Regency Energy Partners LP
Form 10-Q
November 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period 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: 000-51757

REGENCY ENERGY PARTNERS LP

(Exact name of registrant as specified in its charter)

DELAWARE	**16-1731691**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2001 BRYAN STREET, SUITE 3700	
DALLAS, TX	**75201**
(Address of principal executive offices)	**(Zip Code)**

(214) 750-1771

(Registrant s telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report.)

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. x Yes ¨ No

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

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

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

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

The issuer had 137,217,801 common units outstanding as of November 1, 2010.

Introductory Statement

References in this report to the Partnership, we, our, us and similar terms, when used in an historical context, refer to Regency Energy Partners LP, and to Regency Gas Services LLC, all the outstanding member interests of which were contributed to the Partnership on February 3, 2006, and its subsidiaries. When used in the present tense or prospectively, these terms refer to the Partnership and its subsidiaries. We use the following definitions in this quarterly report on Form 10-Q:

Name	Definition or Description
Bcf/d	One billion cubic feet per day
BTU	A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit
CDM	CDM Resource Management LLC, a 100 percent owned subsidiary of the Partnership
EFS Haynesville	EFS Haynesville, LLC, a 100 percent owned subsidiary of GECC
Enterprise GP	Enterprise GP Holdings, LP
ETC II	ETC Midcontinent Express Pipeline II L.L.C., a 100 percent owned subsidiary of ETE
ETC III	ETC Midcontinent Express Pipeline III L.L.C., a 100 percent owned subsidiary of ETE
ETE	Energy Transfer Equity, L.P.
ETE GP	ETE GP Acquirer LLC
ETP	Energy Transfer Partners, L.P., a 100 percent owned subsidiary of ETE
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Finance Corp.	Regency Energy Finance Corp., a 100 percent owned subsidiary of the Partnership
GAAP	Accounting principles generally accepted in the United States
GE	General Electric Company
GECC	General Electric Capital Corporation, an indirect wholly owned subsidiary of GE
GE EFS	General Electric Energy Financial Services, a unit of GECC, together with Regency GP Acquirer LP and Regency LP Acquirer LP
General Partner	Regency GP LP, the general partner of the Partnership, or Regency GP LLC, the general partner of Regency GP LP, which effectively manages the business and affairs of the Partnership through Regency Employees Management LLC
GP Seller	Regency GP Acquirer, L.P.
HPC	RIGS Haynesville Partnership Co., a general partnership that owns 100 percent of RIG
IDRs	Incentive Distribution Rights
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
MEP	Midcontinent Express Pipeline LLC
MMbtu/d	One million BTUs per day
MMcf	One million cubic feet
MMcf/d	One million cubic feet per day
NGLs	Natural gas liquids, including ethane, propane, normal butane, iso butane and natural gasoline
NGPA	Natural Gas Policy Act of 1978
NYMEX	New York Mercantile Exchange
Partnership	Regency Energy Partners LP
Regency Midcon	Regency Midcontenent Express LLC, a 100 percent owned subsidiary of the Partnership
RFS	Regency Field Services LLC, a wholly-owned subsidiary of the Partnership
RGS	Regency Gas Services LP, a wholly-owned subsidiary of the Partnership
RIG	Regency Intrastate Gas LP, a wholly-owned subsidiary of HPC, which was converted from Regency Intrastate Gas LLC upon HPC formation
RIGS	Regency Intrastate Gas System
SEC	Securities and Exchange Commission
WTI	West Texas Intermediate Crude
Zephyr	Zephyr Gas Services, LP, acquired by the Partnership on September 1, 2010 and became Regency Zephyr LLC

Cautionary Statement about Forward-Looking Statements

Certain matters discussed in this report include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as anticipate, believe, intend, project, plan, expect, continue, estimate, goal, forecast, may or similar expressions help identify forward-look Although we believe our forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, we cannot give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions including, without limitation, the following:

volatility in the price of oil, natural gas, and natural gas liquids;

declines in the credit markets and the availability of credit for us as well as for producers connected to our pipelines and our gathering and processing facilities, and for customers of our contract serviced business;

the level of creditworthiness of, and performance by, our counterparties and customers;

our ability to access capital to fund organic growth projects and acquisitions, including our ability to obtain debt or equity financing on satisfactory terms;

our use of derivative financial instruments to hedge commodity and interest rate risks;

the amount of collateral required to be posted from time-to-time in our transactions;

changes in commodity prices, interest rates and demand for our services;

changes in laws and regulations impacting the midstream sector of the natural gas industry, including those that relate to climate change and environmental protection;

weather and other natural phenomena;

industry changes including the impact of consolidations and changes in competition;

regulation of transportation rates on our natural gas pipelines;

our ability to obtain required approvals for construction or modernization of our facilities and the timing of production from such facilities; and the effect of accounting pronouncements issued periodically by accounting standard setting boards.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may differ materially from those anticipated, estimated, projected or expected.

Other factors that could cause our actual results to differ from our projected results are discussed in Item 1A of our December 31, 2009 Annual Report on Form 10-K.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

As disclosed in Note 1, on May 26, 2010, GP Seller sold all of the outstanding membership interests of the Partnership s General Partner to ETE, effecting a change in control of the Partnership. In connection with this transaction, the Partnership s assets and liabilities were adjusted to fair value at the acquisition date by application of push-down accounting. As a result, the Partnership s unaudited condensed consolidated financial statements and certain footnote disclosures are presented in two distinct periods to indicate the application of two different bases of accounting between the periods presented: (1) the period prior to the acquisition date (May 26, 2010), identified as Predecessor and (2) the period from May 26, 2010 forward, identified as Successor .

Regency Energy Partners LP

Condensed Consolidated Balance Sheets

(in thousands except unit data)

	Successor September 30, 2010	Predecessor December 31, 2009
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,035	$ 9,827
Restricted cash		1,511
Trade accounts receivable, net of allowance of $575 and $1,130	35,702	30,433
Accrued revenues	67,377	95,240
Related party receivables	24,273	6,222
Derivative assets	10,528	24,987
Other current assets	10,499	10,556
Total current assets	152,414	178,776
Property, Plant and Equipment:		
Gathering and transmission systems	516,751	465,959
Compression equipment	771,893	823,060
Gas plants and buildings	186,785	159,596
Other property, plant and equipment	104,016	162,433
Construction-in-progress	85,760	95,547
Total property, plant and equipment	1,665,205	1,706,595
Less accumulated depreciation	(33,193)	(250,160)
Property, plant and equipment, net	1,632,012	1,456,435
Other Assets:		
Investment in unconsolidated subsidiaries	1,316,565	453,120
Long-term derivative assets	443	207
Other, net of accumulated amortization of debt issuance costs of $2,255 and $10,743	32,579	19,468
Total other assets	1,349,587	472,795
Intangible Assets and Goodwill:		
Intangible assets, net of accumulated amortization of $8,229 and $33,929	768,920	197,294
Goodwill	789,789	228,114
Total intangible assets and goodwill	1,558,709	425,408
TOTAL ASSETS	$ 4,692,722	$ 2,533,414

LIABILITIES & PARTNERS CAPITAL AND NONCONTROLLING INTEREST

Current Liabilities:		
Drafts payable	$ 8,848	$
Trade accounts payable	57,794	44,912
Accrued cost of gas and liquids	69,745	76,657
Related party payables	3,208	2,312
Deferred revenues, including related party amounts of $0 and $338	17,529	11,292
Derivative liabilities	5,839	12,256
Escrow payable		1,511
Other current liabilities	30,334	12,368
Total current liabilities	193,297	161,308
Long-term derivative liabilities	47,305	48,903
Other long-term liabilities	8,617	14,183
Long-term debt, net	995,322	1,014,299
Commitments and contingencies		
Series A convertible redeemable preferred units, redemption amount of $83,891 and $83,891	70,896	51,711
Partners Capital and Noncontrolling Interest:		
Common units (138,219,061 and 94,243,886 units authorized; 137,161,078 and 93,188,353 units issued and outstanding at September 30, 2010 and December 31, 2009)	3,011,448	1,211,605
General partner interest	334,300	19,249
Accumulated other comprehensive loss		(1,994)
Noncontrolling interest	31,537	14,150
Total partners capital and noncontrolling interest	3,377,285	1,243,010
TOTAL LIABILITIES AND PARTNERS CAPITAL AND NONCONTROLLING INTEREST	$ 4,692,722	$ 2,533,414

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP

Condensed Consolidated Statements of Operations

Unaudited

(in thousands except unit data and per unit data)

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009
REVENUES		
Gas sales, including related party amounts of $1,680 and $0	132,130	$ 96,384
NGL sales, including related party amounts of $51,062 and $0	91,489	60,447
Gathering, transportation and other fees, including related party amounts of $5,680 and $3,823	72,184	65,402
Net realized and unrealized (loss) gain from derivatives	(6,218)	11,372
Other, including related party amounts of $1,111 and $0	7,303	5,335
Total revenues	296,888	238,940
OPERATING COSTS AND EXPENSES		
Cost of sales, including related party amounts of $4,768 and $4,575	213,032	149,444
Operation and maintenance	34,306	28,720
General and administrative, including related party amounts of $2,500 and $0	18,072	14,126
Loss (gain) on asset sales, net	200	(109)
Depreciation and amortization	32,205	24,549
Total operating costs and expenses	297,815	216,730
OPERATING (LOSS) INCOME	(927)	22,210
Income from unconsolidated subsidiaries	21,754	3,532
Interest expense, net	(20,379)	(22,090)
Other income and deductions, net	7,524	(13,929)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	7,972	(10,277)
Income tax expense (benefit)	450	(196)
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ 7,522	$ (10,081)
DISCONTINUED OPERATIONS		
Net income (loss) from operations of east Texas assets, including gain on disposal of $20 in 2010	324	(462)
NET INCOME (LOSS)	$ 7,846	$ (10,543)
Net (income) loss attributable to noncontrolling interest	(58)	39
NET INCOME (LOSS) ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	$ 7,788	$ (10,504)
Amounts attributable to Series A convertible redeemable preferred units	1,991	1,996
General partner s interest, including IDRs	1,166	372
Amount allocated to non-vested common units		(134)

Limited partners interest in net income (loss)	$	4,631	$	(12,738)
Basic and diluted income (loss) from continuing operations per unit:				
Amount allocated to common units	$	4,314	$	(12,288)
Weighted average number of common units outstanding		128,387,929		80,637,783
Basic and diluted income (loss) from continuing operations per common unit	$	0.03	$	(0.15)
Distributions paid per unit	$	0.445	$	0.445
Basic and diluted income (loss) on discontinued operations per unit:	$	0.00	$	(0.01)
Basic and diluted net income (loss) per unit:				
Amount allocated to common units	$	4,631	$	(12,738)
Basic and diluted net income (loss) per common unit	$	0.04	$	(0.16)

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP

Condensed Consolidated Statements of Operations

Unaudited

(in thousands except unit data and per unit data)

	Successor	Predecessor	
	Period from Acquisition (May 26, 2010) to September 30, 2010	Period from January 1, 2010 to May 25, 2010	Nine Months Ended September 30, 2009
REVENUES			
Gas sales, including related party amounts of $2,127, $0, and $0	$ 179,371	$ 228,097	$ 348,237
NGL sales, including related party amounts of $69,116, $0, and $0	117,529	152,803	158,054
Gathering, transportation and other fees, including related party amounts of $7,766, $12,200, and $8,300	94,755	114,526	205,532
Net realized and unrealized (loss) gain from derivatives	(6,348)	(716)	35,976
Other, including related party amounts of $1,111, $0, and $0	8,561	10,340	13,128
Total revenues	393,868	505,050	760,927
OPERATING COSTS AND EXPENSES			
Cost of sales, including related party amounts of $7,049, $6,564, and $6,275	283,206	357,778	478,092
Operation and maintenance	44,708	47,842	90,271
General and administrative, including related party amounts of $3,333, $0, and $0	25,176	37,212	43,331
Loss (gain) on asset sales, net	210	303	(133,388)
Depreciation and amortization	42,750	41,784	73,924
Total operating costs and expenses	396,050	484,919	552,230
OPERATING (LOSS) INCOME	(2,182)	20,131	208,697
Income from unconsolidated subsidiaries	29,875	15,872	5,455
Interest expense, net	(28,460)	(36,321)	(55,720)
Other income and deductions, net	4,003	(3,897)	(13,673)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,236	(4,215)	144,759
Income tax expense (benefit)	695	404	(611)
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ 2,541	$ (4,619)	$ 145,370
DISCONTINUED OPERATIONS			
Net income (loss) from operations of east Texas assets, including gain on disposal of $20 in 2010	410	(327)	(1,534)
NET INCOME (LOSS)	$ 2,951	$ (4,946)	$ 143,836
Net income attributable to noncontrolling interest	(87)	(406)	(61)
NET INCOME (LOSS) ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	$ 2,864	$ (5,352)	$ 143,775

