

Energy Transfer Partners, L.P.

Form PRE 14A

October 23, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

ENERGY TRANSFER PARTNERS, L.P.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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Table of Contents

**Energy Transfer Partners, L.P.
3738 Oak Lawn Ave.
Dallas, Texas 75219**

October , 2008

To our common unitholders:

You are cordially invited to attend a special meeting of the common unitholders of Energy Transfer Partners, L.P. (the Partnership) to be held at The Warwick Melrose Hotel, 3015 Oak Lawn Ave., Dallas, Texas 75219 on Tuesday, December 2, 2008, at 10:00 a.m., Dallas, Texas time. The board of directors of Energy Transfer Partners, L.L.C. (the Company), the general partner of Energy Transfer Partners GP, L.P. (the General Partner), our general partner, which we refer to as our board of directors, has called the special meeting. At this important meeting, you will be asked to consider and vote upon a proposal to approve the terms of the Energy Transfer Partners, L.P. 2008 Long-Term Incentive Plan (the 2008 Incentive Plan), which provides for awards of options to purchase our common units, awards of our restricted units, awards of our phantom units, awards of distribution equivalent rights, or DERs, and awards of common unit appreciation rights to employees of the Partnership, the Company, the General Partner, a subsidiary or their affiliates, and the members of our board of directors (the 2008 Incentive Plan Proposal).

Our board of directors has unanimously approved the 2008 Incentive Plan Proposal and the reservation and issuance from time to time of common units by us under the 2008 Incentive Plan. Our board of directors believes that the 2008 Incentive Plan Proposal is in the best interests of our unitholders and the Partnership and unanimously recommends that the unitholders approve the 2008 Incentive Plan Proposal.

Our currently effective incentive plan, the Amended and Restated Energy Transfer Partners, L.P. 2004 Unit Plan (as amended and restated as of June 27, 2007, the 2004 Plan), permits us to issue a maximum of 1,800,000 of our common units. As of October 15, 2008, awards for 1,456,607 common units had been granted and 343,393 common units remained available for issuance under our 2004 Plan. We expect substantially all of these remaining common units available for grant will be awarded in 2008 and are therefore seeking approval of awards under the new plan to provide for additional common units for future grants to employees of the Partnership, the Company, the General Partner or their affiliates, and the members of our board of directors. A copy of the form of 2008 Incentive Plan is attached to this proxy statement as Exhibit A. The 2004 Plan will continue in effect and will not be affected by the 2008 Incentive Plan.

Your vote is very important. Even if you plan to attend the special meeting, we urge you to mark, sign and date the enclosed proxy card and return it promptly. You will retain the right to revoke it at any time before the vote, or to vote your common units personally if you attend the special meeting. The form of proxy provides unitholders the opportunity to vote on the 2008 Incentive Plan Proposal.

The 2008 Incentive Plan Proposal will not be effective unless approved by the unitholders. A quorum of more than 50% of our outstanding common units present in person or by proxy will permit us to conduct the proposed business at the special meeting. Our partnership agreement does not require that we present the 2008 Incentive Plan Proposal to our unitholders for approval. However, under the rules of the New York Stock Exchange, the 2008 Incentive Plan Proposal requires the approval of a majority of the votes cast by our unitholders, provided that the total votes cast on the proposal represents at least 50% of all common units entitled to vote.

I urge you to review carefully the attached proxy statement, which contains a detailed description of the 2008 Incentive Plan Proposal to be voted upon at the special meeting.

Sincerely,

KELCY L. WARREN
*Chief Executive Officer of
Energy Transfer Partners, L.L.C.
on behalf of Energy Transfer Partners, L.P.*

Table of Contents

**ENERGY TRANSFER PARTNERS, L.P.
3738 Oak Lawn Ave.
Dallas, Texas 75219**

**NOTICE OF SPECIAL MEETING OF COMMON UNITHOLDERS
To Be Held On December 2, 2008**

To our common unitholders:

A special meeting of our common unitholders will be held at The Warwick Melrose Hotel, 3015 Oak Lawn Avenue, Dallas, Texas 75219 on December 2, 2008, at 10:00 a.m. Dallas, Texas time. At the meeting, our unitholders will act on a proposal (the 2008 Incentive Plan Proposal) to approve the terms of the Energy Transfer Partners, L.P. 2008 Long-Term Incentive Plan (the 2008 Incentive Plan), which provides for awards of options to purchase our common units, awards of our restricted units, awards of our phantom units, awards of distribution equivalent rights, or DERs, and awards of common unit appreciation rights to employees of the Partnership, Energy Transfer Partners, L.L.C. (the Company), Energy Transfer Partners GP, L.P. (the General Partner), a subsidiary or their affiliates, and the members of our board of directors. A copy of the form of 2008 Incentive Plan is attached to this proxy statement as Exhibit A.

