipeline will extend between our Stagecoach South Lateral Interconnect with TGP near its compressor station 319 and Transco near its compressor station 517. The MARC I Hub Line Project is expected to have a minimum of 550,000 dekatherms per day of firm transportation capacity. We expect the MARC I Hub Line Project to be placed into service in mid-2012.

Our MARC I Hub Line Project and the North/South Project, when placed into service, will allow us to wheel volumes on a firm transportation basis through approximately 75 miles of pipe to and from Tennessee Gas Pipeline Company s (TGP) 300 Line (TGP), Transco s Leidy Line (Transco) and the Millennium Pipeline and all points in between. The two projects combined are expected to add over 45,000 horsepower of additional compression and 875,000 dekatherms per day of transportation capacity to our midstream business in the Northeast.

As we execute on our strategic objectives, capital expansion projects will continue to be an important part of our growth plan. We have committed capital and investment expenditures at September 30, 2010, of $12.3 million in our midstream operations. These capital requirements, along with the refinancings of normal maturities of existing debt, will require us to continue long-term borrowings. An inability to access capital at competitive rates could adversely affect our ability to implement our strategy. Market disruptions or a downgrade in our credit ratings may increase the cost of borrowing or adversely affect our ability to access one or more sources of liquidity. During the past several years, capital expansion projects have been exposed to cost pressures associated with the availability of skilled labor and the pricing of materials. Although certain costs have begun to decrease, there will be continual focus on project management activities to address these pressures as we move forward with planned expansion opportunities. Significant cost increases could negatively affect the returns ultimately earned on current and future expansions.

Our midstream operations in the United States are subject to regulations at the federal and state level. Regulations applicable to the gas storage industry have a significant effect on the nature of our midstream operations and the manner in which they operate. Changes to regulations are ongoing and we cannot predict the future course of changes in the regulatory environment or the ultimate effect that any future changes will have on our midstream operations.

Recent Developments

On August 7, 2010, Inergy and Holdings entered into an Agreement and Plan of Merger, which was amended and restated by the First Amended and Restated Agreement and Plan of Merger, dated as of September 3, 2010, as part of a plan to simplify the capital structures of Inergy and Holdings (the Merger Agreement). Pursuant to the steps contemplated by the Merger Agreement (the Simplification Transaction), Inergy Holdings merged into a wholly owned subsidiary of its general partner (the Merger) and the outstanding common units in Inergy Holdings were cancelled. The Merger closed on November 5, 2010, resulting in Holdings unitholders receiving 0.77 Inergy units for each Holdings unit. Cash will be paid to Holdings unitholders in lieu of any fractional units that would have resulted from the exchange. As a result of the closing, Holdings common units discontinued trading on the New York Stock Exchange as of the close of business on November 5, 2010.

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

Table of Contents

Results of Operations

Fiscal Year Ended September 30, 2010 Compared to Fiscal Year Ended September 30, 2009

The following table summarizes the consolidated income statement components for the fiscal years ended September 30, 2010 and 2009, respectively *(in millions)*:

	Year Ended September 30,		Change	
	2010	2009	In Dollars	Percentage
Revenue	$ 1,786.0	$ 1,570.6	$ 215.4	13.7%
Cost of product sold	1,165.9	996.9	169.0	17.0
Gross profit	620.1	573.7	46.4	8.1
Operating and administrative expenses	309.0	279.6	29.4	10.5
Depreciation and amortization	161.8	115.8	46.0	39.7
Loss on disposal of assets	11.5	5.2	6.3	121.2
Operating income	137.8	173.1	(35.3)	(20.4)
Interest expense, net	(91.0)	(69.7)	(21.3)	(30.6)
Other income	2.0	0.1	1.9	1,900.0
Income before income taxes	48.8	103.5	(54.7)	(52.9)
Provision for income taxes	0.1	0.7	(0.6)	(85.7)
Net income	48.7	102.8	(54.1)	(52.6)
Net income attributable to non-controlling partners in ASC s consolidated net income	0.7	1.4	(0.7)	(50.0)
Net income attributable to partners	$ 48.0	$ 101.4	$ (53.4)	(52.7)%