Amounts attributable to Series A convertible redeemable preferred units		2,659		3,336		1,996
General partner s interest, including IDRs		1,969		662		4,646
Amount allocated to non-vested common units				(79)		1,083
Beneficial conversion feature for Class D common units						820
Limited partners interest in net (loss) income	$	(1,764)	$	(9,271)	$	135,230
Basic and diluted (loss) income from continuing operations per unit:						
Amount allocated to common units	$	(2,165)	$	(8,966)	$	136,721
Weighted average number of common units outstanding		125,916,507		92,788,319		79,498,936
Basic (loss) income from continuing operations per common unit	$	(0.02)	$	(0.10)	$	1.72
Diluted (loss) income from continuing operations per common unit	$	(0.02)	$	(0.10)	$	1.71
Distributions paid per unit	$	0.445	$	0.89	$	1.335
Basic and diluted income (loss) on discontinued operations per unit:	$	0.00	$	(0.00)	$	(0.02)
Basic and diluted net income (loss) per unit:						
Amount allocated to common units	$	(1,764)	$	(9,271)	$	135,230
Basic net (loss) income per common unit	$	(0.01)	$	(0.10)	$	1.70
Diluted net (loss) income per common unit	$	(0.01)	$	(0.10)	$	1.69
Amount allocated to Class D common units	$		$		$	820
Total number of Class D common units outstanding						7,276,506
Income per Class D common unit due to beneficial conversion feature	$		$		$	0.11
Distributions paid per unit	$		$		$	

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP

Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

(in thousands)

	Three Months Ended September 30, 2010 and 2009	
	Successor	Predecessor
	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Net income (loss)	$ 7,846	$ (10,543)
Net hedging amounts reclassified to earnings		(11,470)
Net change in fair value of cash flow hedges		(2,144)
Comprehensive income (loss)	$ 7,846	$ (24,157)
Comprehensive income (loss) attributable to noncontrolling interest	58	(39)
Comprehensive income (loss) attributable to Regency Energy Partners LP	$ 7,788	$ (24,118)

	Nine Months Ended September 30, 2010		
	Successor	Predecessor	
	Period from Acquisition (May 26, 2010) to September 30, 2010	Period from January 1, 2010 to May 25, 2010	Nine Months Ended September 30, 2009
Net income (loss)	$ 2,951	$ (4,946)	$ 143,836
Net hedging amounts reclassified to earnings		2,145	(39,364)
Net change in fair value of cash flow hedges		18,486	(11,385)
Comprehensive income	$ 2,951	$ 15,685	$ 93,087
Comprehensive income attributable to noncontrolling interest	87	406	61
Comprehensive income attributable to Regency Energy Partners LP	$ 2,864	$ 15,279	$ 93,026

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP

Condensed Consolidated Statements of Cash Flows

Unaudited

(in thousands)

	Successor	Predecessor	
	Period from Acquisition (May 26, 2010) to September 30, 2010	Period from January 1, 2010 to May 25, 2010	Nine Months Ended September 30, 2009
OPERATING ACTIVITIES			
Net income (loss)	$ 2,951	$ (4,946)	$ 143,836
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization, including debt issuance cost amortization and bond premium amortization	44,767	49,363	85,666
Write-off of debt issuance costs		1,780	
Income from unconsolidated subsidiaries	(29,875)	(15,872)	(5,455)
Derivative valuation changes	14,837	12,004	3,040
Loss (gain) on asset sales, net	190	303	(133,389)
Unit-based compensation expenses	440	12,070	4,361
Cash flow changes in current assets and liabilities:			
Trade accounts receivable, accrued revenues, and related party receivables	13,307	(11,272)	32,121
Other current assets	903	2,516	14,478
Trade accounts payable, accrued cost of gas and liquids, related party payables and deferred revenues	(30,026)	8,649	(48,629)
Other current liabilities	(8,186)	22,614	5,628
Distributions received from unconsolidated subsidiaries	29,875	12,446	5,187
Other assets and liabilities	(701)	(234)	269
Net cash flows provided by operating activities	38,482	89,421	107,113
INVESTING ACTIVITIES			
Capital expenditures	(88,202)	(63,787)	(163,889)
Capital contribution to unconsolidated subsidiaries	(38,922)	(20,210)	
Distribution in excess of earnings of unconsolidated subsidiaries	50,262		
Acquisition of investment in unconsolidated subsidiary, net of cash received	12,848	(75,114)	(63,000)
Acquisition of Zephyr, net of $1,983 cash	(191,313)		
Proceeds from asset sales	70,302	10,661	100,103
Net cash flows used in investing activities	(185,025)	(148,450)	(126,786)
FINANCING ACTIVITIES			
Net (repayments) borrowings under revolving credit facility	(243,651)	199,008	(160,627)
Proceeds from issuance of senior notes, net of discount			236,240
Debt issuance costs	(148)	(15,728)	(12,121)
Drafts payable	8,848		
Partner contributions	19,724		
Partner distributions	(55,251)	(86,078)	(109,118)

Acquisition of assets between entities under common control in excess of historical cost		(16,973)	
Distributions to noncontrolling interest		(1,135)	
Proceeds from option exercises	221	120	
Proceeds from equity issuances, net of issuance costs	399,872	(89)	76,800
Distributions to redeemable convertible preferred units	(1,945)	(1,945)	
Tax withholding on unit-based vesting	(76)	(4,994)	
Net cash flows provided by financing activities	127,594	72,186	31,174
Net change in cash and cash equivalents	(18,949)	13,157	11,501
Cash and cash equivalents at beginning of period	22,984	9,827	599
Cash and cash equivalents at end of period	$ 4,035	$ 22,984	$ 12,100
Supplemental cash flow information:			
Non-cash capital expenditures	$ 28,821	$ 18,051	$ 3,342
Issuance of common units for an acquisition	584,436		
Deemed contribution from acquisition of assets between entities under common control	17,152		
Release of escrow payable from restricted cash	1,011	500	
Interest paid, net of amounts capitalized	32,425	5,410	35,258
Income taxes paid	634	378	85
Contribution of RIGS to HPC			261,019

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP

Condensed Consolidated Statements of Partners Capital and Noncontrolling Interest

Unaudited

(in thousands except unit data)

	Units	Regency Energy Partners LP				
	Common	Common Unitholders	General Partner Interest	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Predecessor						
Balance - December 31, 2009	93,188,353	$ 1,211,605	$ 19,249	$ (1,994)	$ 14,150	$ 1,243,010
Issuance of common units under LTIP, net of forfeitures and tax withholding	152,075	(4,994)				(4,994)
Issuance of common units, net of costs		(89)				(89)
Exercise of common unit options		120				120
Unit-based compensation expenses		12,070				12,070
Accrued distributions to phantom units		(473)				(473)
Acquisition of assets between entities under common control in excess of historical cost			(16,973)			(16,973)
Partner distributions		(84,504)	(1,574)			(86,078)
Distributions to noncontrolling interest					(1,135)	(1,135)
Net (loss) income		(6,014)	662		406	(4,946)
Distributions to Series A convertible redeemable preferred units		(1,906)	(39)			(1,945)
Accretion of Series A convertible redeemable preferred units		(55)				(55)
Net cash flow hedge amounts reclassified to earnings				2,145		2,145
Net change in fair value of cash flow hedges				18,486		18,486
Balance - May 25, 2010	93,340,428	$ 1,125,760	$ 1,325	$ 18,637	$ 13,421	$ 1,159,143
Successor						
Balance - May 26, 2010	93,340,428	$ 2,073,532	$ 304,950	$	$ 31,450	$ 2,409,932
Private placement of common units, net of costs	26,266,791	584,436				584,436
Public sale of common units, net of costs	17,537,500	399,872				399,872
Issuance of common units under LTIP, net of forfeitures and tax withholding	5,559	(76)				(76)
Exercise of common unit options	10,800	221				221
Unit-based compensation expenses		440				440
Acquisition of assets between entities under common control below historical cost			17,152			17,152
Partner distributions		(53,231)	(2,020)			(55,251)
Partner contributions		7,436	12,288			19,724
Accrued distributions to phantom units		(68)				(68)
Net income		895	1,969		87	2,951
		(1,906)	(39)			(1,945)

Distributions to Series A convertible redeemable preferred units							
Accretion of Series A convertible redeemable preferred units		(103)					(103)
Balance - September 30, 2010	137,161,078	$ 3,011,448	$ 334,300	$	$	31,537	$ 3,377,285

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization. The unaudited condensed consolidated financial statements presented herein contain the results of Regency Energy Partners LP (the Partnership) and its subsidiaries. The Partnership and its subsidiaries are engaged in the business of gathering, treating, processing, compressing and transporting of natural gas and NGLs.

Basis of Presentation. On May 26, 2010, GP Seller completed the sale of all of the outstanding membership interests of the General Partner pursuant to a Purchase Agreement (the Purchase Agreement) among itself, ETE and ETE GP (the ETE Acquisition). Prior to the closing of the Purchase Agreement, GP Seller, an affiliate of GE EFS, owned all of the outstanding limited partner interests in the General Partner, which is the sole general partner of the Partnership, and all of the member interests in the general partner of the General Partner and, as a result of that position, controlled the Partnership. As a result of this transaction, the outstanding voting interests of the General Partner and control of the Partnership were transferred from GE EFS to ETE. Consequently, control of the General Partner and the Partnership changed. In connection with this change in control, the Partnership s assets and liabilities were adjusted to fair value on the closing date (May 26, 2010) by application of push-down accounting (the Push-down Adjustments).

The Partnership applied the guidance in FASB ASC 820, *Fair Value Measurements and Disclosures*, in determining the fair value of partners capital, which is comprised of the following items:

	At May 26, 2010 (in thousands)
Fair value of limited partners interest, based on the number of outstanding Partnership common units and the trading price on May 26, 2010	$ 2,073,532
Fair value of consideration paid for general partner interest	304,950
Noncontrolling interest	31,450
	$ 2,409,932

The Partnership then developed the fair value of its assets and liabilities, with the assistance of third-party valuation experts, using the guidance in FASB ASC 820, *Fair Value Measurement and Disclosures*. Subsequent to June 30, 2010, the Partnership revised the fair value of its assets and liabilities during the measurement period as follows. The Partnership has evaluated the impact, as a result of the revision of the fair value, to the financial statements as of June 30, 2010 and for the period from May 26, 2010 to June 30, 2010, and concluded that the impact was insignificant.

	($ in thousands)
Working capital	$ (3,286)
Gathering and transmission systems	471,169
Compression equipment	745,838
Gas plants and buildings	116,967
Other property, plant and equipment	100,264
Construction-in-progress	114,146
Other long-term assets	37,694
Investment in unconsolidated subsidiary	739,164
Intangible assets	666,360
Goodwill	789,789
	$ 3,778,105
Less:	

Series A convertible redeemable preferred units		70,793
Fair value of long-term debt		1,239,863
Other long-term liabilities		57,517
Total fair value of partners capital	$	2,409,932

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Due to the Push-down Adjustments, the Partnership s unaudited condensed consolidated financial statements and certain footnote disclosures are presented in two distinct periods to indicate the application of two different bases of accounting between the periods presented: (1) the period prior to the acquisition date (May 26, 2010), identified as Predecessor and (2) the period from May 26, 2010 forward, identified as Successor .

The unaudited financial information included in this Form 10-Q has been prepared on the same basis as the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2009. In the opinion of the Partnership s management, such financial information reflects all adjustments necessary for a fair presentation of the financial position and the results of operations for such interim periods in accordance with GAAP. All inter-company items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

Use of Estimates. The unaudited condensed consolidated financial statements have been prepared in conformity with GAAP and, of necessity, include the use of estimates and assumptions by management. Actual results could differ from these estimates.