The form of proxy provides unitholders the opportunity to vote on the 2008 Incentive Plan Proposal. However, the 2008 Incentive Plan Proposal will not be effective unless approved by the unitholders. A quorum of more than 50% of our outstanding common units present in person or by proxy will permit us to conduct the proposed business at the special meeting. Our partnership agreement does not require that we submit the 2008 Incentive Plan Proposal to unitholders for a vote. However, under the rules of the New York Stock Exchange, the 2008 Incentive Plan Proposal requires the approval of a majority of the votes cast by our unitholders, provided that the total votes cast on the proposal represent at least 50% of all common units entitled to vote. We may adjourn the special meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the 2008 Incentive Plan Proposal.

We have set the close of business on October 1, 2008 as the record date for determining which common unitholders are entitled to receive notice of and to vote at the special meeting and any postponements or adjournments thereof. A list of common unitholders entitled to vote is on file at our principal offices, 3738 Oak Lawn Avenue, Dallas, Texas 75219, and will be available for inspection by any unitholder during the meeting.

Your Vote is Very Important. If you cannot attend the special meeting, you may vote by mailing the proxy card in the enclosed postage-prepaid envelope. Any common unitholder attending the meeting may vote in person, even though he or she already has returned a proxy card.

BY ORDER OF THE BOARD OF DIRECTORS
OF ENERGY TRANSFER PARTNERS, L.L.C.,
the general partner of ENERGY TRANSFER PARTNERS GP, L.P.,
the general partner of ENERGY TRANSFER PARTNERS, L.P.

THOMAS P. MASON
Vice President, General Counsel and Secretary
Energy Transfer Partners, L.L.C.

Dallas, Texas
October 1, 2008

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. THIS PROXY STATEMENT IS DATED OCTOBER , 2008. YOU SHOULD ASSUME THAT THE INFORMATION CONTAINED IN THIS PROXY STATEMENT IS ACCURATE AS OF THAT DATE ONLY. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF
PROXY MATERIALS FOR THE SPECIAL
MEETING TO BE HELD ON DECEMBER 2, 2008**

**The Notice of Special Meeting of Common Unitholders and the Proxy Statement for
the Special Meeting of are available at <http://www.energytransfer.com>.**

TABLE OF CONTENTS

<u>QUESTIONS AND ANSWERS</u>	1
<u>THE PARTNERSHIP</u>	5
<u>THE 2008 INCENTIVE PLAN PROPOSAL</u>	6
<u>INTEREST OF DIRECTORS AND EXECUTIVE OFFICERS IN THE 2008 INCENTIVE PLAN PROPOSAL</u>	10
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS</u>	11
<u>EXECUTIVE COMPENSATION</u>	14
<u>THE SPECIAL MEETING</u>	30
<u>HOUSEHOLDING MATTERS</u>	32
<u>WHERE YOU CAN FIND MORE INFORMATION ABOUT US</u>	32
<u>EXHIBIT A FORM OF ENERGY TRANSFER PARTNERS, L.P. 2008 LONG-TERM INCENTIVE PLAN</u>	A-1

Table of Contents

**ENERGY TRANSFER PARTNERS, L.P.
3738 Oak Lawn Avenue
Dallas, Texas 75219**

**PROXY STATEMENT
SPECIAL MEETING OF COMMON UNITHOLDERS
DECEMBER 2, 2008**

This proxy statement contains information related to the special meeting of common unitholders of Energy Transfer Partners, L.P. (the Partnership) and any postponements or adjournments thereof. This proxy statement and the accompanying form of proxy are first being mailed to our unitholders on or about October 1, 2008.

QUESTIONS AND ANSWERS

The following is qualified in its entirety by the more detailed information contained in or incorporated by reference in this proxy statement. Common unitholders are urged to read carefully this proxy statement in its entirety. FOR ADDITIONAL COPIES OF THIS PROXY STATEMENT OR PROXY CARDS, OR IF YOU HAVE ANY QUESTIONS ABOUT THE SPECIAL MEETING, CONTACT INNISFREE M&A INCORPORATED AT 1-888-750-5834 OR 501 MADISON AVENUE, 20TH FLOOR, NEW YORK, NEW YORK 10022.

Q: Who is soliciting my proxy?

A: Energy Transfer Partners GP, L.P., our general partner (the General Partner), is sending you this proxy statement in connection with its solicitation of proxies for use at our special meeting of common unitholders. Certain directors, officers and employees of Energy Transfer Partners, L.L.C., the general partner of the General Partner, and Innisfree M&A Incorporated (a proxy solicitor) may also solicit proxies on our behalf by mail, phone, fax or in person.

Q: How will my proxy be voted?

A: Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote all executed proxy cards in accordance with the recommendations of the board of directors of our general partner (which we refer to as our board of directors), which is to vote FOR the proposal. With respect to any other matter that properly comes before the special meeting, the proxy holders will vote as recommended by the board of directors, or, if no recommendation is given, in their own discretion.

Q: When and where is the special meeting?

A: The special meeting will be held on December 2, 2008, at 10:00 a.m., Dallas, Texas time at The Warwick Melrose Hotel, 3015 Oak Lawn Avenue, Dallas, Texas 75219.