The following table summarizes revenues, including associated volume of gallons sold, for the years ended September 30, 2010 and 2009, respectively *(in millions)*:

	Revenues				Gallons			
	Year Ended September 30,		Change		Year Ended September 30,		Change	
	2010	2009	In Dollars	Percent	2010	2009	In Units	Percent
Retail propane	$ 796.5	$ 736.7	$ 59.8	8.1%	340.2	310.0	30.2	9.7%
Wholesale propane	475.9	387.7	88.2	22.7	415.3	380.6	34.7	9.1
Other retail	194.5	209.2	(14.7)	(7.0)				
Storage, fractionation and other midstream	319.1	237.0	82.1	34.6				
Total	$ 1,786.0	$ 1,570.6	$ 215.4	13.7%	755.5	690.6	64.9	9.4%

Volume. During fiscal 2010, we sold 340.2 million retail gallons of propane, an increase of 30.2 million gallons or 9.7% from the 310.0 million retail gallons of propane sold during fiscal 2009. Gallons sold during fiscal 2010 increased compared to fiscal 2009 as a result of acquisition-related volume of 49.9 million gallons partially offset by a 19.7 million gallon decline from lower volumes sold at our existing locations. The primary cause of the declining volumes at existing locations was (1) continued customer conservation, which we believe has resulted from the overall weak United States economic environment and to a lesser extent the lingering effects of higher propane costs, which have been at record high prices the past several years, (2) an abrupt end to the 2009/2010 winter heating season and (3) volume declines from net customer losses. Also impacting volumes sold during fiscal 2010 compared to fiscal 2009 was the weather in certain areas of our operations. Based on our calculations using degree day data provided by NOAA, the Southern and Southeast areas of the United States were significantly colder than the prior year period; however gallon gains realized in these areas were somewhat offset by degree day losses in the Eastern and certain Northern parts of our areas of operations. In total, the weather in our areas of operations was 1% colder than normal and 2% colder than last year.

Wholesale gallons delivered increased 34.7 million gallons, or 9.1%, to 415.3 million gallons in fiscal 2010 from 380.6 million gallons in fiscal 2009. The increase was due primarily to greater volumes sold to existing customers and addition of new customers.

The total natural gas liquid gallons sold or processed by our West Coast NGL operations increased 67.3 million gallons, or 23.8%, to 349.9 million gallons in fiscal 2010 from 282.6 million gallons in fiscal 2009. This increase was primarily attributable to the Butamer addition in July 2009 and new terminalling contracts.

During fiscal 2010 and 2009, our Northeast natural gas and LPG storage facilities were 100% contracted.

Revenues. Revenues in fiscal 2010 were $1,786.0 million, an increase of $215.4 million, or 13.7% from $1,570.6 million in fiscal 2009.

Revenues from retail propane sales were $796.5 million for the year ended September 30, 2010, an increase of $59.8 million, or 8.1%, compared to $736.7 million for the year ended September 30, 2009. This increase was primarily due to acquisition-related sales, which resulted in higher retail propane revenues of $117.8 million, partially offset by a combination of a decline in gallons sold to existing customers as described above and a slightly lower overall average retail selling price of propane in fiscal 2010, which contributed a revenue decline of $47.0 million and $11.0 million, respectively.

Revenues from wholesale propane sales were $475.9 million in fiscal 2010, an increase of $88.2 million or 22.7%, from $387.7 million in fiscal 2009. This increase resulted from the greater volumes of propane sold which contributed $35.3 million to the increase in revenues and the higher average wholesale sales price of propane which contributed to $52.9 million of the increase as a result of higher product costs.