Intangible Assets. Intangible assets, net consist of the following.

Predecessor	**Contracts**	**Customer Relations**	**Trade Names**	**Permits and Licenses**	**Total**
			(in thousands)		
Balance at December 31, 2009	$ 126,332	$ 35,362	$ 30,508	$ 5,092	$ 197,294
Amortization	(3,322)	(817)	(975)	(214)	(5,328)
Balance at May 25, 2010	$ 123,010	$ 34,545	$ 29,533	$ 4,878	$ 191,966

Successor	**Customer Relations**	**Trade Names**	**Total**
		(in thousands)	
Balance at May 26, 2010	$ 600,860	$ 65,500	$ 666,360
Addition	110,789		110,789
Amortization	(7,138)	(1,091)	$ (8,229)
Balance at September 30, 2010	$ 704,511	$ 64,409	$ 768,920

As of September 30, 2010, the amortization periods of customer relations and trade names vary between 20 and 30 years. The expected amortization of the intangible assets for each of the five succeeding years is as follows.

Year ending December 31,	**Total (in thousands)**
2010 (remaining)	$ 7,211
2011	28,843
2012	28,843
2013	28,843
2014	28,843

Recently Issued Accounting Standards. In June 2009, the FASB issued guidance that significantly changed the consolidation model for variable interest entities. The guidance is effective for annual reporting periods that begin after November 15, 2009, and for interim periods within that first annual reporting period. The Partnership determined that this guidance had no impact on its financial position, results of operations or cash flows upon adoption on January 1, 2010.

In January 2010, the FASB issued guidance requiring improved disclosure of transfers in and out of Levels 1 and 2 for an entity s fair value measurements, such requirement becoming effective for interim and annual periods beginning after December 15, 2009. Further, additional disclosure of activities such as purchases, sales, issuances and settlements of items relying on Level 3 inputs will be required, such requirements becoming effective for interim and annual periods beginning after December 15, 2010. The Partnership determined that this guidance with respect to Levels 1, 2 and 3 had no impact on its financial position, results of operations or cash flows upon adoption.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

In February 2010, the FASB clarified the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. The Partnership evaluated the impact of this update on its accounting for embedded derivatives and determined that it had no impact on its financial position, results of operations or cash flows.

2. Income (Loss) per Limited Partner Unit

On September 2, 2009, the Partnership issued 4,371,586 Series A Convertible Redeemable Preferred Units (Series A Preferred Units). The Series A Preferred Units receive fixed quarterly cash distributions of $0.445 per unit beginning with the quarter ending March 31, 2010. Distributions for the quarters ended September 30, 2009 and December 31, 2009 were accrued, effectively increasing the conversion value of the Series A Preferred Units. Distributions are cumulative, and must be paid before any distributions to the general partner and common unitholders. For the purpose of calculating income per limited partner unit, any form of distributions, whether paid or not, as well as the accretion of the Series A Preferred Units, are treated as a reduction in net income (loss) available to the general partner and limited partner interests.

The following table provides a reconciliation of the numerator and denominator of the basic and diluted income (loss) from continuing operations per common unit computations for the three and nine month periods ended September 30, 2010 and 2009.

	Three Months Ended September 30, 2010 and 2009					
	Successor			Predecessor		
	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Income (Numerator)	Units (Denominator)	Per-Unit Amount	Income (Numerator)	Units (Denominator)	Per-Unit Amount
	(in thousands except unit and per unit data)					
Basic income (loss) from continuing operations per unit						
Limited Partners interest	$ 4,314	128,387,929	$ 0.03	$ (12,288)	80,637,783	$ (0.15)
Effect of Dilutive Securities						
Restricted (non-vested) common units				(131)		
Common unit options		34,671				
Phantom units		204,960				
Diluted income (loss) from continuing operations per unit	$ 4,314	128,627,560	$ 0.03	$ (12,419)	80,637,783	$ (0.15)

	Nine Months Ended September 30, 2010 and 2009								
	Successor			Predecessor					
	Period from Acquisition (May 26, 2010) to September 30, 2010			Period from January 1, 2010 to Disposition May 25, 2010			Nine Months Ended September 30, 2009		
	Loss (Numerator)	Units (Denominator)	Per-Unit Amount	Loss (Numerator)	Units (Denominator)	Per-Unit Amount	Income (Numerator)	Units (Denominator)	Per-Unit Amount
	(in thousands except unit and per unit data)								

Basic (loss) income from continuing operations per unit									
Limited partners interest	$ (2,165)	125,916,507	$ (0.02)	$ (8,966)	92,788,319	$ (0.10)	$ 136,721	79,498,936	$ 1.72
Effect of Dilutive Securities									
Phantom units								32,692	
Class D common units							820	1,066,155	
Diluted (loss) income from continuing operations	$ (2,165)	125,916,507	$ (0.02)	$ (8,966)	92,788,319	$ (0.10)	$ 137,541	80,597,782	$ 1.71

The following table shows the weighted average outstanding amount of securities that could potentially dilute earnings per unit in the future that were not included in the computation of diluted earnings per unit because to do so would have been antidilutive.

	Successor		**Predecessor**		
	Three Months Ended September 30, 2010	**Period from Acquisition (May 26, 2010) to September 30, 2010**	**Three Months Ended September 30, 2009**	**Period from January 1, 2010 to Disposition (May 25, 2010)**	**Nine Months Ended September 30, 2009**
Restricted (non-vested) common units				396,918	
Phantom units *		322,602	250,258	369,346	
Common unit options		288,500		298,400	
Convertible redeemable preferred units	4,584,192	4,584,192	1,378,000	4,584,192	464,381

* Amount disclosed assumes maximum conversion rate for market condition awards.

3. Acquisitions and Dispositions

HPC. On April 30, 2010, the Partnership purchased an additional 6.99 percent general partner interest in HPC from EFS Haynesville, bringing its total general partner interest in HPC to 49.99 percent. The purchase price of $92,087,000 was funded by borrowings under the Partnership s revolving credit facility. Because this transaction occurred between two entities under common control, partners capital was decreased by $16,973,000, which represented a deemed distribution of the excess purchase price over EFS Haynesville s carrying amount of $75,114,000.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

MEP. On May 26, 2010, the Partnership purchased a 49.9 percent interest in MEP from ETE. The Partnership issued 26,266,791 common units to ETE, valued at $584,436,000, and received a working capital adjustment of $12,848,000 from ETE that was recorded as an adjustment to investment in unconsolidated subsidiaries. Because this transaction occurred between two entities under common control, partners capital was increased by $17,152,000, which represented a deemed contribution of the excess carrying amount of ETE s investment of $588,740,000 over the purchase price. MEP has approximately 500 miles of natural gas pipelines that extend from the southeast corner of Oklahoma, across northeast Texas, northern Louisiana, central Mississippi and into Alabama. In June 2010, the Partnership made an additional capital contribution of $38,922,000 to MEP.

Disposition of East Texas Assets. On July 15, 2010, the Partnership sold its gathering and processing assets located in east Texas for $70,180,000 in cash. The financial result of these assets has been reclassified to discontinued operations in accordance with applicable accounting pronouncements. Following are revenues and income (loss) from discontinued operations:

	Successor		Predecessor		
	Three Months Ended September 30, 2010	Period from May 26, 2010 through September 30, 2010	Three Months Ended September 30, 2009	Period from January 1, 2010 through May 25, 2010	Nine Months Ended September 30, 2009
	(in thousands)		(in thousands)		
Revenues	$ 3,509	$ 9,510	$ 11,642	$ 24,196	$ 33,175
Net income (loss) from discontinued operations	$ 304	$ 390	$ (462)	$ (327)	$ (1,534)

Zephyr. On September 1, 2010, the Partnership completed the acquisition of Zephyr for $193,296,000 in cash. Zephyr owns and operates a fleet of equipment used to provide treating services to its customers who are generally comprised of natural gas producers and midstream pipeline companies. The primary treating services provided include carbon dioxide removal, hydrogen sulfide removal, natural gas cooling, dehydration and BTU management. The Partnership funded this acquisition through borrowings under its existing revolving credit facility. The total preliminary purchase price of $193,296,000 was allocated as follows:

	As of September 1, 2010 (in thousands)
Current assets	$ 9,406
Gas plant and buildings	88,734
Other property, plant and equipment	303
Intangible assets	110,789
	$ 209,232
Deferred revenue	(6,408)
Other current liabilities	(9,528)
	$ 193,296

The following unaudited pro forma financial information has been prepared as if the transactions involving the purchases of 5 and 6.99 percent general partner interest in HPC, purchase of the 49.9 percent interest in MEP, the Push-down Adjustments described in Note 1, and the acquisition of Zephyr occurred as of January 1, 2009. Such unaudited pro forma financial information does not purport to be indicative of the results of operations that would have been achieved if the transactions to which the Partnership is giving pro forma effect actually occurred on January 1, 2009 or the results of operations that may be expected in the future.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Successor		Predecessor		
	Three Months Ended September 30, 2010	Period from May 26, 2010 through September 30, 2010	Three Months Ended September 30, 2009	Period from January 1, 2010 through May 25, 2010	Nine Months Ended September 30, 2009
	(in thousands except unit and per unit data)		(in thousands except unit and per unit data)		
Revenue	$ 309,608	$ 409,564	$ 245,830	$ 531,135	$ 763,503
Net income (loss) attributable to Regency Energy Partners LP	9,701	5,225	(12,970)	(8,702)	117,077
Less:					
Amounts attributable to Series A Preferred Units	1,991	2,659	1,996	3,336	1,996
General partner s interest, including IDR	1,204	2,016	322	654	4,112
Amount allocated to non-vested common units			(148)	(81)	684
Beneficial conversion feature for Class D common units					820
Limited partners interest in pro forma net income (loss)	$ 6,506	$ 550	$ (15,140)	$ (12,611)	$ 109,465
Basic and diluted pro forma net income (loss) per unit:					
Amount allocated to common units	$ 6,506	$ 550	$ (15,140)	$ (12,611)	$ 109,465
Weighted average number of common units outstanding	128,387,929	125,916,507	80,637,783	92,788,319	79,498,936
Basic pro forma net income (loss) per common unit	$ 0.05	$ 0.00	$ (0.19)	$ (0.14)	$ 1.38
Diluted pro forma net income (loss) per common unit	$ 0.05	$ 0.00	$ (0.19)	$ (0.14)	$ 1.37
Amount allocated to Class D common units	$	$	$	$	$ 820
Total number of Class D common units outstanding					7,276,506
Income per Class D common unit due to beneficial conversion feature	$	$	$	$	$ 0.11
Distributions paid per unit	$	$	$	$	$

4. Partners Capital

On August 11, 2010, the Partnership sold 17,537,500 common units at $23.80 per unit. After deducting underwriting discounts and commissions of $17,187,000 and offering expenses of $334,000, the Partnership received net proceeds of $399,872,000 from this sale. The proceeds from the equity issuance were used to repay borrowings under the Partnership s existing revolving credit facility.

5. Investment in Unconsolidated Subsidiaries

Investment in HPC. HPC was established in March 2009 and as of September 30, 2010, the Partnership owned a 49.99 percent general partner interest in HPC. The following table summarizes the changes in the Partnership s investment in HPC.

	Successor		Predecessor		
	Three Months Ended September 30, 2010	Period from Acquisition (May 26, 2010) to September 30, 2010	Period from January 1, 2010 to Disposition (May 25, 2010)	Three Months Ended September 30, 2009	Period from Inception (March 18, 2009) to September 30, 2009
	(in thousands)			(in thousands)	
Contributions to HPC	$	$	$ 20,210	$ 1,356	$ 401,356

Purchase of additional HPC interest			75,114	52,803	52,803
Distributions received from HPC	32,966	32,966	12,446	3,287	5,187
Return of investment received from HPC	19,995	19,995			
Partnership s share of HPC s net income	15,180	19,639	15,872	3,532	5,455

As discussed in Note 1, the Partnership s investment in HPC was adjusted to its fair value on May 26, 2010 and the excess fair value over net book value was comprised of two components: (1) $154,926,000 was attributed to HPC s long-lived assets and is being amortized as a reduction of income from unconsolidated subsidiaries over the useful lives of the respective assets, which vary from 15 to 30 years, and (2) $32,368,000 could not be attributed to a specific asset and therefore will not be amortized in future periods. For the three months ended September 30, 2010 and for the period from May 26, 2010 to September 30, 2010, the Partnership recorded $1,585,000 and $1,949,000, respectively, as a reduction of income from unconsolidated subsidiaries due to the amortization of the excess fair value of long-lived assets.

