ENTERPRISE PRODUCTS PARTNERS L P
Form 10-Q
August 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

o 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: 1-14323

ENTERPRISE PRODUCTS PARTNERS L.P.

(Exact name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**76-0568219** (I.R.S. Employer Identification No.)

1100 Louisiana, 10th Floor

Houston, Texas 77002
(Address of Principal Executive Offices, Including Zip Code)

(713) 381-6500
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

There were 434,062,817 common units of Enterprise Products Partners L.P. outstanding at August 1, 2007. These common units trade on the New York Stock Exchange under the ticker symbol EPD.

ENTERPRISE PRODUCTS PARTNERS L.P.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION.

Item 1. ***Financial Statements*****.**

ENTERPRISE PRODUCTS PARTNERS L.P.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS	**June 30, 2007**	**December 31, 2006**
Current assets:		
Cash and cash equivalents	$ 63,363	$ 22,619
Restricted cash	23,359	23,667
Accounts and notes receivable - trade, net of allowance for doubtful accounts of $22,868 at June 30, 2007 and $23,406 at December 31, 2006	1,491,856	1,306,290
Accounts receivable - related parties	91,619	16,738
Inventories	335,622	423,844
Prepaid and other current assets	173,327	129,000
Total current assets	2,179,146	1,922,158
Property, plant and equipment, net	10,734,130	9,832,547
Investments in and advances to unconsolidated affiliates	836,091	564,559
Intangible assets, net of accumulated amortization of $297,002 at June 30, 2007 and $251,876 at December 31, 2006	950,260	1,003,955
Goodwill	590,647	590,541
Deferred tax asset	2,369	1,855
Other assets	77,630	74,103
Total assets	$ 15,370,273	$ 13,989,718
LIABILITIES AND PARTNERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 285,671	$ 277,070
Accounts payable related parties	32,846	6,785
Accrued gas payables	1,552,074	1,364,493
Accrued expenses	44,539	35,763
Accrued interest	94,837	90,865
Other current liabilities	194,894	209,945
Total current liabilities	2,204,861	1,984,921
Long-term debt: (see Note 9)		
Senior debt obligations principal	5,063,949	4,779,068
Junior Subordinated Notes A principal	550,000	550,000
Junior Subordinated Notes B principal	700,000	--
Other	(54,234)	(33,478)
Total long-term debt	6,259,715	5,295,590
Deferred tax liabilities	17,310	13,723
Other long-term liabilities	108,716	86,121
Minority interest	434,665	129,130
Commitments and contingencies		
Partners equity:		
Limited partners		
Common units (432,466,493 units outstanding at June 30, 2007 and 431,303,193 units outstanding at December 31, 2006)	6,145,945	6,320,577
Restricted common units (1,596,324 units outstanding at June 30, 2007		

and 1,105,237 units outstanding at December 31, 2006)	11,389	9,340
General partner	126,037	129,175
Accumulated other comprehensive income	61,635	21,141
Total partners equity	6,345,006	6,480,233
Total liabilities and partners equity	$ 15,370,273	$ 13,989,718

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.

UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS

(Dollars in thousands, except per unit amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Third parties	$ 4,076,573	$ 3,404,419	$ 7,335,185	$ 6,564,418
Related parties	136,233	113,434	200,475	203,509
Total	4,212,806	3,517,853	7,535,660	6,767,927
Costs and expenses:				
Operating costs and expenses:				
Third parties	3,875,050	3,244,576	6,915,583	6,189,796
Related parties	85,622	79,009	169,568	180,652
Total operating costs and expenses	3,960,672	3,323,585	7,085,151	6,370,448
General and administrative costs:				
Third parties	10,628	5,405	14,203	8,137
Related parties	20,733	10,830	33,788	21,838
Total general and administrative costs	31,361	16,235	47,991	29,975
Total costs and expenses	3,992,033	3,339,820	7,133,142	6,400,423
Equity in income (loss) of unconsolidated affiliates	(6,211)	8,012	(32)	12,041
Operating income	214,562	186,045	402,486	379,545
Other income (expense):				
Interest expense	(71,275)	(56,333)	(134,633)	(114,410)
Interest income	2,408	1,455	4,443	3,116
Other, net	339	1,938	232	2,246
Other expense	(68,528)	(52,940)	(129,958)	(109,048)
Income before provision for income taxes, minority interest and the cumulative effect of change in accounting principle	146,034	133,105	272,528	270,497
Provision for income taxes	1,860	(6,272)	(6,928)	(9,164)
Income before minority interest and the cumulative effect of change in accounting principle	147,894	126,833	265,600	261,333
Minority interest	(5,740)	(538)	(11,401)	(2,736)
Income before the cumulative effect of change in accounting principle	142,154	126,295	254,199	258,597
Cumulative effect of change in accounting principle (see Note 2)	--	--	--	1,475
Net income	$ 142,154	$ 126,295	$ 254,199	$ 260,072
Net income allocation: (see Note 13)				
Limited partners interest in net income	$ 113,527	$ 103,192	$ 198,576	$ 215,561
General partner interest in net income	$ 28,627	$ 23,103	$ 55,623	$ 44,511
Earning per unit: (see Note 13)				
Basic income per unit before change in accounting principle	$ 0.26	$ 0.25	$ 0.46	$ 0.53
Basic income per unit	$ 0.26	$ 0.25	$ 0.46	$ 0.54
Diluted income per unit before change in accounting principle	$ 0.26	$ 0.25	$ 0.46	$ 0.53
Diluted income per unit	$ 0.26	$ 0.25	$ 0.46	$ 0.54

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.

UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED

COMPREHENSIVE INCOME

(Dollars in thousands)

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Net income	$ 142,154	$ 126,295	$ 254,199	$ 260,072
Other comprehensive income:				
Cash flow hedges:				
Net commodity financial instrument gains (losses) during period	(3,121)	(7,951)	846	(7,700)
Net interest rate financial instrument gains during period	29,752	1,638	40,264	1,638
Less: Amortization of cash flow financing hedges	(1,180)	(1,052)	(2,269)	(2,093)
Total cash flow hedges	25,451	(7,365)	38,841	(8,155)
Foreign currency translation adjustment	148	--	549	--
Total other comprehensive income	25,599	(7,365)	39,390	(8,155)
Comprehensive income	$ 167,753	$ 118,930	$ 293,589	$ 251,917

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.

UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Dollars in thousands)

	For the Six Months Ended June 30,	
	2007	**2006**
Operating activities:		
Net income	$ 254,199	$ 260,072
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion in operating costs and expenses	240,653	212,768
Depreciation and amortization in general and administrative costs	4,259	3,752
Amortization in interest expense	201	487
Equity in loss (income) of unconsolidated affiliates	32	(12,041)
Distributions received from unconsolidated affiliates	35,026	20,348
Cumulative effect of change in accounting principle	--	(1,475)
Operating lease expense paid by EPCO, Inc.	1,053	1,056
Minority interest	11,401	2,736
Loss (gain) on sale of assets	5,664	(197)
Deferred income tax expense	4,088	9,180
Changes in fair market value of financial instruments	(302)	(53)
Net effect of changes in operating accounts (see Note 16)	(4,225)	74,692
Net cash flows provided by operating activities	552,049	571,325
Investing activities:		
Capital expenditures	(1,129,263)	(613,519)
Contributions in aid of construction costs	48,570	34,941
Proceeds from sale of assets	1,015	256
Decrease (increase) in restricted cash	308	(6,703)
Cash used for business combinations	(785)	--
Investments in unconsolidated affiliates	(294,598)	(111,882)
Advances (to) from unconsolidated affiliates	(12,434)	7,120
Net cash used in investing activities	(1,387,187)	(689,787)
Financing activities:		
Borrowings under debt agreements	3,048,734	1,435,000
Repayments of debt	(2,063,374)	(1,402,000)
Debt issuance costs	(9,261)	--
Distributions paid to partners	(470,561)	(400,474)
Distributions paid to minority interests	(9,416)	(4,131)
Net proceeds from initial public offering of Duncan Energy Partners reflected as a contribution from minority interests (see Notes 1 and 2)	291,044	--
Other contributions from minority interests	12,506	19,018
Settlement of treasury lock contracts	42,269	--
Repurchase of restricted units and options	(1,568)	--
Net proceeds from issuance of our common units	35,899	453,475
Net cash provided by financing activities	876,272	100,888
Effect of exchange rate changes on cash	(390)	--
Net change in cash and cash equivalents	41,134	(17,574)
Cash and cash equivalents, January 1	22,619	42,098
Cash and cash equivalents, June 30	$ 63,363	$ 24,524