The special meeting may be adjourned to another date and/or place for any proper purposes (including, without limitation, for the purpose of soliciting additional proxies). However, our partnership agreement also provides that, in the absence of a quorum, the special meeting may be adjourned from time to time by the affirmative vote of a majority of the outstanding common units represented either in person or by proxy.

Q: What is the purpose of the special meeting?

A:

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At the special meeting, our unitholders will act upon a proposal to approve the terms of the Energy Transfer Partners, L.P. 2008 Long-Term Incentive Plan (the 2008 Incentive Plan), which provides for awards of options to purchase our common units, awards of our restricted units, awards of our phantom units, awards of common units, awards of distribution equivalent rights, or DERs, awards of common unit appreciation rights, and other unit-based awards to employees of the Partnership, the Company, the General Partner, a subsidiary or their affiliates, and the members of our board of directors (the 2008 Incentive Plan Proposal). A copy of the form of 2008 Incentive Plan is attached to this proxy statement as Exhibit A.

Table of Contents

Q: Who is entitled to vote at the special meeting?

A: All common unitholders who owned our common units at the close of business on the record date, October , 2008, are entitled to receive notice of the special meeting and to vote the common units that they held on the record date at the special meeting, or any postponements or adjournments of the special meeting. Each unitholder may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the special meeting.

Q: How do I vote?

A: Mail your completed, signed and dated proxy card in the enclosed postage-paid return envelope as soon as possible so that your common units may be represented at the special meeting. You may also attend the special meeting and vote your common units in person. Holders whose common units are held in street name through brokers or other nominees who wish to vote at the special meeting will need to obtain a legal proxy from the institution that holds their common units. Even if you plan to attend the special meeting, your plans may change, so it is a good idea to complete, sign and return your proxy card in advance of the special meeting.

Q: If my common units are held in street name by my broker, will my broker or other nominee vote my common units for me?

A: If you own your common units in street name through a broker or nominee, your broker or nominee will not be permitted to exercise voting discretion with respect to the matters to be acted upon at the special meeting. Thus, if you do not give your broker or nominee specific instructions, your common units will not be voted on the proposal.

Q: What do I do if I want to change my vote?

A: To change your vote after you have submitted your proxy card, send in a later-dated, signed proxy card to us or attend the special meeting and vote in person. You may also revoke your proxy by sending in a notice of revocation to us at the address set forth in the notice. Please note that attendance at the special meeting will not by itself revoke a previously granted proxy. If you have instructed your broker or other nominee to vote your common units, you must follow the procedure your broker or nominee provides to change those instructions.

Q: What is the recommendation of the board of directors?

A: The board of directors recommends that you vote **FOR** the 2008 Incentive Plan Proposal. In addition, on October , 2008, our board of directors, including each of our directors who meet the independence requirements of the New York Stock Exchange (the NYSE), unanimously approved the reservation and issuance from time to time of common units by us under the 2008 Incentive Plan Proposal.

Q: What effect will the 2008 Incentive Plan Proposal have on the Amended and Restated Energy Transfer Partners, L.P. 2004 Unit Plan (the 2004 Plan)?

A: The 2004 Plan will continue in effect and will not be affected by the 2008 Incentive Plan. The 2004 Plan permits us to issue a maximum of 1,800,000 of our common units. As of October 15, 2008, awards for 1,456,607 common units had been granted and 343,393 common units remained available for issuance under the 2004 Plan. However, if any award is forfeited or otherwise terminates or is cancelled without delivery of common units, then the common units covered by such award, to the extent forfeited, terminated or cancelled, are again common

units with respect to which awards may be granted. We expect substantially all of these remaining common units available for grant will be awarded in 2008 and are therefore seeking approval of awards under the new plan to provide for additional common units for future grants to employees of the Partnership, the Company, the General Partner, a subsidiary and their affiliates, and the members of our board of directors.

Table of Contents

Q: What constitutes a quorum?

A: If more than 50% of our outstanding common units on the record date are present in person or by proxy at the special meeting, such units will constitute a quorum and will permit us to conduct the proposed business at the special meeting. Your common units will be counted as present at the special meeting if you:

are present and vote in person at the meeting; or

have submitted a properly executed proxy card.

Proxies received but marked as abstentions will be counted as common units that are present and entitled to vote for purposes of determining the presence of a quorum. If an executed proxy is returned by a broker or other nominee holding common units in street name indicating that the broker does not have discretionary authority as to certain common units to vote on the proposals (a broker non-vote), such common units will be considered present at the meeting for purposes of determining the presence of a quorum but will not be considered entitled to vote.

Q: What vote is required to approve the proposal?

A: Under the New York Stock Exchange Listed Company Manual (NYSE Manual), the 2008 Incentive Plan Proposal requires the approval of a majority of the votes cast by our unitholders, provided that the total votes cast on the proposal represent more than 50% of all common units entitled to vote. Votes for and against and abstentions count as votes cast, while broker non-votes do not count as votes cast. Thus, the total sum of votes for, plus votes against, plus abstentions in respect of the proposal, which is referred to the NYSE Votes Cast, must be greater than 50% of the total of our outstanding common units. Once the NYSE Votes Cast requirement is satisfied, the number of votes cast for the Incentive Plan Proposal must represent a majority of the NYSE Votes Cast in respect of such proposal in order to be approved. Thus, broker non-votes can make it difficult to satisfy the NYSE Votes Cast requirement, and abstentions have the effect of a vote against the 2008 Incentive Plan Proposal.