The summarized financial information of HPC is disclosed below.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

RIGS Haynesville Partnership Co.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2010 (Unaudited)		December 31, 2009	
ASSETS				
Total current assets	$	35,809	$	39,239
Restricted cash, non-current				33,595
Property, plant and equipment, net		879,783		861,570
Total other assets		148,614		149,755
TOTAL ASSETS	$	1,064,206	$	1,084,159
LIABILITIES & PARTNERS CAPITAL				
Total current liabilities	$	14,866	$	30,967
Long-term debt		20,000		
Partners capital		1,029,340		1,053,192
TOTAL LIABILITIES & PARTNERS CAPITAL	$	1,064,206	$	1,084,159

RIGS Haynesville Partnership Co.

Condensed Consolidated Income Statements

(in thousands)

	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	From Inception (March 18, 2009) to September 30, 2009
	(Unaudited)		(Unaudited)	
Total revenues	$ 49,409	$ 14,188	$ 128,973	$ 30,095
Total operating costs and expenses	18,902	5,702	54,050	17,160
OPERATING INCOME	30,507	8,486	74,923	12,935
Interest expense	(154)	(65)	(355)	(65)
Other income and deductions, net	13	597	72	1,209
NET INCOME	$ 30,366	$ 9,018	$ 74,640	$ 14,079

Investment in MEP. On May 26, 2010, the Partnership purchased a 49.9 percent interest in MEP from ETE. In June 2010, the Partnership made an additional capital contribution of $38,922,000 to MEP. During the period from May 26, 2010 to September 30, 2010, the Partnership recognized $12,185,000 in income from unconsolidated subsidiaries for its ownership interest and received $27,176,000 in distributions from

MEP.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The summarized financial information of MEP is disclosed below.

Midcontinent Express Pipeline LLC

Condensed Balance Sheet

(in thousands)

	September 30, 2010 (Unaudited)
ASSETS	
Total current assets	$ 27,765
Property, plant and equipment, net	2,227,306
Total other assets	5,461
TOTAL ASSETS	$ 2,260,532
LIABILITIES & PARTNERS CAPITAL	
Total current liabilities	$ 124,405
Long-term debt	798,972
Other long-term liabilities	4,103
Partners capital	1,333,052
TOTAL LIABILITIES & PARTNERS CAPITAL	$ 2,260,532

Midcontinent Express Pipeline LLC

Condensed Income Statement

(in thousands)

	For The Three Months Ended September 30, 2010 (Unaudited)	From May 26, 2010 through September 30, 2010 (Unaudited)
Total revenues	$ 56,997	$ 78,266
Total operating costs and expenses	27,897	37,667
OPERATING INCOME	29,100	40,599
Interest expense, net	(12,749)	(16,180)
NET INCOME	$ 16,351	$ 24,419

6. Derivative Instruments

Policies. The Partnership has established comprehensive risk management policies and procedures to monitor and manage the market risks associated with commodity prices, counterparty credit and interest rates. The General Partner is responsible for delegation of transaction authority levels, and the Risk Management Committee of the General Partner is responsible for the overall management of these risks, including monitoring exposure limits. The Risk Management Committee receives regular briefings on exposures and overall risk management in the context of market activities.

Commodity Price Risk. The Partnership is a net seller of NGLs, condensate and natural gas as a result of its gathering and processing operations. The prices of these commodities are impacted by changes in the supply and demand as well as market focus. Both the Partnership s profitability and cash flow are affected by the inherent volatility of these commodities which could adversely affect its ability to make distributions to its unitholders. The Partnership manages this commodity price exposure through an integrated strategy that includes management of its contract portfolio, matching sales prices of commodities with purchases, optimization of its portfolio by monitoring basis and other price differentials in operating areas, and the use of derivative contracts. In some cases, the Partnership may not be able to match pricing terms or cover its risk to price exposure with financial hedges, and it may be exposed to commodity price risk. Speculative positions with derivative contracts are prohibited under the Partnership s policies.

On May 26, 2010, all of the Partnership s outstanding commodity swaps that were previously accounted for as cash flow hedges were de-designated and were accounted for under the mark-to-market method of accounting. On September 30, 2010, the Partnership s 2011 and 2012 commodity swaps were re-designated as cash flow hedges.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The Partnership executes natural gas, NGLs and WTI trades on a periodic basis to hedge its anticipated equity exposure. The Partnership has executed swap contracts settled against NGLs (ethane, propane, butane and natural gasoline), condensate and natural gas market prices for expected equity exposure in the approximate percentages set forth.

	As of September 30, 2010		
	2010	**2011**	**2012**
NGLs	96%	75%	20%
Condensate	81%	64%	17%
Natural gas	67%	49%	0%

Interest Rate Risk. The Partnership is exposed to variable interest rate risk as a result of borrowings under its revolving credit facility. As of September 30, 2010, the Partnership had $375,000,000 of outstanding borrowings exposed to variable interest rate risk. The Partnership s $300,000,000 interest rate swaps expired in March 2010. In April 2010, the Partnership entered into two-year interest rate swaps related to $250,000,000 of borrowings under its revolving credit facility, effectively locking the base rate, exclusive of applicable margins, for these borrowings at 1.325 percent through April 2012.

Credit Risk. The Partnership s resale of natural gas exposes it to credit risk, as the margin on any sale is generally a very small percentage of the total sales price. Therefore, a credit loss can be very large relative to overall profitability on these transactions. The Partnership attempts to ensure that it issues credit only to credit-worthy counterparties and that in appropriate circumstances extension of credit is backed by adequate collateral, such as a letter of credit or parental guarantee.

The Partnership is exposed to credit risk from its derivative counterparties. The Partnership does not require collateral from these counterparties. The Partnership deals primarily with financial institutions when entering into financial derivatives. The Partnership has entered into Master International Swap Dealers Association (ISDA) Agreements that allow for netting of swap contract receivables and payables in the event of default by either party. If the Partnership s counterparties fail to perform under existing swap contracts, the Partnership s maximum loss would be $11,050,000, which would be reduced by $5,013,000 due to the netting feature. The Partnership has elected to present assets and liabilities under Master ISDA Agreements gross on the condensed consolidated balance sheets.

Embedded Derivatives. The Series A Preferred Units contain embedded derivatives which are required to be bifurcated and accounted for separately, such as the holders conversion option and the Partnership s call option. These embedded derivatives are accounted for using mark-to-market accounting. The Partnership does not expect the embedded derivatives to affect its cash flows.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The Partnership s derivative assets and liabilities, including credit risk adjustment, as of September 30, 2010 and December 31, 2009 are detailed below.

	Assets		Liabilities	
	September 30, 2010 (unaudited)	December 31, 2009	September 30, 2010 (unaudited)	December 31, 2009
	(in thousands)			
Derivatives designated as cash flow hedges				
Current amounts				
Interest rate contracts	$	$	$	$ 1,064
Commodity contracts	3,180	9,521	2,990	11,161
Long-term amounts				
Interest rate contracts				
Commodity contracts	443	207	1,554	931
Total cash flow hedging instruments	3,623	9,728	4,544	13,156
Derivatives not designated as cash flow hedges				
Current amounts				
Commodity contracts	7,348	15,466	539	31
Interest rate contracts			2,310	
Long-term amounts				
Commodity contracts				3,378
Interest rate contracts			833	
Embedded derivatives in Series A Preferred Units			44,918	44,594
Total derivatives not designated as cash flow hedges	7,348	15,466	48,600	48,003
Total derivatives	$ 10,971	$ 25,194	$ 53,144	$ 61,159

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following tables detail the effect of the Partnership s derivative assets and liabilities in the consolidated statement of operations for the periods presented.

For the Three Months Ended September 30, 2010 and 2009

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009
	(in thousands)	
	Change in Value Recognized in OCI on Derivatives (Effective Portion)	
Derivatives in cash flow hedging relationships:		
Commodity derivatives	$	$ (3,005)
Interest rate swap derivatives		(522)
	$	$ (3,527)

	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	
Derivatives in cash flow hedging relationships:			
Commodity derivatives	Revenue	$	$ 13,514
Interest rate swap derivatives	Interest expense		(1,612)
		$	$ 11,902

	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Recognized in Income on Ineffective Portion	
Derivatives in cash flow hedging relationships:			
Commodity derivatives	Revenue	$	$ (1,383)
Interest rate swap derivatives	Interest expense		
		$	$ (1,383)

Amount of Gain/(Loss) from Dedesignation Amortized from AOCI into Income

	Location of Gain/(Loss) Recognized in Income		
Derivatives not designated in a hedging relationship:			
Commodity derivatives	Revenue	$	$ (432)
Interest rate swap derivatives	Interest expense		
		$	$ (432)

	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Recognized in Income on Derivatives	
Derivatives not designated in a hedging relationship:			
Commodity derivatives	Revenue	$ (6,218)	$ 143
Interest rate swap derivatives	Interest expense	(1,795)	
Embedded derivative	Other income & deductions	7,321	(13,986)
		$ (692)	$ (13,843)

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

For the Nine Months Ended September 30, 2010 and 2009

		Successor	Predecessor	
		Period from May 26, 2010 through September 30, 2010	Period from January 1, 2010 through May 25, 2010	Nine Months Ended September 30, 2009
		(in thousands)	(in thousands)	
		Change in Value Recognized in OCI on Derivatives (Effective Portion)		
Derivatives in cash flow hedging relationships:				
Commodity derivatives		$	$ 14,371	$ (8,501)
Interest rate swap derivatives				(2,035)
		$	$ 14,371	$ (10,536)
		Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)		
	Location of Gain/(Loss) Recognized in Income			
Derivatives in cash flow hedging relationships:				
Commodity derivatives	Revenue	$	$ (5,200)	$ 45,578
Interest rate swap derivatives	Interest expense		(1,060)	(4,597)
		$	$ (6,260)	$ 40,981
		Amount of Gain/(Loss) Recognized in Income on Ineffective Portion		
	Location of Gain/(Loss) Recognized in Income			
Derivatives in cash flow hedging relationships:				
Commodity derivatives	Revenue	$	$ (799)	$ 849
Interest rate swap derivatives	Interest expense			
		$	$ (799)	$ 849
		Amount of Gain/(Loss) from Dedesignation Amortized from AOCI into Income		
	Location of Gain/(Loss) Recognized in Income			

Derivatives not designated in a hedging relationship:				
Commodity derivatives	Revenue	$	$ 4,115	$ (1,617)
Interest rate swap derivatives	Interest expense			
		$	$ 4,115	$ (1,617)

	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Recognized in Income on Derivatives		
Derivatives not designated in a hedging relationship:				
Commodity derivatives	Revenue	$ (6,348)	$ 1,168	$ (6,948)
Interest rate swap derivatives	Interest expense	(3,510)	(824)	
Embedded derivative	Other income & deductions	3,715	(4,039)	(13,986)
		$ (6,143)	$ (3,695)	$ (20,934)

7. Long-term Debt

The following table provides information on the Partnership s long-term debt.

	September 30, 2010	December 31, 2009
	(in thousands)	
Senior notes	$ 620,322	$ 594,657
Revolving loans	375,000	419,642
Total	995,322	1,014,299
Less: current portion		
Long-term debt	$ 995,322	$ 1,014,299
Availability under revolving credit facility:		
Total credit facility limit	$ 900,000	$ 900,000
Unfunded commitments		(10,675)
Revolving loans	(375,000)	(419,642)
Letters of credit	(16,015)	(16,257)
Total available	$ 508,985	$ 453,426

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Long-term debt maturities as of September 30, 2010 for each of the next five years are as follows:

Year Ending December 31,	Amount (in thousands)
2010	$
2011	
2012	
2013	357,500
2014	375,000
Thereafter	250,000
Total	$ 982,500

The outstanding balance of revolving debt under the revolving credit facility bears interest at LIBOR plus a margin or Alternate Base Rate (equivalent to the U.S prime rate lending rate) plus a margin or a combination of both. The senior notes pay fixed interest rates and the weighted average coupon rate is 8.787 percent. The weighted average interest rates for the revolving loans and senior notes, including interest rate swap settlements, commitment fees and amortization of debt issuance costs were 7.17 percent during the three months ended September 30, 2010; 7.42 percent during the three months ended September 30, 2009; 7.66 percent during the period from May 26, 2010 to September 30, 2010; 7.98 percent during the period from January 1, 2010 to May 25, 2010 and 6.44 percent during the nine months ended September 30, 2009.