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.

UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED PARTNERS EQUITY

(See Note 10 for Unit History and Detail of Changes in Limited Partners Equity)

(Dollars in thousands)

	Limited Partners	General Partner	AOCI	Total
Balance, December 31, 2006	$ 6,329,917	$ 129,175	$ 21,141	$ 6,480,233
Net income	198,576	55,623	--	254,199
Operating leases paid by EPCO, Inc.	1,032	21	--	1,053
Cash distributions to partners	(407,826)	(59,896)	--	(467,722)
Net proceeds from sales of common units	27,676	877	--	28,553
Proceeds from exercise of unit options	7,139	207	--	7,346
Repurchase of restricted units and options	(1,568)	--	--	(1,568)
Unit option reimbursements to EPCO, Inc.	(2,786)	(57)	--	(2,843)
Change in funded status of pension and postretirement plans, net of tax	--	--	1,104	1,104
Amortization of equity awards	5,174	87	--	5,261
Foreign currency translation adjustment	--	--	549	549
Cash flow hedges	--	--	38,841	38,841
Balance, June 30, 2007	$ 6,157,334	$ 126,037	$ 61,635	$ 6,345,006

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Partnership Organization

Partnership Organization

Enterprise Products Partners L.P. is a publicly traded Delaware limited partnership, the common units of which are listed on the New York Stock Exchange (NYSE) under the ticker symbol EPD. Unless the context requires otherwise, references to we, us, our, or Enterprise Prod Partners are intended to mean the business and operations of Enterprise Products Partners L.P. and its consolidated subsidiaries.

We were formed in April 1998 to own and operate certain natural gas liquids (NGLs) related businesses of EPCO, Inc. (EPCO). We conduct substantially all of our business through our wholly owned subsidiary, Enterprise Products Operating LLC (EPO), as successor in interest by merger to Enterprise Products Operating L.P. We are owned 98% by our limited partners and 2% by Enterprise Products GP, LLC (our general partner, referred to as Enterprise Products GP). Enterprise Products GP is owned 100% by Enterprise GP Holdings L.P. (Enterprise GP Holdings), a publicly traded affiliate, the units of which are listed on the NYSE under the ticker symbol EPE. The general partner of Enterprise GP Holdings is EPE Holdings, LLC (EPE Holdings), a wholly owned subsidiary of Dan Duncan LLC, the membership interests of which are owned by Dan L. Duncan. We, Enterprise Products GP, Enterprise GP Holdings, EPE Holdings and Dan Duncan LLC are affiliates and under common control of Dan L. Duncan, the Chairman and controlling shareholder of EPCO.

References to TEPPCO mean TEPPCO Partners, L.P., a publicly traded affiliate, the units of which are listed on the NYSE under the ticker symbol TPP. References to TEPPCO GP refer to Texas Eastern Products Pipeline Company, LLC, which is the general partner of TEPPCO and is wholly owned by Enterprise GP Holdings.