The form of proxy provides unitholders the opportunity to vote on the 2008 Incentive Plan Proposal. However, the 2008 Incentive Plan Proposal will not be effective unless approved by the unitholders.

A properly executed proxy submitted without voting instructions will be voted (except to the extent that the authority to vote has been withheld) **FOR** the 2008 Incentive Plan Proposal.

Q: What are the federal income tax consequences of the 2008 Incentive Plan Proposal to unitholders?

A: The following is a general description of the federal income tax consequences of options, restricted units, phantom units, distribution equivalent rights and common unit appreciation rights granted under the 2008 Incentive Plan. It is a general summary only and does not discuss the applicability of the income tax laws of any state or foreign country. Unitholders will not recognize any gain or loss for federal income tax purposes upon the effectiveness of the 2008 Incentive Plan.

Options granted under the 2008 Incentive Plan are non-statutory options under the Internal Revenue Code. There are no federal income tax consequences to participants or the partnership upon the grant of an option under the 2008 Incentive Plan. Thereafter, upon the exercise of options, participants will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the common units at the time of

exercise over the purchase price of the option.

The recipient of a restricted unit award will not recognize income at the time of the award, assuming the restrictions applicable to such award constitute a substantial risk of forfeiture for federal income tax purposes and the recipient does not make an election to include the value of the common units in his current income under Section 83(b) of the Internal Revenue Code (an 83(b) election). If the recipient of a restricted unit award makes an 83(b) election, the recipient will recognize ordinary income equal to the fair market value of the common units on the date the award is granted and thereafter will be treated as a partner in the partnership. If the recipient of a restricted unit award does not make an 83(b) election, then, when the applicable forfeiture restrictions lapse, the recipient will recognize compensation taxable as

Table of Contents

ordinary income in an amount equal to the fair market value of the common units on the date the forfeiture restrictions lapse.

The recipient of a phantom unit award will not recognize income at the time of the award. Thereafter, when the applicable forfeiture restrictions lapse and the phantom unit award becomes vested, the recipient will recognize compensation taxable as ordinary income in an amount equal to the fair market value of the common units on the date the forfeiture restrictions lapse.

The recipient of a common unit appreciation right award will not recognize income at the time of the award. Thereafter, upon the exercise of the common unit appreciation right, the recipient will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the underlying common units at the date of exercise over the purchase price for such common unit appreciation right.

The recipient of a common unit award will recognize income at the time of the award in an amount equal to the fair market value of the common units on the date of grant.

The recipient of any other unit-based award will not recognize income at the time of the award, but, upon the lapse of applicable forfeiture restrictions, will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the underlying common units on the date the forfeiture restrictions lapse over the purchase price for such other unit-based award, if any.

If the participant holds a phantom unit award with distribution equivalent rights payable prior to the participant becoming a partner, or holds unit distribution rights related to unvested restricted units, the participant will recognize ordinary compensation income when distribution equivalents are paid to the participant.

The partnership generally will be entitled to a corresponding federal income tax deduction for amounts recognized as ordinary income by participants upon the settlement of awards granted under the 2008 Incentive Plan.

Since our partnership is not a taxable entity, all reimbursements made by us to the Company with respect to awards under the 2008 Incentive Plan are treated as deductions that are allocated among the partners of our partnership in accordance with the partnership agreement.

Q: Who can I contact for further information?

A: If you have questions about the proposals, please call our Investor Relations Department at (214) 981-0700.

Table of Contents

THE PARTNERSHIP

We are a publicly traded limited partnership that owns and operates a diversified portfolio of energy assets. Our natural gas operations include intrastate natural gas gathering and transportation pipelines, an interstate pipeline, natural gas treating and processing assets located in Texas, New Mexico, Arizona, Louisiana, Colorado and Utah, and three natural gas storage facilities located in Texas. These assets include approximately 14,500 miles of intrastate gas gathering and transportation pipeline in service, with an additional 300 miles of intrastate pipeline under construction. In addition, we own 2,450 miles of interstate pipelines in service, with approximately 250 miles of interstate pipeline under construction. Our intrastate and interstate pipeline systems transport natural gas from several significant natural gas producing areas, including the Barnett Shale in the Fort Worth Basin, the Bossier Sands in east Texas, the Permian Basin in west Texas, the San Juan Basin in New Mexico and other producing areas in south Texas and central Texas. Our gathering and processing operations are conducted in many of these same producing areas as well as in the Piceance and Uinta Basins in Colorado and Utah. We are also one of the three largest retail marketers of propane in the United States, serving more than one million customers across the country.