Senior Notes. The senior notes are jointly and severally guaranteed by all of the Partnership s current consolidated subsidiaries, other than Finance Corp. and a minor 60 percent-owned subsidiary, and by certain of its future subsidiaries. The senior notes and the guarantees are unsecured and rank equally with all of the Partnership s and the guarantors existing and future unsubordinated obligations. The senior notes and the guarantees will be senior in right of payment to any of the Partnership s and the guarantors future obligations that are, by their terms, expressly subordinated in right of payment to the notes and the guarantees. The senior notes and the guarantees will be effectively subordinated to the Partnership s and the guarantors secured obligations, including the Partnership s credit facility and the Series A Preferred Units, to the extent of the value of the assets securing such obligations. As of September 30, 2010, the Partnership was in compliance with each of the financial covenants required under the terms of the senior notes.

Finance Corp. has no operations and will not have revenues other than as may be incidental as co-issuer of the senior notes. Since the Partnership has no independent operations, the guarantees are fully unconditional and joint and several of its subsidiaries, except for a minor 60 percent-owned subsidiary, the Partnership has not included condensed consolidated financial information of guarantors of the senior notes.

Upon a change in control, each holder of the Partnership s senior notes may, at such holder s option, require the Partnership to purchase all or a portion of its notes at a purchase price of 101 percent plus accrued interest and liquidated damages, if any. Subsequent to the ETE Acquisition, no noteholder has exercised this option.

As disclosed in Note 1, the Partnership s long-term debt was adjusted to fair value on May 26, 2010. The fair value of the senior notes was adjusted based on quoted market prices. The re-measurement of the senior notes due 2013 and 2016 resulted in premium of $7,150,000 and $6,563,000, respectively.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The unamortized premium or discount on the Partnership s senior notes as of September 30, 2010 and December 31, 2009 are as follows.

	Successor September 30, 2010 (in thousands)	Predecessor December 31, 2009 (in thousands)
Senior Notes Due 2013		
Principal amount	$ 357,500	$ 357,500
Add:		
Unamortized premium	6,544	
Carrying value	$ 364,044	$ 357,500
Senior Notes Due 2016		
Principal amount	$ 250,000	$ 250,000
Add/ deduct:		
Unamortized premium (discount)	6,278	(12,843)
Carrying value	$ 256,278	$ 237,157

Revolving Credit Facility. On March 4, 2010, RGS executed the Fifth Amended and Restated Credit Agreement (the New Credit Agreement), to be effective as of March 4, 2010. The material differences between the Fourth Amended and Restated Credit Agreement and the New Credit Agreement include:

extension of the maturity date to June 15, 2014 from August 15, 2011, subject to the Partnership s 8.375 percent senior notes due December 15, 2013 having been refinanced or repaid by June 15, 2013. If this does not occur, then the maturity date of the revolving credit facility will be June 15, 2013;

an increase in the amount of allowed investments in HPC from $135,000,000 to $250,000,000;

the addition of an allowance for joint venture investments (other than HPC) of up to $75,000,000;

the modification of financial covenants to give credit for projected EBITDA associated with certain future material HPC projects on a percentage of completion basis, provided that such amount, together with adjustments related to the Haynesville Expansion Project and other material projects, does not exceed 20 percent of consolidated EBITDA (as defined in the new credit agreement) through March 31, 2010, and 15 percent thereafter; and

an increase in the annual general asset sales permitted from $20,000,000 annually to five percent of consolidated net tangible assets (as defined in the new credit agreement) annually.

The Partnership treated the amendment of the credit facility as a modification of an existing revolving credit agreement and, therefore, wrote off debt issuance costs of $1,780,000 to interest expense, net in the period from January 1, 2010 to May 25, 2010. In addition, the Partnership paid and capitalized $15,883,000 of loan fees which will be amortized over the remaining term of the credit facility.

On May 26, 2010, the Partnership entered into the first amendment to the New Credit Agreement. The amendment, among other things:

- amends the definition of Consolidated EBITDA and Consolidated Net Income to include MEP;
- amends the definition of Joint Venture to include MEP;
- amends the definition of Permitted Acquisition to clarify that the initial investment in MEP is a permitted acquisition;
- amends the definition of Permitted Holder to include ETE as a party that may hold the equity interest in the Managing General Partner without triggering an event of default under the credit agreement;
- allows for the pledge of the equity interest in MEP as a collateral indirectly, through the direct pledge of equity interest in Regency Midcon;
- permits certain investments in MEP by the Partnership and its affiliates; and
- requires that the Partnership and its subsidiaries maintain a senior consolidated secured leverage ratio not to exceed three to one.

The New Credit Agreement and the guarantees are senior to the Partnership s and the guarantors secured obligations, including the Series A Preferred Units, to the extent of the value of the assets securing such obligations. As of September 30, 2010, the Partnership was in compliance with each of the financial covenants required under the term of the New Credit Agreement.

8. Commitments and Contingencies

Legal. The Partnership is involved in various claims, lawsuits and audits by taxing authorities incidental to its business. These claims and lawsuits in the aggregate are not expected to have a material adverse effect on the Partnership s business, financial condition, results of operations or cash flows.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Escrow Payable. At September 30, 2010, $0 remained in escrow as El Paso completed to the satisfaction of the Partnership the environmental remediation projects pursuant to the purchase and sale agreement (El Paso PSA) related to assets in north Louisiana and the mid-continent area and a subsequent 2008 settlement agreement between the Partnership and El Paso. The escrow account has been closed and the Partnership will not report further on this matter.

Environmental. A Phase I environmental study was performed on certain assets located in west Texas in connection with the pre-acquisition due diligence process in 2004. Most of the identified environmental contamination had either been remediated or was being remediated by the previous owners or operators of the properties. The aggregate potential environmental remediation costs at specific locations were estimated to range from $1,900,000 to $3,100,000. No governmental agency has required the Partnership to undertake these remediation efforts. Management believes that the likelihood that it will be liable for any significant potential remediation liabilities identified in the study is remote. Separately, the Partnership acquired an environmental pollution liability insurance policy in connection with the acquisition to cover any undetected or unknown pollution discovered in the future. The policy covers clean-up costs and damages to third parties, and has a 10-year term (expiring 2014) with a $10,000,000 limit subject to certain deductibles. No claims have been made against the Partnership or under the policy. Unless further remediation is required or further liability is incurred, the Partnership will not further report on this matter.

Keyes Litigation. In August 2008, Keyes Helium Company, LLC (Keyes) filed suit against Regency Gas Services LP, the Partnership, the General Partner and various other subsidiaries. Keyes entered into an output contract with the Partnership s predecessor-in-interest in 1996 under which it purchased all of the helium produced at the Lakin, Kansas processing plant. In September 2004, the Partnership decided to shut down its Lakin plant and contract with a third party for the processing of volumes processed at Lakin; as a result, the Partnership no longer delivered any helium to Keyes. In its suit, Keyes alleges it is entitled to damages for the costs of covering its purchases of helium. On May 7, 2010, the jury rendered a verdict in favor of Regency. No damages were awarded to the Plaintiffs. Plaintiffs have appealed the verdict. The hearing on appeal will take place sometime in 2011.

Kansas State Severance Tax. In August 2008, a customer began remitting severance tax to the state of Kansas based on the value of condensate purchased from one of the Partnership s Mid-Continent gathering fields and deducting the tax from its payments to the Partnership. The Kansas Department of Revenue advised the customer that it was appropriate to remit such taxes and withhold the taxes from its payments to the Partnership, absent an order or legal opinion from the Kansas Department of Revenue stating otherwise. The Partnership has requested a determination from the Kansas Department of Revenue regarding the matter since severance taxes were already paid on the gas from which the condensate is collected and no additional tax is due. The Kansas Department of Revenue has advised the Partnership that a portion of its condensate sales in Kansas is subject to severance tax; therefore the Partnership will be subject to additional taxes on future condensate sales. Absent further developments, the Partnership will not report further on this matter.

Remediation of Groundwater Contamination at Calhoun and Dubach Plants. Regency Field Services LLC (RFS) currently owns the Dubach and Calhoun gas processing plants in north Louisiana (the Plants). The Plants each have groundwater contamination as result of historical operations. At the time that RFS acquired the Plants from El Paso Field Services LP (El Paso), Kerr-McGee Corporation (Kerr-McGee) was performing remediation of the groundwater contamination, because the Plants were once owned by Kerr-McGee and when Kerr-McGee sold the Plants to a predecessor of El Paso in 1988, Kerr-McGee retained liability for any environmental contamination at the Plants. In 2005, Kerr-McGee created and spun off Tronox and Tronox allegedly assumed certain of Kerr-McGee s environmental remediation obligations (including its obligation to perform remediation at the Plants) prior to the acquisition of Kerr-McGee by Anadarko Petroleum Corporation. In January 2009, Tronox filed for Chapter 11 bankruptcy protection. RFS filed a claim in the bankruptcy proceeding relating to the environmental remediation work at the Plants. Tronox has thus far continued its remediation efforts at the Plants. Tronox filed a reorganization plan on July 7, 2010. The plan calls for the creation of a trust to fund environmental clean-up at the various sites where Tronox has an obligation. Tronox must file the Environmental Claims Settlement Agreement, which will set forth the amount of trust funds allocated to each site, 14 days prior to the confirmation hearing, the date for which has not yet been set.

MEP Guarantee. Upon its acquisition of the 49.9 percent interest in MEP from ETE, the Partnership agreed to indemnify ETP for any costs related to ETP s guarantee of payments under MEP s senior revolving credit facility (the MEP Facility). ETP will continue to guarantee 50 percent of the obligations of the MEP Facility, with the remaining 50 percent of MEP Facility obligations guaranteed by Kinder Morgan Energy Partners, L.P. (KMP). The $175,400,000 MEP Facility is unsecured and matures on February 28, 2011. Amounts borrowed under the MEP Facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The commitment fee payable on the unused portion of the MEP Facility varies based on both ETP s credit rating and that of KMP, with a maximum fee of 0.15 percent. The MEP Facility contains covenants that limit (subject to certain exceptions) MEP s ability to grant liens, incur indebtedness, engage in transactions with affiliates, enter into restrictive agreements, enter into mergers, or dispose of substantially all of its assets.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

As of September 30, 2010, MEP had $82,200,000 of outstanding borrowings and $33,300,000 of letters of credit issued under the MEP Facility, respectively. As of September 30, 2010, the Partnership s contingent obligations with respect to the outstanding borrowings and letters of credit under the MEP Facility were $41,100,000 and $16,600,000, respectively. The weighted average interest rate on the total amount outstanding as of September 30, 2010 was 0.7 percent.

9. Series A Convertible Redeemable Preferred Units

On September 2, 2009, the Partnership issued 4,371,586 Series A Preferred Units. As of March 31, 2010, the Series A Preferred Units were convertible to 4,584,192 common units, and if outstanding, are mandatorily redeemable on September 2, 2029 for $80,000,000 plus all accrued but unpaid distributions thereon. The Series A Preferred Units receive fixed quarterly cash distributions of $0.445 per unit beginning with the quarter ending March 31, 2010, if outstanding on the record dates of the Partnership s common units distributions. Effective as of March 2, 2010, holders can elect to convert Series A Preferred Units to common units at any time in accordance with the partnership agreement.

Upon a change in control, each unitholder may, at such unitholder s option, require the Partnership to purchase its Series A Preferred Units for an amount equal to 101 percent of the total of the face value of the Series A Preferred Units plus all accrued but unpaid distribution thereon. Subsequent to the ETE Acquisition, no unitholder has exercised this option.