Revenues from other retail sales, which primarily include distillates, service, rental, appliance sales and transportation services, were $194.5 million in fiscal 2010, a decrease of $14.7 million, or 7.0% from $209.2 million in fiscal 2009. Revenue from other retail sales declined as a result of lower distillate revenues at existing locations of $18.3 million and a $5.5 million decline in revenues from other products and services, partially offset by a $9.1 million increase from acquisition-related sales. Distillate revenues from existing locations decreased primarily as a result of lower volumes sold. Weather in our distillate areas of operations was 6% warmer than last year and 5% warmer than normal.

Revenues from storage, fractionation and other midstream activities were $319.1 million in fiscal 2010, an increase of $82.1 million or 34.6% from $237.0 million in fiscal 2009. Revenues from our West Coast NGL operations increased $72.0 million primarily as a result of increased commodity sales and processing fees associated with the Butamer addition. Higher average selling prices of natural gas liquids also contributed to the revenue increase. Revenues resulting from the in-servicing of our Thomas Corners facility and the related firm storage contracts resulted in a combined increase of $6.2 million. Additionally, revenues from our US Salt operations increased $3.2 million due to price increases and product mix management.

Cost of Product Sold. Cost of product sold for fiscal 2010 was $1,165.9 million, an increase of $169.0 million, or 17.0%, from $996.9 million in fiscal 2009.

Retail propane cost of product sold was $413.7 million for the year ended September 30, 2010, compared to $373.6 million for the year ended September 30, 2009. This $40.1 million, or 10.7%, increase was primarily due to a $68.0 million increase associated with acquisition-related volume, partially offset by a reduction of retail propane cost of product sold from existing locations of $25.5 million. The decline in retail propane cost of product sold from existing locations resulted primarily from lower volume sales as discussed above. Also contributing to the decline in retail propane cost of product sold was a $2.4 million decrease due to changes in non-cash charges on derivative contracts associated with retail propane fixed price sales contracts.

Wholesale propane cost of product sold in fiscal 2010 was $449.2 million, an increase of $85.4 million or 23.5%, from wholesale cost of product sold of $363.8 million in fiscal 2009. This increase resulted from the greater volumes of propane purchased which contributed $33.2 million to the increase in cost and the higher average purchase price of wholesale propane sold which contributed $52.2 million of the increase as a result of higher commodity prices.

Other retail cost of product sold was $113.1 million for the year ended September 30, 2010, compared to $124.8 million for the year ended September 30, 2009. This $11.7 million, or 9.4%, decrease was primarily due to lower costs from distillate sales at existing locations of $15.1 million and a decline in costs for other products and services of $0.9 million, partially offset by a $4.3 million increase in the cost of product sold associated with acquisition-related sales. The cost of product sold for distillates declined primarily as a result of lower volumes sold at existing locations.

Storage, fractionation and other midstream cost of product sold was $189.9 million, an increase of $55.2 million, or 41.0%, from $134.7 million in fiscal 2009. Costs from our West Coast NGL operations were $62.2 million higher primarily as a result of increased commodity sales associated with the Butamer addition. Increases in the cost of natural gas liquids also contributed to the West Coast NGL cost of products sold increase. This increase was partially offset by lower costs of storage and operational efficiencies at our Stagecoach, US Salt and Finger Lakes LPG facilities.

Our retail and wholesale cost of product sold consists primarily of tangible products sold including all propane, distillates and other natural gas liquids sold and all propane-related appliances sold. Other costs incurred in conjunction with the distribution of these products are included in operating and administrative expenses and consist primarily of wages to delivery personnel, delivery vehicle costs consisting of fuel costs, repair and maintenance and lease expense. Costs associated with delivery vehicles amounted to $67.0 million and $62.0 million for fiscal 2010 and 2009, respectively. In addition, the depreciation expense associated with the delivery vehicles and customer tanks is reported within depreciation and amortization expense and amounted to $32.8 million and $33.0 million in fiscal 2010 and 2009, respectively. Since we include these costs in our operating and administrative expense and depreciation and amortization expense rather than in cost of product sold, our results may not be comparable to other entities in our lines of business if they include these costs in cost of product sold.