We are a limited partnership formed under the laws of the State of Delaware. Our common units are listed on the NYSE under the ticker symbol ETP. Our executive offices are located at 3738 Oak Lawn Avenue, Dallas, Texas 75219. Our telephone number is (214) 981-0700. We maintain a website at <http://www.energytransfer.com> that provides information about our business and operations.

As a limited partnership, we are managed by our general partner, Energy Transfer Partners GP, L.P., which in turn is managed by its general partner, Energy Transfer Partners, L.L.C. Energy Transfer Partners, L.L.C. is ultimately responsible for the business and operations of our general partner and conducts our business and operations, and the board of directors and officers of Energy Transfer Partners, L.L.C. make decisions on our behalf.

Table of Contents

THE 2008 INCENTIVE PLAN PROPOSAL

Adoption of the 2008 Incentive Plan

On October 1, 2008, our board of directors, subject to the approval of our unitholders as required under the NYSE's rules, ratified and approved the 2008 Incentive Plan and authorized us to reserve and issue up to 5,000,000 common units under the 2008 Incentive Plan.

Subject to the adjustment provided therein, the remaining number of our common units with respect to which awards may be granted under our 2004 Plan, is approximately 343,393. We expect most, if not all, of the remaining common units to be granted in 2008. Without the approval of the 2008 Incentive Plan, there would be limited common units for future grants to employees of the Partnership, the Company, the General Partner, a subsidiary or their affiliates, and the members of our board of directors. The 2004 Plan will continue in effect and will not be affected by the 2008 Incentive Plan.

Advantages of the 2008 Incentive Plan

Our general partner believes that the 2008 Incentive Plan is in the best interests of us and our unitholders and should be approved for the following reasons:

The adoption of the 2008 Incentive Plan will provide a means to assist the Company in retaining the services of employees of the Partnership, the Company, the General Partner, a subsidiary or their affiliates, and the members of our board of directors by providing incentive awards for such individuals to exert maximum efforts for our success;

The 2008 Incentive Plan is intended to provide a means whereby employees of the Partnership, the Company, the General Partner, a subsidiary or their affiliates, and the members of our board of directors may develop a sense of proprietorship and personal involvement in the development and financial success of our partnership through the award of options to purchase common units, awards of restricted common units, awards of phantom common units, awards of DERs and awards of common unit appreciation rights; and

The 2008 Incentive Plan is intended to enhance the ability of the Partnership, the General Partner, the Company and their affiliates to attract and retain the services of key individuals who are essential for the growth and profitability of the Partnership.

Disadvantages of the 2008 Incentive Plan

Our unitholders will be subject to dilution if additional common units are issued pursuant to the 2008 Incentive Plan.

Description of the 2008 Incentive Plan

The following is a brief description of the principal features of the 2008 Incentive Plan. A copy of the 2008 Incentive Plan is attached to this proxy statement as Exhibit A, and you should refer to the 2008 Incentive Plan for details regarding the awards that may be made thereunder.

Restricted Units. Restricted common units are common units granted under the 2008 Incentive Plan that are subject to forfeiture provisions and restrictions on transferability during the restricted period established by the Compensation

Committee of our board of directors. The 2008 Incentive Plan provides for certain automatic grants of restricted units to the members of our board of directors.

Phantom Units. Phantom common units are notional common units that can be granted under the 2008 Incentive Plan which, upon vesting, would entitle the holders to receive common units or an amount of cash equal to the fair market value of a common unit, as determined by the Compensation Committee in its discretion. Participants who receive phantom common units under the 2008 Incentive Plan will not have voting rights or rights to receive distributions made by us until the phantom common units become vested. However,

Table of Contents

as described below, a contingent right to receive an amount of cash equal to any cash distributions made on the underlying common units could also be granted in tandem with the phantom common units.

Common Unit Options. Common unit options are rights to purchase common units at a specified price. Common unit options may have such terms and conditions as our Compensation Committee determines.

Distribution Equivalent Rights. Distribution equivalent rights, or DERs, are rights to receive all or a portion of the distributions otherwise payable on common units during a specified time. DERs may be granted in tandem with a specific phantom unit award.

Unit Distribution Rights. Unit distribution rights, or UDRs, are distributions made by the Partnership with respect to a restricted unit.

Common Unit Appreciation Rights. Common unit appreciation rights, or UARs, are contingent rights to receive the excess of the fair market value of a common unit on the vesting date over the grant price established for such common unit appreciation right. Such excess may be paid in cash and/or in common units as determined by the Compensation Committee in its discretion.

Common Unit Awards. Common unit awards are common units granted under the 2008 Incentive Plan that are not subject to forfeiture provisions.

Other Unit-Based Awards. Other unit-based awards are awards that can be granted under the 2008 Incentive Plan that are denominated or payable in, valued in or otherwise based on or related to common units, in whole or in part. The Compensation Committee determines the terms and conditions of other unit-based awards. Upon vesting, an other unit-based award may be paid in cash, common units (including restricted units) or any combination thereof as provided in the award agreement.