As disclosed in Note 1, the Partnership s Series A Preferred Units were adjusted to fair value of $70,793,000 on May 26, 2010. The following table provides a reconciliation of the beginning and ending balances of the Series A Preferred Units for the Nine Months ended September 30, 2010.

	For the Nine Months Ended September 30, 2010,	
	Units	Amount (in thousands)
Beginning balance as of January 1, 2010	4,371,586	$ 51,711
Accretion to redemption value from January 1, 2010 to May 25, 2010		55
Balance as of May 25, 2010	4,371,586	51,766
Fair value adjustment		19,027
Balance as of May 26, 2010	4,371,586	70,793
Accretion to redemption value from May 26, 2010 to September 30, 2010		103
Ending balance as of September 30, 2010	4,371,586	$ 70,896*

* This amount will be accreted to $80,000,000 plus any accrued and unpaid distributions by deducting amounts from partners capital over the 19 remaining years.

10. Related Party Transactions

The employees operating the assets of the Partnership and its subsidiaries and all of those providing staff or support services are employees of the General Partner. Pursuant to the partnership agreement, the General Partner receives a monthly reimbursement for all direct and indirect expenses incurred on behalf of the Partnership. Reimbursements of $17,958,000, $23,618,000, $31,065,000, $8,289,000 and $24,563,000, were recorded in the Partnership s financial statements for the three months ended September 30, 2010, during the periods from May 26, 2010 to

September 30, 2010, from January 1, 2010 to May 25, 2010 and for the three and nine months ended September 30, 2009, respectively, as operating expenses or general and administrative expenses, as appropriate.

In conjunction with distributions by the Partnership to its limited and general partner interests, GE EFS received cash distributions of $10,982,000, $26,241,000, and $38,376,000 for the periods from May 26, 2010 to September 30, 2010, from January 1, 2010 to May 25, 2010 and for the nine months ended September 30, 2009, respectively.

In conjunction with distributions by the Partnership to its limited and general partner interests, ETE received cash distributions of $13,709,000 for the period from May 26, 2010 to September 30, 2010.

Under a master services agreement with HPC, the Partnership operates and provides all employees and services for the operation and management of HPC. Under this agreement, the Partnership receives $1,400,000 monthly as a partial reimbursement of its general and administrative costs. The amount is recorded as fee revenue in the Partnership s Corporate and Others segment. The Partnership also incurs expenditures on behalf of HPC and these amounts are billed to HPC on a monthly basis. For the three months ended September 30, 2010, during the periods from May 26, 2010 to September 30, 2010, from January 1, 2010 to May 25, 2010, and the three and nine months ended September 30, 2009, the related party general and administrative expenses reimbursed to the Partnership were $4,200,000, $5,600,000, $6,933,000, $1,500,000, and $3,226,000, respectively.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

On May 26, 2010, the Partnership received $7,436,000 from ETE, which represents the portion of the estimated amount of the Partnership s common unit distribution to be paid to ETE for the period of time that those units were not outstanding (April 1, 2010 to May 25, 2010).

On May 26, 2010, the Partnership entered into a services agreement with ETE and ETE Services Company, LLC (Services Co.), a subsidiary of ETE. Under the services agreement, Services Co. will perform certain general and administrative services to the Partnership. The Partnership will pay Services Co s direct expenses for these services, plus an annual fee of $10,000,000, and will receive the benefit of any cost savings recognized for these services. The services agreement has a five year term, subject to earlier termination rights in the event of a change in control, the failure to achieve certain cost savings for the Partnership or upon an event of default. The Partnership incurred service fees of $2,500,000 and $3,333,000 for the three months ended September 30, 2010 and during the period from May 26, 2010 to September 30, 2010.

As disclosed in Note 3, the Partnership s acquisition of an additional 6.99 percent general partner s interest in HPC from GE EFS, and the 49.9 percent interest in MEP from ETE are related party transactions.

The Partnership s Contract Services segment provides contract compression services to HPC and records revenue in gathering, transportation and other fees on the statement of operations. The Partnership also receives transportation services from HPC and records the cost as cost of sales.

Enterprise GP holds a non-controlling equity interest in ETE s general partner and a limited partnership interest in ETE, therefore is considered a related party along with any of its subsidiaries. The Partnership, in the ordinary course of business, sells natural gas and NGLs to subsidiaries of Enterprise GP and records the revenue in gas sales and NGL sales. The Partnership also incurs NGL processing fees with subsidiaries of Enterprise GP and records the cost to cost of sales.

As of September 30, 2010 and December 31, 2009, details of the Partnership s related party receivables and related party payables were as follow.

	Successor September 30, 2010 (in thousands)	Predecessor December 31, 2009 (in thousands)
Related party receivables		
Subsidiaries of Enterprise GP	$ 21,572	$
HPC	2,164	6,222
ETE	527	
Other	10	
Total related party receivables	$ 24,273	$ 6,222
Related party payables		
HPC	$ 885	$ 2,312
ETE	1,244	
Subsidiaries of Enterprise GP	1,069	
Other	10	
Total related party payables	$ 3,208	$ 2,312

11. Segment Information

The Partnership s management realigned the composition of its segments as follows. Zephyr was aggregated with Contract Compression segment and the segment was renamed to Contract Services. In addition, one of the Partnership s small regulated entities was transferred to the Gathering and Processing segment from the Corporate and Others segment. The disposition of the east Texas business further impacts the Gathering and Processing segment, as the results of those operations are now presented within discontinued operations and excluded from the segment information table. Accordingly, the Partnership has restated the items of segment information for earlier periods to reflect this new alignment.

Gathering and Processing. The Partnership provides wellhead-to-market services to producers of natural gas, which include transporting raw natural gas from the wellhead through gathering systems, processing raw natural gas to separate NGLs from the raw natural gas and selling or delivering pipeline-quality natural gas and NGLs to various markets and pipeline systems.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Transportation. The Partnership owns a 49.99 percent general partner interest in HPC, which delivers natural gas from northwest Louisiana to downstream pipelines and markets through the 450-mile Regency Intrastate Gas pipeline system. The Partnership also recently acquired a 49.9 percent interest in MEP, a joint venture entity owning a natural gas pipeline with approximately 500 miles of pipeline stretching from southeast Oklahoma through northeast Texas, northern Louisiana and central Mississippi to an interconnect with the Transcontinental Gas Pipe Line system in Butler, Alabama.

Contract Services. The Partnership provides turn-key natural gas compression services, guaranteeing customers 98 percent mechanical availability of compression units for land installations and 96 percent mechanical availability for over-water installations. Through the recently-acquired Zephyr, the treating business of the Contract Services segment owns and operates a fleet of equipment used to provide vital treating services to its customers who are generally comprised of natural gas producers and midstream pipeline companies. The primary treating services provided include carbon dioxide removal, hydrogen sulfide removal, natural gas cooling, dehydration and BTU management.

Corporate and Others. The Corporate and Others segment comprises a small regulated pipeline and the Partnership s corporate offices. Revenues in this segment primarily include the collection of the partial reimbursement of general and administrative costs from HPC.

Management evaluates the performance of each segment and makes capital allocation decisions through the separate consideration of segment margin and operation and maintenance expenses. Segment margin, for the Gathering and Processing and for the Transportation segments, is defined as total revenues, including service fees, less cost of sales. In the Contract Services segment, segment margin is defined as revenues minus direct costs, which primarily consist of compressor repairs. Management believes segment margin is an important measure because it directly relates to volume, commodity price changes and revenue generating horsepower. Operation and maintenance expenses are a separate measure used by management to evaluate performance of field operations. Direct labor, insurance, property taxes, repair and maintenance, utilities and contract services comprise the most significant portion of operation and maintenance expenses. These expenses fluctuate depending on the activities performed during a specific period. The Partnership does not deduct operation and maintenance expenses from total revenues in calculating segment margin because management separately evaluates commodity volume and price changes in segment margin.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Results for each period, together with amounts related to balance sheets for each segment, are shown below.

	Gathering and Processing	Transportation	Contract Services	Corporate and Others	Eliminations	Total
			(in thousands)			
External Revenues						
For the three months ended September 30, 2010	$ 253,054	$	$ 39,471	$ 4,363	$	$ 296,888
For the three months ended September 30, 2009	200,862		36,367	1,711		238,940
Period from May 26, 2010 to September 30, 2010	336,832		51,525	5,511		393,868
Period from January 1, 2010 to May 25, 2010	438,804		58,971	7,275		505,050
For the nine months ended September 30, 2009	633,891	9,078	113,866	4,092		760,927
Intersegment Revenues						
For the three months ended September 30, 2010			5,869	93	(5,962)	
For the three months ended September 30, 2009	(3)		1,208	87	(1,292)	
Period from May 26, 2010 to September 30, 2010			7,867	115	(7,982)	
Period from January 1, 2010 to May 25, 2010			9,126	91	(9,217)	
For the nine months ended September 30, 2009	(8,755)	4,933	2,993	232	597	
Cost of Sales						
For the three months ended September 30, 2010	210,331		4,101	(1,307)	(93)	213,032
For the three months ended September 30, 2009	146,141		3,490	(103)	(84)	149,444
Period from May 26, 2010 to September 30, 2010	279,736		5,665	(2,080)	(115)	283,206
Period from January 1, 2010 to May 25, 2010	352,807		5,741	(679)	(91)	357,778
For the nine months ended September 30, 2009	462,198	2,297	9,994	13	3,590	478,092
Segment Margin						
For the three months ended September 30, 2010	42,723		41,239	5,763	(5,869)	83,856
For the three months ended September 30, 2009	54,718		34,085	1,901	(1,208)	89,496
Period from May 26, 2010 to September 30, 2010	57,096		53,727	7,706	(7,867)	110,662
Period from January 1, 2010 to May 25, 2010	85,997		62,356	8,045	(9,126)	147,272
For the nine months ended September 30, 2009	162,938	11,714	106,865	4,311	(2,993)	282,835

Operation and Maintenance						
For the three months ended September 30, 2010	23,978		16,090	107	(5,869)	34,306
For the three months ended September 30, 2009	19,148		11,012	121	(1,561)	28,720
Period from May 26, 2010 to September 30, 2010	31,441		21,014	120	(7,867)	44,708
Period from January 1, 2010 to May 25, 2010	33,430		23,476	59	(9,123)	47,842
For the nine months ended September 30, 2009	57,080	2,112	35,040	205	(4,166)	90,271
Depreciation and Amortization						
For the three months ended September 30, 2010	19,728		11,956	521		32,205
For the three months ended September 30, 2009	14,933		9,271	345		24,549
Period from May 26, 2010 to September 30, 2010	26,785		15,279	686		42,750
Period from January 1, 2010 to May 25, 2010	25,422		15,560	802		41,784
For the nine months ended September 30, 2009	44,174	2,448	26,253	1,049		73,924
Income from Unconsolidated Subsidiaries						
For the three months ended September 30, 2010		21,754				21,754
For the three months ended September 30, 2009		3,532				3,532
Period from May 26, 2010 to September 30, 2010		29,875				29,875
Period from January 1, 2010 to May 25, 2010		15,872				15,872
For the nine months ended September 30, 2009		5,455				5,455
Assets						
September 30, 2010	1,715,494	1,316,565	1,598,744	61,919		4,692,722
December 31, 2009	1,046,619	453,120	926,213	107,462		2,533,414
Investment in Unconsolidated Subsidiaries						
September 30, 2010		1,316,565				1,316,565
December 31, 2009		453,120				453,120
Goodwill						
September 30, 2010	313,361		476,428			789,789
December 31, 2009	63,232		164,882			228,114
Expenditures for Long-Lived Assets						
Period from May 26, 2010 to September 30, 2010	67,680		17,238	3,284		88,202
Period from January 1, 2010 to May 25, 2010	43,666		18,418	1,703		63,787
For the nine months ended September 30, 2009	55,969	22,367	83,579	1,974		163,889

The table below provides a reconciliation of total segment margin to net income (loss) from continuing operations before income taxes.