Our storage, fractionation and other midstream cost of product sold consists primarily of commodity and transportation costs. Other costs incurred in conjunction with these services are included in operating and administrative expense and depreciation and amortization expense and consist primarily of depreciation, vehicle costs consisting of fuel costs and repair and maintenance and wages. Depreciation expense for storage, fractionation and other midstream amounted to $73.6 million and $36.9 million for fiscal 2010 and 2009, respectively. Vehicle costs combined with wages for personnel directly involved in providing midstream services amounted to $2.9 million and $2.7 million for fiscal 2010 and 2009, respectively. Since we include these costs in our operating and administrative expense and depreciation and amortization expense rather than in cost of product sold, our results may not be comparable to other entities in our lines of business if they include these costs in cost of product sold.

Gross Profit. Gross profit for fiscal 2010 was $620.1 million, an increase of $46.4 million, or 8.1%, from $573.7 million during fiscal 2009.

Retail propane gross profit was $382.8 million in fiscal 2010, an increase of $19.7 million, or 5.4%, compared to $363.1 million in fiscal 2009. This increase in retail propane gross profit was attributable to a $49.8 million increase from acquisitions and a $2.4 million increase related to changes in non-cash charges on derivative contracts associated with retail propane fixed price sales contracts as discussed above. These factors, which increased retail propane gross profit, were partially offset by a $23.3 million decline resulting from lower retail gallon sales at existing locations as discussed above and a $9.2 million decline arising from a lower cash margin per gallon. The decline in cash margin per gallon was primarily the result of a steep escalation in propane costs during the winter heating season contrasted with a period of falling propane costs in the prior year winter.

Wholesale propane gross profit was $26.7 million in fiscal 2010 compared to $23.9 million in fiscal 2009, an increase of $2.8 million or 11.7%. The increase in gross profit was primarily the result of both increased volumes sold and higher margins that we were able to generate from new and existing customers.

Other retail gross profit was $81.4 million for the year ended September 30, 2010, compared to $84.4 million for the year ended September 30, 2009. This $3.0 million, or 3.6%, decrease was due primarily to lower gross profit on other products and services and distillates of $4.6 million and $3.2 million, respectively, partially offset by a $4.8 million increase in related gross profit from acquisitions.

Storage, fractionation and other midstream gross profit was $129.2 million in fiscal 2010 compared to $102.3 million in fiscal 2009, an increase of $26.9 million, or 26.3%. This increase was primarily attributable to additional West Coast NGL contracts due to the Butamer addition in July 2009 and margin improvements as a result of changes in the variety of natural gas liquids sold, resulting in a $9.8 million increase. Additionally, gross profit increased $7.7 million due to the Thomas Corners facility being placed in service. Lower costs of storage and operational efficiencies at our Stagecoach, US Salt and Finger Lakes LPG facilities also contributed to the increased gross profit in fiscal 2010.

Operating and Administrative Expenses. Operating and administrative expenses were $309.0 million in fiscal 2010 compared to $279.6 million in fiscal 2009. This $29.4 million, or 10.5%, increase in operating expenses was due primarily to an increase in long-term incentive compensation of $7.8 million, operations of acquisitions of $29.9 million and $3.6 million of transaction expenses primarily related to those acquisitions. These types of transaction costs were capitalized in previous years, but are now required to be expensed under the new accounting rules. This increase was offset by a decrease in operating expenses of $11.9 million from other existing operations comprised predominately of lower payroll, insurance and other operating expenses.

Depreciation and Amortization. Depreciation and amortization increased to $161.8 million in fiscal 2010 from $115.8 million in fiscal 2009. This $46.0 million, or 39.7%, increase resulted primarily from the West Coast Butamer expansion project together with our other midstream segment projects and acquisitions.