Administration. The 2008 Incentive Plan is governed by the Compensation Committee of our board of directors, whose significant powers include, but are not limited to, (i) designating participants in the plan; (ii) determining the type of equity award and the number of common units to be covered by any equity award; (iii) determining the terms and conditions, including vesting conditions, of any equity award; (iv) determining, whether, to what extent, and under what circumstances participants may settle, exercise, cancel or forfeit any equity award; (v) interpreting and administering the 2008 Incentive Plan and any instrument or agreement relating to an award made thereunder; and (vi) establishing, amending, suspending, or waiving such rules and regulations and appointing such agents as it shall deem appropriate for the proper administration of the 2008 Incentive Plan. Subject to applicable law and any other limitations as the Compensation Committee may impose, the Compensation Committee, in its sole discretion, may delegate its powers and duties under the plan to the Chief Executive Officer of the Company or the General Partner. Notwithstanding the foregoing, the Chief Executive Officer may not grant awards to, or take any action with respect to any award previously granted to, a person who is an officer subject to Rule 16b-3 or any member of our Board of Directors. Subject to adjustment as provided in the plan, the number of common units that may be awarded to participants is 5,000,000. To the extent an award is forfeited or otherwise terminates or is cancelled without delivery of common units, the common units subject to such award shall again become available for grant to the extent of the forfeiture, cancellation or termination. In addition, common units withheld to satisfy tax withholding obligations will not be considered to have been delivered to participants and will again become available for awards. The common units to be delivered pursuant to an award under this plan shall consist of common units newly issued by the Partnership, common units acquired in the open market, from our affiliates or from any other person, or any combination of the foregoing, as determined by the Compensation Committee in its discretion.

Eligibility. Any member of our board of directors or employee of the Partnership, the Company, the General Partner, a subsidiary or any of their affiliates are eligible to be designated as a participant in the plan by the Compensation Committee. Awards under the plan may be granted alone or in addition to, in tandem with, or in substitution for any other award granted under the 2008 Incentive Plan or awards granted under any other plan of the Partnership or any of its affiliates. Awards granted in addition to or in tandem with other option awards under the 2008 Incentive Plan or awards granted under any other plan of the Partnership or any

Table of Contents

of its affiliates may be granted either at the same time as or at a different time from the grant of such other awards.

Awards. The exercise price per common unit purchasable under an option or subject to a UAR awarded to participants is determined by the Compensation Committee (at its discretion) at the date of grant and may be no less than the fair market value of the common units subject to the option award or UAR as of the date of grant. The Compensation Committee determines the exercise terms and the restricted period with respect to an option or UAR grant, which may include, without limitation, a provision for accelerated vesting upon death or disability of the participant, the achievement of specified performance goals or such other events as the Compensation Committee may provide, and the method or methods by which any payment of the exercise price with respect to an option may be made or deemed to have been made, which may include cash, withholding units from the award, or cashless-broker transactions or other acceptable forms of payment. Awards may be granted to participants under the 2008 Incentive Plan for such consideration, including services, as the Compensation Committee shall determine. In addition, to the extent provided by the Compensation Committee, any restricted unit award or phantom unit award may include a contingent right to receive an amount in cash equal to any cash distributions made by us with respect to the underlying common units during the period the award is outstanding. Notwithstanding anything in the plan or any award grant agreement to the contrary, delivery of common units pursuant to the exercise or vesting of an award may be deferred for any period during which, in the good faith determination of the Compensation Committee, the Partnership is not reasonably able to obtain common units to deliver pursuant to such award without violating applicable law or NYSE rules. No common units may be delivered pursuant to the 2008 Incentive Plan until we have received full payment of any amount required to be paid pursuant to the plan or pursuant to the award grant agreement.

The specific individuals who will be granted awards under the 2008 Incentive Plan and the type and amount of any such awards will be based on the discretion of the Compensation Committee, subject to annual limits on the maximum awards that may be awarded to any individual as described above. Accordingly, future awards to be received by or allocated to particular individuals under the 2008 Incentive Plan are not presently determinable.

Amendments. The 2008 Incentive Plan may be amended or terminated at any time by our board of directors or the Compensation Committee without the consent of any participant or unitholder, including an amendment to increase the number of common units available for awards under the plan; however, under NYSE rules, any material amendment, such as a change in the types of awards available under the plan, would also require the approval of the unitholders.

Term. The 2008 Incentive Plan is effective until the tenth anniversary of the date unitholders approve the 2008 Incentive Plan or, if earlier, at the time that all available common units under the 2008 Incentive Plan have been paid to participants or the time of termination of the plan by our board of directors.

Tax Effects of Awards Under the 2008 Incentive Plan

No federal income tax is imposed on the optionee upon the grant of an option to purchase common units under the 2008 Incentive Plan. Generally, upon the exercise of such option, the optionee will be treated as receiving compensation taxable as ordinary income in the year of exercise in an amount equal to the excess of the fair market value of the common units on the date of exercise over the option price paid for the common units. Upon the sale of the common units acquired by the exercise of an option, assuming the participant holds the common units as a capital asset, the participant generally will have capital gain or loss, which may be short- or long-term capital gain or loss depending upon the length of time during which the participant held the common units after exercising the option and prior to the sale of such common units. The participant's adjusted tax basis in the common units will be the purchase price plus the amount of ordinary income recognized by the participant at the time of exercise of the option, adjusted for intervening partnership gains, losses and distributions.