	Successor		Predecessor		
	Three Months Ended September 30, 2010	Period from Acquisition (May 26, 2010) to September 30, 2010	Period from January 1, 2010 to Disposition (May 25, 2010)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009

	(in thousands)			(in thousands)	
Net income (loss) from continuing operations before income taxes	$ 7,972	$ 3,236	$ (4,215)	$ (10,277)	$ 144,759
Add (deduct):					
Operation and maintenance	34,306	44,708	47,842	28,720	90,271
General and administrative	18,072	25,176	37,212	14,126	43,331
Loss (gain) on asset sales, net	200	210	303	(109)	(133,388)
Depreciation and amortization	32,205	42,750	41,784	24,549	73,924
Income from unconsolidated subsidiaries	(21,754)	(29,875)	(15,872)	(3,532)	(5,455)
Interest expense, net	20,379	28,460	36,321	22,090	55,720
Other income and deductions, net	(7,524)	(4,003)	3,897	13,929	13,673
Total segment margin	$ 83,856	$ 110,662	$ 147,272	$ 89,496	$ 282,835

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

12. Equity-Based Compensation

The Partnership s LTIP for its employees, directors and consultants authorizes grants up to 2,865,584 common units. Because control changed from GE EFS to ETE, all then-outstanding LTIP units and unit options, exclusive of the May 7, 2010 phantom unit grant described below, vested during the predecessor period and the Partnership recorded a one-time general and administrative charge of $9,893,000 as a result of such unit vesting on May 26, 2010. LTIP compensation expense of $303,000, $440,000, $12,070,000, $1,611,000 and $4,361,000 is recorded in general and administrative expense in the statement of operations for the three months ended September 30, 2010, for the periods from May 26, 2010 to September 30, 2010, January 1, 2010 to May 25, 2010, and for the three and nine months ended September 30, 2009, respectively.

Common Unit Option and Restricted (Non-Vested) Units.

The common unit options activity for the nine months ended September 30, 2010 is as follows.

Common Unit Options	**Units**	**Weighted Average Exercise Price**	**Weighted Average Contractual Term (Years)**	**Aggregate Intrinsic Value *(in thousands)**
Outstanding at the beginning of period	306,651	$ 21.50		
Granted				
Exercised	(16,800)	20.73		
Forfeited or expired	(3,001)	23.73		
Outstanding at end of period	286,850	21.55	5.6	915
Exercisable at the end of the period	286,850			915

* Intrinsic value equals the closing market price of a unit less the option strike price, multiplied by the number of unit options outstanding as of the end of the period presented, unit options with an exercise price greater than the end of the period closing market price are excluded.

During the nine months ended September 30, 2010, the Partnership received $341,000 in proceeds from the exercise of unit options.

The restricted (non-vested) common unit activity for the nine months ended September 30, 2010 is as follows.

Restricted (Non-Vested) Common Units	**Units**	**Weighted Average Grant Date Fair Value**
Outstanding at the beginning of the period	464,009	$ 28.36
Granted		
Vested	(444,759)	28.19
Forfeited or expired	(19,250)	32.35
Outstanding at the end of period		

Phantom Units. The Partnership s phantom units are in substance two grants composed of (1) service condition grants with graded vesting over three years; and (2) market condition grants with cliff vesting based upon the Partnership s relative ranking in total unitholder return among 20 peer companies, as disclosed in Item 11 of the Partnership s Annual Report on Form 10-K for the year ended December 31, 2009. On May 26, 2010, as control changed from GE EFS to ETE, all then-outstanding phantom units, exclusive of the May 7, 2010 grant described below, vested. The service condition grants vested at a rate of 100 percent and the market condition grants vested at a rate of 150 percent pursuant to the terms of the award.

The Partnership awarded 247,500 phantom units to senior management and certain key employees on May 7, 2010. These phantom units include a provision that will accelerate vesting (1) upon a change in control and (2) within 12 months of a change in control, if termination without Cause (as defined in the Form of Phantom Units) or resignation for Good Reason (as defined in the Form of Grant of Phantom Units) occurs, the phantom units will vest. The Partnership expects to recognize $2,884,000 of compensation expense related to non-vested phantom units over a period of 2.5 years.

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table presents phantom units activity for the nine months ended September 30, 2010.

Phantom Units	Units	Weighted Average Grant Date Fair Value
Outstanding at the beginning of the period	301,700	$ 8.63
Service condition grants	108,500	20.76
Market condition grants	148,500	11.89
Vested service condition	(145,313)	13.30
Vested market condition	(169,320)*	6.94
Forfeited service condition	(13,467)	20.00
Forfeited market condition	(30,333)	11.30
Total outstanding at end of period	200,267	15.43

* These awards vested at a rate of 150 percent, converting to 253,980 common units.

13. Fair Value Measures

The fair value measurement provisions establish a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1 - unadjusted quoted prices for identical assets or liabilities in active accessible markets;

Level 2 - inputs that are observable in the marketplace other than those classified as Level 1; and

Level 3 - inputs that are unobservable in the marketplace and significant to the valuation.

Entities are encouraged to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

Derivatives. The Partnership s financial assets and liabilities measured at fair value on a recurring basis are derivatives related to commodity swaps and embedded derivatives in the Series A Preferred Units. Derivatives related to commodity swaps are valued using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs such as future interest rates and commodity prices. These market inputs are utilized in the discounted cash flow calculation considering the instrument s term, notional amount, discount rate and credit risk and are classified as Level 2 in the hierarchy. Derivatives related to Series A Preferred Units are valued using a binomial lattice model. The market inputs utilized in the model include credit spread, probabilities of the occurrence of certain events, common unit price, dividend yield and expected volatility, and are classified as Level 3 in the hierarchy. The change in fair value of the derivatives related to Series A Preferred Units is recorded in other income and deductions, net within the statement of operations.

The following table presents the Partnership s derivative assets and liabilities measured at fair value on a recurring basis.

	Fair Value Measurment at September 30, 2010				Fair Value Measurment at December 31, 2009			
	Fair Value Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)							
Assets								
Commodity Derivatives:								
Natural Gas	$ 4,609	$	$ 4,609	$	$ 602	$	$ 602	$
Natural Gas Liquids	3,857		3,857		15,484		15,484	
Condensate	2,505		2,505		9,108		9,108	
Total Assets	$ 10,971	$	$ 10,971	$	$ 25,194	$	$ 25,194	$
Liabilities								
Interest rate swaps	$ 3,143	$	$ 3,143	$	$ 1,064	$	$ 1,064	$
Commodity Derivatives:								
Natural Gas					51		51	
Natural Gas Liquids	4,206		4,206		15,034		15,034	
Condensate	877		877		416		416	
Embedded Derivatives in Series A Preferred Units	44,918			44,918	44,594			44,594
Total Liabilities	$ 53,144	$	$ 8,226	$ 44,918	$ 61,159	$	$ 16,565	$ 44,594

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table presents the changes in Level 3 derivatives measured on a recurring basis for the Nine Months ended September 30, 2010.

		Embedded Derivatives in Series A Preferred Units (in thousands)
Beginning Balance - December 31, 2009	$	44,594
Net unrealized loss included in other income and deductions, net		4,039
Ending Balance - May 25, 2010		48,633
Net unrealized gain included in other income and deductions, net		(3,715)
Ending Balance - September 30, 2010	$	44,918

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to their short-term maturities. Restricted cash and related escrow payable approximates fair value due to the relatively short-term settlement period of the escrow payable. Long-term debt, other than the senior notes, is comprised of borrowings which incur interest under a floating interest rate structure. Accordingly, the carrying value approximates fair value. The estimated fair values of the senior notes due 2013 and 2016, based on third party market value quotations as of September 30, 2010, were $373,230,000 and $274,687,500, respectively.

14. Subsequent Events

Tender offer of Senior Notes Due 2013. On October 13, 2010, the Partnership announced the commencement of a tender offer and consent solicitation for any and all of its $357,500,000 in aggregate principal amount of 8.375 percent senior notes due 2013 (the Tender Offer). On October 27, 2010, the Partnership accepted for purchase approximately $271,116,000 of the senior notes due 2013 pursuant to the Tender Offer. The Tender Offer will expire at 8:00 a.m., New York City time, on November 10, 2010. The Partnership currently anticipates that it will call for redemption any senior notes due 2013 not purchased in the Tender Offer and will satisfy and discharge the indenture relating to the senior notes due 2013 in compliance with the terms of the notes, the indenture and applicable law; provided, however, that the Partnership may elect not to redeem such notes or satisfy and discharge the related indenture.

Debt offering. On October 27, 2010, the Partnership and Finance Corp. completed the public offering (the Offering) of $600,000,000 aggregate principal amount to their 6.875 percent senior notes due 2018 (the Notes). The Partnership and Finance Corp. expect to receive net proceeds of approximately $588,600,000 from the Offering, after deducting underwriting discounts and commissions and estimated offering expenses, and intend to use a portion of the net proceeds to fund the Tender Offer described above. The remaining net proceeds from the Offering will be used to reduce outstanding borrowings under the Partnership s revolving credit facility and to pay fees and expenses related to the Tender Offer.

Distribution. On October 26, 2010, the Partnership declared a distribution of $0.445 per outstanding common unit and Series A Preferred Unit, including units equivalent to the General Partner s two percent interest in the Partnership, and a distribution with respect to incentive distribution rights of approximately $1,050,000, payable on November 12, 2010, to unitholders of record at the close of business on November 5, 2010.

Shared services integration. In October 2010, the Partnership commenced a process to streamline functions across a variety of operational and general administrative departments. The Partnership is currently assessing the associated expenses.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion analyzes our financial condition and results of operations. You should read the following discussion of our financial condition and results of operations in conjunction with our historical consolidated financial statements and the notes included elsewhere in this document.

OVERVIEW. We are a growth-oriented publicly-traded Delaware limited partnership, engaged in the gathering, treating, processing, compression and transportation of natural gas and NGLs. We focus on providing midstream services in some of the most prolific natural gas producing regions in the United States, including the Haynseville, Eagle Ford, Barnett, Fayetteville, and Marcellus shales. Our assets are located in Louisiana, Texas, Arkansas, Pennsylvania, Mississippi, Alabama, and the mid-continent region of the United States, which includes Kansas, Colorado, and Oklahoma.

RECENT DEVELOPMENTS.

HPC Purchase. On April 30, 2010, we purchased 76,989 units representing general partner interests in HPC for an aggregate purchase price of $92,087,000 from EFS Haynesville, an affiliate of GECC and us. This purchase was funded using our revolving credit facility and it increased our ownership percentage in HPC from 43 percent to 49.99 percent. We and EFS Haynesville also entered into a voting agreement which grants us the right to vote the general partner interest in HPC retained by EFS Haynesville.

ETE Acquisition. On May 26, 2010, GP Seller completed the sale of all of the outstanding membership interests of the General Partner pursuant to a purchase agreement (the Purchase Agreement) among itself, ETE and ETE GP. Prior to the closing of the transactions under the Purchase Agreement, GP Seller, an affiliate of GE EFS, owned all of the outstanding limited partner interests in the General Partner, which is the sole general partner of us, and all of the member interests in the general partner of the General Partner and, as a result of that position, controlled us. As a result of this transaction, the outstanding voting interests of the General Partner and control of the Partnership were transferred from GE EFS to ETE. Consequently, control of the General Partner and the Partnership changed. In connection with this change in control, our assets and liabilities were adjusted to fair value on the closing date (May 26, 2010) by application of push-down accounting.

MEP Purchase. On May 26, 2010, we, Regency Midcon and ETE entered into a contribution agreement, pursuant to which ETE agreed to contribute to us (through Regency Midcon) 100 percent of the membership interests in ETC III and the option to purchase all of the outstanding membership interests in ETC II (0.1 percent ownership of members interest in MEP), that is exercisable one year and one day following the closing. In return, we issued 26,266,791 of our common units, valued at approximately $600,000,000 based on a 10-day volume weighted average closing price of our common units as of May 4, 2010, to ETE in a private placement, relying on Section 4(2) of the Securities Act of 1933, as amended (the Securities Act). ETE paid $12,848,000 in cash to us as an estimated purchase price adjustment. The consideration is subject to further post-closing adjustment. Following completion of these transactions, we indirectly own 49.9 percent of MEP and have an option to acquire an indirect 0.1 percent interest in MEP that is exercisable on May 27, 2011. An affiliate of Kinder Morgan Energy Partners, L.P. continues to own the other 50 percent interest in MEP and acts as the operator of MEP. In June 2010, we made an additional capital contribution of $38,922,000 to MEP.