Loss on Disposal of Assets. Loss on disposal of assets increased $6.3 million, or 121.2%, to $11.5 million in fiscal 2010 compared to $5.2 million in fiscal 2009. The losses recognized in fiscal 2010 and 2009 include losses of $9.7 million and $4.9 million, respectively, related to assets held for sale, which have been written down to their estimated selling price. In addition, we had other losses in fiscal 2010 and fiscal 2009 of $1.8 million and $0.3 million, respectively. These assets, both those sold and those held for sale, consist primarily of vehicles, tanks and real estate deemed to be excess, redundant or underperforming assets. In fiscal 2010 and 2009, these assets were identified primarily as a result of losses due to disconnecting customer installations of less profitable accounts due to low margins, poor payment history or low volume usage and customers who have chosen to switch suppliers.

Interest Expense. Interest expense increased to $91.0 million in fiscal 2010 compared to $69.7 million in fiscal 2009. This $21.3 million, or 30.6%, increase was primarily attributable to higher average interest rates incurred on our borrowings and to a lesser extent an increase in the average outstanding borrowings during the period. Additionally, during fiscal 2010 and 2009, we capitalized $6.3 million and $14.8 million, respectively, of interest related to certain capital improvement projects in our midstream segment as further described below in the Liquidity and Sources of Capital Capital Resource Activities section.

Interest of Non-controlling Partners in ASC s Consolidated Net Income. We acquired a majority interest (approximately 55%) in the operations of Steuben when we acquired 100% of the membership interest in ASC in

Table of Contents

October 2007. In January 2010, we acquired an additional 25% interest in Steuben and in April 2010 and July 2010, we acquired an additional 10% interest in Steuben. These acquisitions gave us 100% ownership of Steuben.

Net Income Attributable to Partners. Net income for fiscal 2010 was $48.0 million compared to net income for fiscal 2009 of $101.4 million. The $53.4 million, or 52.7%, decrease in net income was primarily attributable to increased depreciation and amortization ($46.0 million), operating and administrative expenses ($29.4 million) and interest expense ($21.3 million) in fiscal 2010, partially offset by a higher gross profit ($46.4 million).

EBITDA and Adjusted EBITDA. The following tables summarize EBITDA and Adjusted EBITDA for the fiscal years ended September 30, 2010 and 2009, respectively (*in millions*):

	Year Ended September 30, 2010	Year Ended September 30, 2009
EBITDA:		
Net income attributable to partners	$ 48.0	$ 101.4
Interest of non-controlling partners in ASC s consolidated ITDA[(a)]	(0.2)	(0.5)
Interest expense, net	91.0	69.7
Provision for income taxes	0.1	0.7
Depreciation and amortization	161.8	115.8
EBITDA	$ 300.7	$ 287.1
Non-cash (gain) loss on derivative contracts	(1.0)	1.4
Long-term incentive and equity compensation expense	10.9	3.1
Loss on disposal of assets	11.5	5.2
Transaction costs	3.5	
Adjusted EBITDA	$ 325.6	$ 296.8

(a) ITDA Interest expense, taxes, depreciation and amortization expense.

	Year Ended September 30, 2010	Year Ended September 30, 2009
EBITDA:		
Net cash provided by operating activities	$ 175.3	$ 239.4
Net changes in working capital balances	61.6	(3.6)
Provision for doubtful accounts	(2.8)	(3.7)
Amortization of deferred financing costs and net bond discount	(7.3)	(5.2)
Unit-based compensation expense	(4.8)	(3.1)
Loss on disposal of assets	(11.5)	(5.2)
Interest of non-controlling partners in ASC s consolidated EBITDA	(0.9)	(1.9)
Interest expense, net	91.0	69.7
Provision for income taxes	0.1	0.7
EBITDA	$ 300.7	$ 287.1
Non-cash (gain) loss on derivative contracts	(1.0)	1.4
Long-term incentive and equity compensation expense	10.9	3.1