The recipient of a restricted unit award will not recognize income at the time of the award, assuming the restrictions applicable to such award constitute a substantial risk of forfeiture for federal income tax purposes

Table of Contents

and the recipient does not make an election to include the value of the common units in his current income under Section 83(b) of the Internal Revenue Code (an 83(b) election). If the recipient of a restricted unit award makes an 83(b) election, the recipient will recognize ordinary income equal to the fair market value of the common units on the date the award is granted. If the recipient does not make an 83(b) election with respect to the restricted unit award, then, when the applicable forfeiture restrictions lapse with respect to the award, the recipient will recognize compensation taxable as ordinary income in an amount equal to the fair market value of the common units on the date the forfeiture restrictions lapse. Upon the sale of the common units acquired by the settlement of a restricted unit award, assuming the participant holds the common units as a capital asset, the participant generally will have capital gain or loss, which may which may be short- or long-term capital gain or loss depending upon the length of time during which the participant held the common units after the settlement of the restricted unit award and prior to the sale of such common units. The participant's adjusted tax basis in the common units will be the amount of ordinary income recognized by the participant at the time of settlement of the restricted unit award, adjusted for intervening partnership gains, losses and distributions.

The recipient of a phantom unit award will not recognize income at the time of the award, but, upon the lapse of applicable forfeiture restrictions, will recognize compensation taxable as ordinary income in an amount equal to the fair market value of the underlying common units on the date of payment of the vested phantom unit. In the event that a phantom unit award is settled in common units, then, upon the sale of the common units acquired by the settlement of a phantom unit award, assuming the participant holds the common units as a capital asset, the participant generally will have capital gain or loss, which may which may be short- or long-term capital gain or loss depending upon the length of time during which the participant held the common units after the settlement of the phantom unit award and prior to the sale of such common units. The participant's adjusted tax basis in the common units will be the amount of ordinary income recognized by the participant at the time of payment of the vested phantom unit award, adjusted for intervening partnership gains, losses and distributions.

The recipient of a common unit appreciation right award will not recognize income at the time of the award, but, upon the exercise of the common unit appreciation right, will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the underlying common units at the date of exercise over the purchase price for such common unit appreciation right. In the event that a common unit appreciation right award is settled in common units, then, upon the sale of the common units acquired by the exercise of a common unit appreciation right award, assuming the participant holds the common units as a capital asset, the participant generally will have capital gain or loss, which may which may be short- or long-term capital gain or loss depending upon the length of time during which the participant held the common units after the settlement of the common unit appreciation right award and prior to the sale of such common units. The participant's adjusted tax basis in the common units will be the purchase price plus the amount of ordinary income recognized by the participant at the time of exercise of the common unit appreciation right, adjusted for intervening partnership gains, losses and distributions.

The recipient of a common unit award will recognize income at the time of the award in an amount equal to the fair market value of the common units on the date of grant. Upon the sale of the common units acquired by the grant of the common unit award, assuming the participant holds the common units as a capital asset, the participant generally will have capital gain or loss, which may which may be short- or long-term capital gain or loss depending upon the length of time during which the participant held the common units after receiving the common unit award and prior to the sale of such common units. The participant's adjusted tax basis in the common units is the amount of ordinary income recognized by the participant at the date of grant, adjusted for intervening partnership gains, losses and distributions.

The recipient of any other unit-based award will not recognize income at the time of the award, but, upon the lapse of applicable forfeiture restrictions, will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the underlying common units on the date the forfeiture restrictions lapse over the purchase price for such other unit-based award, if any. In the event that an other unit-based award is settled in

common units, then, upon the sale of the common units acquired by the settlement of an other unit-based award, assuming the participant holds the common units as a capital asset,

Table of Contents

the participant generally will have capital gain or loss, which may which may be short- or long-term capital gain or loss depending upon the length of time during which the participant held the common units after the settlement of the other unit-based award and prior to the sale of such common units. The participant's adjusted tax basis in the common units will be the purchase price, if any, plus the amount of ordinary income recognized by the participant at the time of settlement of the other unit-based award, adjusted for intervening partnership gains, losses and distributions.

Since our partnership is not a taxable entity, all direct payments made by us to participants and reimbursements made by us to the Company with respect to awards under the 2008 Incentive Plan are treated as deductions that are allocated among the partners of our partnership in accordance with the partnership agreement.