Services Agreement. On May 26, 2010, we entered into a services agreement with ETE and Services Co., a subsidiary of ETE. Under the services agreement, Services Co. will perform certain general and administrative services to be agreed upon by the parties. We will pay Services Co. s direct expenses for the provision of these services, plus an annual fee of $10,000,000, and we will receive the benefit of any cost savings recognized for these services. The services agreement has a five-year term, subject to earlier termination rights in the event of a change of control of a party, the failure to achieve certain costs savings for the benefit of us or upon an event of default.

Logansport Expansion. We completed Phase I and Phase II expansions of the Logansport Gathering System located in the Haynesville Shale in north Louisiana in August. The expansions add an incremental 485 MMcf/d of gathering capacity.

HPC. On June 24, 2010, FERC approved a settlement establishing RIG s maximum rates for NGPA Section 311 transportation services for the period commencing February 1, 2010. Under the settlement, which applies to RIG s interstate shippers, RIG is not required to make any refunds to shippers, and it is authorized to implement maximum rates that are higher than RIG s previously effective maximum rates. In addition, RIG was authorized to increase its maximum fuel retention rates upon the installation of additional compression on RIGS. Consistent with FERC policy, RIG is required to justify its current rates or propose new rates on or before February 1, 2015.

HPC s total project costs for both the Haynesville and Red River Expansion Projects were completed nearly $60,000,000 under budget for a total of approximately $641,000,000.

On July 21, 2010, FERC extended the time for consideration of requests for rehearing of Order No. 735, which revises the contract reporting requirements for intrastate natural gas pipelines that provide interstate transportation services pursuant to Section 311 of the NGPA. Petitions for review of Order No. 735 were dismissed, subject to refiling after FERC issues an order on rehearing. The new reporting requirements if permitted to become effective will increase administration costs for RIG and require the disclosure of customer-specific information, including rate information that was previously not public for intrastate pipelines.

Newly adopted transparency regulations require certain non-interstate pipelines, including gathering pipelines, to post on their internet websites receipt and delivery point capacities and scheduled flow information on a daily basis. Although these regulations are currently subject to petitions for review before the United States Court of Appeals for the Fifth Circuit, major non-interstate pipelines were required to comply with these requirements as of October 1, 2010. Currently, these newly adopted regulations apply to HPC, but they may apply to other Regency facilities if they meet the threshold requirements in the future. HPC believes that it is in compliance with these requirements at this time.

Gulf States. FERC has initiated an audit of Gulf States compliance with certain requirements for the posting of information. FERC routinely conducts such audits of regulated companies, and Gulf States will correct its postings to the extent required.

East Texas. On July 15, 2010, we sold our gathering and processing assets located in east Texas to an affiliate of Tristream Energy LLC for approximately $70,180,000. We plan to use the proceeds from the sale of the assets to fund future capital expenditures.

Zephyr Acquisition. On September 1, 2010, we acquired Zephyr for approximately $193,296,000 in cash.

Shared Services Integration. In October 2010, we commenced a process to streamline functions across a variety of operational and general and administrative departments. We are currently assessing the associated expenses.

Tender offer of Senior Notes Due 2013. On October 13, 2010, we announced the commencement of a tender offer and consent solicitation for any and all of our $357,500,000 in aggregate principal amount of 8.375 percent senior notes due 2013 (the Tender Offer). On October 27, 2010, we accepted for purchase approximately $271,116,000 of the senior notes due 2013 pursuant to the Tender Offer. The Tender Offer will expire at 8:00 a.m., New York City time, on November 10, 2010. We currently anticipate that we will call for redemption any senior notes due 2013 not purchased in the Tender Offer and will satisfy and discharge the indenture relating to the senior notes due 2013 in compliance with the terms of the notes, the indenture and applicable law; provided, however, that we may elect not to redeem such notes or satisfy and discharge the related indenture.

Debt offering. On October 27, 2010, we and Finance Corp. completed the public offering (the Offering) of $600,000,000 aggregate principal amount to their 6.875 percent senior notes due 2018 (the Notes). We expect to receive net proceeds of approximately $588,600,000 from the Offering, after deducting underwriting discounts and commissions and estimated offering expenses, and intend to use a portion of the net proceeds to fund the Tender Offer described above. The remaining net proceeds from the Offering will be used to reduce outstanding borrowings under our revolving credit facility and to pay fees and expenses related to the Tender Offer.

Proposed TCEQ Rule. TCEQ has proposed a new Section 352 Oil and Gas Permit by Rule (PBR), which is applicable to oil and gas facilities and provides an authorization for activities that produce more than a de minimis level of emissions. If implemented, the proposed PBR would result in additional recordkeeping and reporting requirements, additional best management practices, increased emissions modeling, increased stack testing, and an increase in project/facility registrations, all of which would increase our capital and operating costs in Texas. Under the proposed PBR, the construction of new facilities near existing facilities could cause the existing and new facilities to be subject to increased requirements, including the installation of additional emissions control equipment, which would increase the costs of new projects and increase capital expenditures in Texas. The TCEQ has indicated the PBR rule may be issued in December 2010.

OUR OPERATIONS. We divide our operations into four business segments:

Gathering and Processing. We provide wellhead-to-market services to producers of natural gas, which include transporting raw natural gas from the wellhead through gathering systems, processing raw natural gas to separate NGLs from the raw natural gas and selling or delivering pipeline-quality natural gas and NGLs to various markets and pipeline systems.

Transportation. We own a 49.99 percent general partner interest in HPC, which delivers natural gas from northwest Louisiana to downstream pipelines and markets through the 450-mile Regency Intrastate Gas pipeline system. We also recently acquired a 49.9 percent interest in MEP, a joint venture entity owning natural gas pipeline with approximately 500 miles of pipeline stretching from southeast Oklahoma through northeast Texas, northern Louisiana and central Mississippi to an interconnect with the Transcontinental Gas Pipe Line system in Butler, Alabama.

Contract Services. We provide turn-key natural gas compression services whereby we guarantee our customers 98 percent mechanical availability of our compression units for land installations and 96 percent mechanical availability for over-water installations. Through the recently-acquired Zephyr, the treating business of the Contract Services segment owns and operates a fleet of equipment used to provide vital treating services to its customers who are generally comprised of natural gas producers and midstream pipeline companies. The primary treating services provided include carbon dioxide removal, hydrogen sulfide removal, natural gas cooling, dehydration and BTU management.

Corporate and Others. Our Corporate and Others segment comprises a small regulated pipeline and our corporate offices. Revenues in this segment primarily include the collection of the partial reimbursement of general and administrative costs from HPC.

HOW WE EVALUATE OUR OPERATIONS. Our management uses a variety of financial and operational measurements to analyze our performance. We view these measures as important tools for evaluating the success of our operations and review these measurements on a monthly basis for consistency and trend analysis. These measures include volumes, segment margin, total segment margin, adjusted segment margin, adjusted total segment margin, operating and maintenance expenses, EBITDA, and adjusted EBITDA on a segment and company-wide basis.

Volumes. We must continually obtain new supplies of natural gas to maintain or increase throughput volumes on our gathering and processing systems. Our ability to maintain existing supplies of natural gas and obtain new supplies is affected by (i) the level of workovers or recompletions of existing connected wells and successful drilling activity in areas currently dedicated to our gathering and processing systems, (ii) our ability to compete for volumes from successful new wells in other areas and (iii) our ability to obtain natural gas that has been released from other commitments. We routinely monitor producer activity in the areas served by our gathering and processing systems to pursue new supply opportunities.

Segment Margin and Total Segment Margin. We define segment margin, generally, as revenues minus cost of sales. We calculate our Gathering and Processing segment margin and Corporate and Others segment margin as our revenues generated from operations minus the cost of natural gas and NGLs purchased and other cost of sales, including third-party transportation and processing fees.

Prior to our contribution of RIG to HPC, we calculated our Transportation segment margin as revenues generated by fee income as well as, in those instances in which we purchased and sold gas for our account, gas sales revenues minus the cost of natural gas that we purchased and transported. After our contribution of RIG to HPC, we do not record segment margin for the Transportation segment because we record our ownership percentage of the net income in HPC as income from unconsolidated subsidiaries. In addition, we record our ownership percentage of the net income in MEP as income from unconsolidated subsidiaries.

We calculate our Contract Services segment margin as our revenues generated from our contract services operations minus the direct costs, primarily compressor unit repairs, associated with those revenues.

We calculate total segment margin as the total of segment margin of our four segments, less intersegment eliminations.

Adjusted Segment Margin and Adjusted Total Segment Margin. We define adjusted segment margin as segment margin adjusted for non-cash gains (losses) from commodity derivatives. We define adjusted total segment margin as total segment margin adjusted for non-cash gains (losses) from commodity derivatives. Our adjusted total segment margin equals the sum of our operating segments adjusted segment margins or segment margins, including intersegment eliminations. Adjusted segment margin and adjusted total segment margin are included as supplemental disclosures because they are primary performance measures used by management as they represent the results of product purchases and sales, a key component of our operations.

Revenue Generating Horsepower**.** Revenue generating horsepower is the primary driver for revenue growth of the contract compression business in our contract services segment, and it is also the primary measure for evaluating our operational efficiency. Revenue generating horsepower is our total available horsepower less horsepower under contract that is not generating revenue and idle horsepower.

Revenue Generating Gallons per Minute (GPM). Revenue generating GPM is the primary driver for revenue growth of the treating business in our contract services segment. GPM is used as a measure of the treating capacity of an amine plant. Revenue generating GPM is our total GPM under contract less GPM that is not generating revenue.

Operation and Maintenance Expense**.** Operation and maintenance expense is a separate measure that we use to evaluate operating performance of field operations. Direct labor, insurance, property taxes, repair and maintenance, utilities and contract services comprise the most significant portion of our operating and maintenance expense. These expenses are largely independent of the volumes through our systems but fluctuate depending on the activities performed during a specific period. We do not deduct operation and maintenance expenses from total revenues in calculating segment margin because we separately evaluate commodity volume and price changes in segment margin.

EBITDA and Adjusted EBITDA. We define EBITDA as net income (loss) plus interest expense, provision for income taxes and depreciation and amortization expense. We define adjusted EBITDA as EBITDA plus or minus the following:

- non-cash loss (gain) from commodity and embedded derivatives;
- non-cash unit based compensation;
- loss (gain) on asset sales, net;
- loss on debt refinancing;
- other (income) expense, net; and
- the Partnership s interest in adjusted EBITDA from unconsolidated subsidiaries less income from unconsolidated subsidiaries.

These measures are used as supplemental measures by our management and by external users of our financial statements such as investors, banks, research analysts and others, to assess:

- financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate cash sufficient to pay interest costs, support our indebtedness and make cash distributions to our unitholders and General Partner;
- our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard to financing or capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Neither EBITDA nor adjusted EBITDA should be considered as an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of financial performance presented in accordance with GAAP. EBITDA is the starting point in determining cash available for distribution, which is an important non-GAAP financial measure for a publicly traded partnership.

The following table presents a reconciliation of EBITDA and adjusted EBITDA to net cash flows provided by operating activities and to net income (loss).

	Combined Nine Months Ended September 30, 2010			
	Successor Period from Acquisition (May 26, 2010) to September 30, 2010	Predecessor Period from January 1, 2010 to May 25, 2010	Total	Nine Months Ended September 30, 2009
	(in thousands)			
Reconciliation of Adjusted EBITDA to net cash flows provided by operating activities and to net income (loss)				
Net cash flows provided by operating activities	$ 38,482	$ 89,421	$ 127,903	$ 107,113
Add (deduct):				
Depreciation and amortization, including debt issuance cost amortization	(44,767)	(49,363)	(94,130)	(85,666)
Write-off of debt issuance costs		(1,780)	(1,780)	
Income from unconsolidated subsidiaries	29,875	15,872	45,747	5,455
Derivative valuation change	(14,837)	(12,004)	(26,841)	(3,040)
(Loss) gain on assets sales, net	(190)	(303)	(493)	133,389
Unit based compensation expenses	(440)	(12,070)	(12,510)	(4,361)
Changes in current assets				