Loss on disposal of assets	11.5	5.2
Transaction costs	3.5	
Adjusted EBITDA	$ 325.6	$ 296.8

Table of Contents

EBITDA is defined as income before income taxes, plus net interest expense and depreciation and amortization expense. For the years ended September 30, 2010 and 2009, EBITDA was $300.7 million and $287.1 million, respectively. As indicated in the table, Adjusted EBITDA represents EBITDA excluding the gain or loss on derivative contracts associated with retail propane fixed price sales contracts, the gain or loss on the disposal of assets, long-term incentive and equity compensation expenses and transaction costs. Transaction costs are third party professional fees and other costs that are incurred in conjunction with closing a transaction. Adjusted EBITDA was $325.6 million for fiscal 2010 compared to $296.8 million in fiscal 2009. EBITDA and Adjusted EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or the ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. Further, EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other corporations or partnerships.

Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008

The following table summarizes the consolidated income statement components for the fiscal years ended September 30, 2009 and 2008, respectively *(in millions)*:

	Year Ended September 30,		Change	
	2009	**2008**	**In Dollars**	**Percentage**
Revenue	$ 1,570.6	$ 1,878.9	$ (308.3)	(16.4)%
Cost of product sold	996.9	1,376.7	(379.8)	(27.6)
Gross profit	573.7	502.2	71.5	14.2
Operating and administrative expenses	279.6	265.6	14.0	5.3
Depreciation and amortization	115.8	98.0	17.8	18.2
Loss on disposal of assets	5.2	11.5	(6.3)	(54.8)
Operating income	173.1	127.1	46.0	36.2
Interest expense, net	(69.7)	(60.9)	(8.8)	(14.4)
Other income	0.1	1.0	(0.9)	(90.0)
Income before income taxes	103.5	67.2	36.3	54.0
Provision for income taxes	0.7	0.7		
Net income	102.8	66.5	36.3	54.6
Net income attributable to non-controlling partners in ASC s consolidated net income	1.4	1.4		
Net income attributable to partners	$ 101.4	$ 65.1	$ 36.3	55.8%

Table of Contents

The following table summarizes revenues, including associated volume of gallons sold, for the years ended September 30, 2009 and 2008, respectively *(in millions)*:

	Revenues				Gallons			
	Year Ended September 30,		Change		Year Ended September 30,		Change	
	2009	2008	In Dollars	Percent	2009	2008	In Units	Percent
Retail propane	$ 736.7	$ 840.7	$ (104.0)	(12.4)%	310.0	331.9	(21.9)	(6.6)%
Wholesale propane	387.7	546.1	(158.4)	(29.0)	380.6	358.5	22.1	6.2
Other retail	209.2	223.0	(13.8)	(6.2)				
Storage, fractionation and other midstream	237.0	269.1	(32.1)	(11.9)				
Total	$ 1,570.6	$ 1,878.9	$ (308.3)	(16.4)%	690.6	690.4	0.2	%

Volume. During fiscal 2009, we sold 310.0 million retail gallons of propane, a decrease of 21.9 million gallons or 6.6% from the 331.9 million retail gallons of propane sold during fiscal 2008. Gallons sold during fiscal 2009 declined compared to fiscal 2008 as a result of lower volumes sold at our existing locations of 35.1 million gallons partially offset by a 13.2 million gallon increase from acquisition-related volume. Although the weather in our areas of operations was 7% colder than the prior year period when compared to our calculations using degree day data provided by NOAA, the increase in gallon sales associated with this colder weather was more than offset by (1) continued customer conservation, which we believe resulted primarily from the lingering effects of the higher cost of propane that existed at the end of our fiscal year 2008, as well as the overall weak United States economic environment, and (2) volume declines from net customer losses during the periods of high propane costs, including low margin and less profitable customers.

Wholesale gallons delivered increased 22.1 million gallons, or 6.2%, to 380.6 million gallons in fiscal 2009 from 358.5 million gallons in fiscal 2008. The increase was due primarily to greater volumes sold to existing customers and addition of new customers.