References to Energy Transfer Equity mean the business and operations of Energy Transfer Equity, L.P. and its consolidated subsidiaries. References to ETE GP mean LE GP, LLC, which is the general partner of Energy Transfer Equity. On May 7, 2007, Enterprise GP Holdings acquired non-controlling interests in both ETE GP and Energy Transfer Equity.

References to Employee Partnerships mean EPE Unit L.P. (EPE Unit I), EPE Unit II, L.P. (EPE Unit II) and EPE Unit III, L.P. (EPE Unit III), collectively, which are private company affiliates of EPCO.

On February 5, 2007, a consolidated subsidiary of ours, Duncan Energy Partners L.P. (Duncan Energy Partners), completed an initial public offering of its common units (see Note 12). Duncan Energy Partners owns equity interests in certain of our midstream energy businesses.

For financial reporting purposes, we consolidate the financial statements of Duncan Energy Partners with those of our own and reflect its operations in our business segments. We control Duncan Energy Partners through our ownership of its general partner. Also, due to common control of the entities by Dan L. Duncan, the initial consolidated balance sheet of Duncan Energy Partners reflects our historical carrying basis in each of the subsidiaries contributed to Duncan Energy Partners. Public ownership of Duncan Energy Partners net assets and earnings are presented as a component of minority interest in our consolidated financial statements. The borrowings of Duncan Energy Partners are presented as part of our consolidated debt; however, we do not have any obligation for the payment of interest or repayment of borrowings incurred by Duncan Energy Partners.

Basis of Presentation

Our results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of results expected for the full year.

Except per unit amounts, or as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.

Essentially all of our assets, liabilities, revenues and expenses are recorded at EPO s level in our consolidated financial statements. We act as guarantor of certain of EPO s debt obligations. See Note 17 for condensed consolidated financial information of EPO.

In our opinion, the accompanying Unaudited Condensed Consolidated Financial Statements include all adjustments consisting of normal recurring accruals necessary for fair presentation. Although we believe the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2006 (Commission File No. 1-14323).

Note 2. General Accounting Policies and Related Matters

Accounting for Employee Benefit Plans

Dixie Pipeline Company (Dixie), a consolidated subsidiary, employs the personnel that operate its pipeline system and certain of these employees are eligible to participate in a defined contribution plan and pension and postretirement benefit plans. Due to the immaterial nature of Dixie s employee benefit plans to our consolidated financial position, results of operations and cash flows, our discussion is limited to the following:

Defined Contribution Plan. Dixie contributed $0.1 million to its company-sponsored defined contribution plan during each of the three month periods ended June 30, 2007 and 2006. During each of the six month periods ended June 30, 2007 and 2006, Dixie contributed $0.2 million to its company-sponsored defined contribution plan.

Pension and Postretirement Benefit Plans. Dixie s net pension benefit costs were $0.1 million and $0.2 million for the three months ended June 30, 2007 and 2006, respectively. For each of the six month periods ended June 30, 2007 and 2006, Dixie s net pension benefit costs were $0.3 million. Dixie s net postretirement benefit costs were $0.1 million for each of the three month periods ended June 30, 2007 and 2006. For the six months ended June 30, 2007 and 2006, Dixie s net postretirement benefit costs were $0.2 million and $0.1 million, respectively. During the remainder of 2007, Dixie expects to contribute approximately $1.2 million to its postretirement benefit plan and approximately $0.2 million to its pension plan.

Consolidation Policy

We evaluate our financial interests in business enterprises to determine if they represent variable interest entities where we are the primary beneficiary. If such criteria are met, we consolidate the financial statements of such businesses with those of our own. Our consolidated financial statements include our accounts and those of our majority-owned subsidiaries in which we have a controlling interest, after the elimination of intercompany accounts and transactions. We also consolidate other entities and ventures in which we possess a controlling financial interest as well as partnership interests where we are the sole general partner of the partnership.