Effect of American Jobs Protection Act of 2004

On October 22, 2004, the American Jobs Creation Act of 2004 (H.R. 4520) added a new Section 409A to the Internal Revenue Code. Section 409A will generally provide that any deferred compensation arrangement which does not meet specific requirements regarding (i) timing of payouts, (ii) advance election of deferrals and (iii) restrictions on acceleration of payouts will result in immediate taxation of any amounts deferred to the extent not subject to a substantial risk of forfeiture. In addition, tax on the amounts included in income as a result of not complying with the new Section 409A will be increased by an interest component as specified by statute, and the amount included in income will also be subject to an additional 20% tax. In general, to avoid a Section 409A violation, amounts deferred may only be paid out on separation from service, disability, death, a specified time, a change in control (as defined by the Treasury department) or an unforeseen emergency. Furthermore, the election to defer generally must be made in the calendar year prior to performance of services, and any provision for accelerated payout other than for reasons specified by the Treasury may cause the amounts deferred to be subject to early taxation and to the imposition of the additional 20% tax.

Section 409A will be broadly applicable to any form of deferred compensation other than tax-qualified retirement plans and bona fide vacation, sick leave, compensatory time, disability pay or death benefits, and may apply to certain awards under the 2008 Incentive Plan. For example, phantom common units, common unit appreciation rights and common unit options may be classified as deferred compensation for this purpose.

New Plan Benefits

No common units have been issued through the date of this proxy statement under the 2008 Incentive Plan. The number of such common units to be issued under the 2008 Incentive Plan to the individuals or groups of individuals eligible to receive awards under the 2008 Incentive Plan, and the net values to be realized upon such issuances, are not determinable.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL

INTEREST OF DIRECTORS AND EXECUTIVE OFFICERS IN THE 2008 INCENTIVE PLAN PROPOSAL

Employees of the Partnership, the Company, the General Partner, a subsidiary or any of their affiliates, and the members of our board of directors will be eligible to receive awards under the 2008 Incentive Plan if it is approved. Accordingly, the members of our board of directors and the executive officers of the Company have a substantial interest in the passage of the 2008 Incentive Plan Proposal.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS****Equity Compensation Plan Information**

At the time of our initial public offering, the equity owners of our General Partner adopted a Restricted Unit Plan, amended and restated as of February 4, 2002 as the Partnership's Second Amended and Restated Restricted Unit Plan (the Restricted Unit Plan), which provided for the awarding of common units to key employees. At the June 23, 2004 special meeting of our common unitholders, common unitholders approved our 2004 Plan, which provides for awards of common units and other rights to our employees, officers and directors and the Restricted Unit Plan was terminated except for our future obligation to issue common units that have not previously vested.

The following table sets forth in tabular format, a summary of our equity plan information as of October 1, 2008:

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 unitholders:			
Restricted Unit Plan	1,610	\$ 61,583(1)	
2004 Plan	834,995	31,938,558(1)	581,125
Equity compensation plans not approved by unitholders:			
Total	836,605	\$ 32,000,141	581,125

(1) Valued as of October 1, 2008. Actual exercise price may differ depending on the common unit price on the date such units vest.

Table of Contents

The following table sets forth certain information as of October 1, 2008, regarding the beneficial ownership of our securities by certain beneficial owners, all directors and named executive officers of the General Partner of our General Partner, each of the named executive officers and all directors and named executive officers of the General Partner of our General Partner as a group, of our Common Units and Class E Units. The General Partner knows of no other person not disclosed herein who beneficially owns more than 5% of our Common Units.

Energy Transfer Partners, L.P. Units

Title of Class	Name and Address of Beneficial Owner(1)	Beneficially Owned(2)	Percent of Class
Common Units	Kelcy L. Warren(3)	18,500	*
	Mackie McCrea(3)	24,249	*
	Martin Salinas		*
	Jerry J. Langdon		*
	Thomas P. Mason		*
	Ray C. Davis(3)	53,160	*
	Bill W. Byrne	160,936	*
	David R. Albin(4)		*
	Kenneth A. Hersh(4)		*
	Paul E. Glaske	71,505	*
	Michael K. Grimm	7,028	*
	John D. Harkey, Jr.	1,852	*
	K. Rick Turner(4)	10,622	*
	Ted Collins, Jr.	99,962	*
	John W. McReynolds	17,977	*
Class E Units	All Directors and Named Executive Officers as a Group (15 persons)	477,642	*
	Energy Transfer Equity, L.P.(5)	62,500,797	41.173%
	Heritage Holdings, Inc.(6)	8,853,832	100%

* Less than one percent (1%)

- (1) The address for Mr. Warren is 3738 Oak Lawn Avenue, Dallas, Texas 75219. The address for Heritage Holdings is 8801 S. Yale Avenue, Suite 310, Tulsa, Oklahoma 74137. The address for Messrs. Albin and Hersh is 125 E. John Carpenter Freeway, Suite 600, Irving, Texas 75062. The address for Mr. McCrea and Mr. Salinas is 800 E. Sonterra Blvd., San Antonio, Texas 78258. The address for ETE and Mr. McReynolds is 3738 Oak Lawn Avenue, Dallas, Texas 75219. The address for Mr. Davis is 5950 Sherry Lane, Suite 550, Dallas, Texas 75225. The address for Messrs. Byrne, Grimm, Collins, Glaske, Harkey, and Turner is 3738 Oak Lawn Avenue, Dallas, Texas