The total natural gas liquid gallons sold or processed by our West Coast NGL operations increased 23.5 million gallons, or 9.1%, to 282.6 million gallons in fiscal 2009 from 259.1 million gallons in fiscal 2008. This increase was primarily attributable to renewal of certain customer contracts and the addition of new contracts.

During fiscal 2009 and 2008, our Northeast natural gas and LPG storage facilities were 100% contracted.

Revenues. Revenues in fiscal 2009 were $1,570.6 million, a decrease of $308.3 million, or 16.4% from $1,878.9 million in fiscal 2008.

Revenues from retail propane sales were $736.7 million for the year ended September 30, 2009, a decrease of $104.0 million, or 12.4%, compared to $840.7 million for the year ended September 30, 2008. This decrease resulted primarily from a combination of a lower overall average selling price of propane due to a reduction in the wholesale cost of propane and a decline in gallons sold to existing customers as described above, which together contributed to a $136.3 million revenue decline, partially offset by acquisition-related sales, which resulted in higher revenues of $32.3 million.

Revenues from wholesale propane sales were $387.7 million in fiscal 2009, a decrease of $158.4 million or 29.0%, from $546.1 million in fiscal 2008. This decrease resulted primarily from the lower average selling price of propane, which contributed $192.0 million to the decrease in revenues. The lower selling price for our wholesale propane sales in fiscal 2009 compared to fiscal 2008 was the result of the lower cost of propane. This decrease was partially offset by increases in volume sold to existing and new customers.

Revenues from other retail sales, which primarily include distillates, service, rental, appliance sales and transportation services, were $209.2 million in fiscal 2009, a decrease of $13.8 million, or 6.2% from $223.0

Table of Contents

million in fiscal 2008. Revenues from other retail sales decreased $56.0 million due to lower distillate sales from existing locations and a decline in other revenues of $5.9 million, partially offset by higher revenues of $48.1 million attributable to acquisitions. The decrease in distillate revenues at existing locations was the result of lower volume sold coupled with a decline in the comparable average selling price of the distillates resulting from a lower wholesale cost.

Revenues from storage, fractionation and other midstream activities were $237.0 million in fiscal 2009, a decrease of $32.1 million or 11.9% from $269.1 million in fiscal 2008. Revenues from our West Coast NGL operations decreased $81.3 million primarily as a result of decreases in commodity cost and expected changes in the variety of natural gas liquid products sold. Partially offsetting this decrease was a $44.2 million increase due to the acquisition of US Salt. In addition, revenues at our Finger Lakes LPG facility and Stagecoach facility increased due to an increase in contractual rates and the commencement of operations on the Stagecoach North Lateral connecting to Millennium Pipeline in December 2008.

Cost of Product Sold. Cost of product sold for fiscal 2009 was $996.9 million, a decrease of $379.8 million, or 27.6%, from $1,376.7 million in fiscal 2008.

Retail propane cost of product sold was $373.6 million for the year ended September 30, 2009, compared to $527.9 million for the year ended September 30, 2008. This $154.3 million, or 29.2%, decrease in retail propane cost of product sold was driven by an approximate 25% decline in the average per gallon cost of propane along with lower volume sales at our existing locations as discussed above, which together reduced costs $169.7 million. These factors were partially offset by a $14.1 million increase in the cost of product sold associated with acquisition-related volume and a $1.3 million increase in cost of product sold related to changes in non-cash charges on derivative contracts associated with retail propane fixed price sales contracts.

Wholesale propane cost of product sold in fiscal 2009 was $363.8 million, a decrease of $161.3 million or 30.7%, from wholesale cost of product sold of $525.1 million in fiscal 2008. These lower costs were primarily a result of a $193.6 million decrease due to the lower average cost of propane. This decrease was partially offset by increases in volume sold to existing and new customers.

Other retail cost of product sold was $124.8 million for the year ended September 30, 2009, compared to $146.6 million for the year ended September 30, 2008. This $21.8 million, or 14.9%, decrease was primarily due to a $57.1 million reduction in cost of product sold related to distillate sales at existing locations due to both declines in volumes sold and the average cost of product. Also contributing to the decline in other retail cost of product sold was a reduction in costs related to other products and services of $1.9 million. These factors were partially offset by higher costs associated with acquisitions of $37.2 million.

Storage, fractionation and other midstream cost of product sold was $134.7 million, a decrease of $42.4 million, or 23.9%, from $177.1 million in fiscal 2008. Costs from our West Coast NGL operations were $76.0 million lower primarily as a result of decreases in commodity cost and expected changes in the variety of natural gas liquid products sold. Partially offsetting this decrease was a $28.2 million increase in cost due to the acquisition of US Salt.

Our retail and wholesale cost of product sold consists primarily of tangible products sold including all propane, distillates and other natural gas liquids sold and all propane-related appliances sold. Other costs incurred in conjunction with the distribution of these products are included in operating and administrative expenses and consist primarily of wages to delivery personnel, delivery vehicle costs consisting of fuel costs, repair and maintenance and lease expense. Costs associated with delivery vehicles amounted to $62.0 million and $67.0 million for fiscal 2009 and 2008, respectively. In addition, the depreciation expense associated with the delivery vehicles and customer tanks is reported within depreciation and amortization expense and amounted to $33.0 million in fiscal 2009 and 2008. Since we include these costs in our operating and administrative expense and depreciation and amortization expense rather than in cost of product sold, our results may not be comparable to other entities in our lines of business if they include these costs in cost of product sold.

Table of Contents

Our storage, fractionation and other midstream cost of product sold consists primarily of commodity and transportation costs. Other costs incurred in conjunction with these services are included in operating and administrative expense and depreciation and amortization expense and consist primarily of depreciation, vehicle costs consisting of fuel costs and repair and maintenance and wages. Depreciation expense for storage, fractionation and other midstream amounted to $36.9 million and $27.7 million for fiscal 2009 and 2008, respectively. Vehicle costs combined with wages for personnel directly involved in providing midstream services amounted to $2.7 million and $3.3 million for fiscal 2009 and 2008, respectively. Since we include these costs in our operating and administrative expense and depreciation and amortization expense rather than in cost of product sold, our results may not be comparable to other entities in our lines of business if they include these costs in cost of product sold.

Gross Profit. Gross profit for fiscal 2009 was $573.7 million, an increase of $71.5 million, or 14.2%, from $502.2 million during fiscal 2008.

Retail propane gross profit was $363.1 million in fiscal 2009, an increase of $50.3 million, or 16.1%, compared to $312.8 million in fiscal 2008. This increase in retail propane gross profit was mostly attributable to a higher cash margin per gallon, which contributed an increase to gross profit of $66.5 million, and an increase of $18.2 million associated with acquisitions, partially offset by a $33.1 million decline in gross profit resulting from lower retail gallon sales at existing locations as discussed above and a $1.3 million decline related to changes in non-cash charges on derivative contracts associated with retail propane fixed price sales contracts. The increase in cash margin per gallon was primarily the result of our selling price of propane declining at a slower rate in certain markets than the underlying cost of propane declined.

Wholesale propane gross profit was $23.9 million in fiscal 2009 compared to $21.0 million in fiscal 2008, an increase of $2.9 million or 13.8%. This increase was primarily the result of both increased volumes sold and higher margins that we were able to attain in certain regions where supply disruption occurred in 2009.

Other retail gross profit was $84.4 million for the year ended September 30, 2009, compared to $76.4 million for the year ended September 30, 2008. This $8.0 million, or 10.5%, increase was due primarily to a $10.9 million increase from acquisitions and a $1.1 million increase in distillate gross profit, partially offset by a $4.0 million decline in gross profit for other products and services.

Storage, fractionation and other midstream gross profit was $