If the investee is organized as a limited partnership or limited liability company and maintains separate ownership accounts, we account for our investment using the equity method if our ownership interest is between 3% and 50% and we exercise significant influence over the investee s operating and financial policies. For all other types of investments, we apply the equity method of accounting if our ownership interest is between 20% and 50% and we exercise significant influence over the investee s operating and financial policies. Our proportionate share of profits and losses from transactions with equity method unconsolidated affiliates are eliminated in consolidation to the extent such amounts remain on our balance sheet (or those of our equity method investees) in inventory or similar accounts.

If our ownership interest in an investee does not provide us with either control or significant influence over the investee, we account for the investment using the cost method.

Cumulative Effect of Change in Accounting Principle

In January 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) 123(R), Share-Based Payment. Upon adoption of this accounting standard, we recognized, as a benefit, a cumulative effect of change in accounting principle of $1.5 million.

Environmental Costs

Environmental costs for remediation are accrued based on estimates of known remediation requirements. Such accruals are based on management s best estimate of the ultimate cost to remediate a site and are adjusted as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Ongoing environmental compliance costs are charged to expense as incurred. In accruing for environmental remediation liabilities, costs of future expenditures for environmental remediation are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. Expenditures to mitigate or prevent future environmental contamination are capitalized.

At June 30, 2007 and December 31, 2006, our accrued liabilities for environmental remediation projects totaled $28.6 million and $24.2 million, respectively. These amounts were derived from a range of reasonable estimates based upon studies and site surveys. Unanticipated changes in circumstances and/or legal requirements could result in expenses being incurred in future periods in addition to an increase in actual cash required to remediate contamination for which we are responsible.

In February 2007, we reserved $6.5 million in cash received from a third party to fund anticipated future environmental remediation costs associated with certain assets that we had acquired from the third party. Previously, the third party had been obligated to indemnify us for such costs. As a result of the settlement, this indemnification was terminated.

Estimates

Preparing our Unaudited Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ from these estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Income Taxes

We are organized as a pass-through entity for income tax purposes. As a result, our partners are responsible for federal income taxes on their share of our taxable income. For the three and six months ended June 30, 2007 and 2006, our provision for income taxes is applicable to state tax obligations under the Texas Margin Tax and certain federal and state tax obligations of Seminole Pipeline Company (Seminole) and Dixie.

In accordance with Financial Accounting Standards Board Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes, we must recognize the tax effects of any uncertain tax positions we may adopt, if the position taken by us is more likely than not sustainable. If a tax position meets such criteria, the tax effect to be recognized by us would be the largest amount of benefit with more than a 50% chance of being realized upon settlement. This guidance was effective January 1, 2007, and our adoption of this guidance had no material impact on our financial position, results of operations or cash flows.

Minority Interest

As presented in our Unaudited Condensed Consolidated Balance Sheets, minority interest represents third-party ownership interests in the net assets of our consolidated subsidiaries. For financial reporting purposes, the assets and liabilities of our majority owned subsidiaries are consolidated with those of our own, with any third-party ownership interests in such amounts presented as minority interest. Effective February 1, 2007, the public owners of Duncan Energy Partners common units are presented as a minority interest in our consolidated financial statements.

Minority interest, as reflected on our June 30, 2007 balance sheet, consists of $293.5 million attributable to third party owners of Duncan Energy Partners and the remainder to our other consolidated affiliates.

Minority interest expense for the three and six months ended June 30, 2007 includes $3.3 million and $6.1 million, respectively, attributable to third party owners of Duncan Energy Partners. The remaining minority interest expense amounts for these periods in 2007 and likewise those for 2006 are attributable to our other consolidated affiliates.

Contributions from minority interests for the six months ended June 30, 2007 includes $291.0 million received from third parties in connection with the initial public offering of Duncan Energy Partners in February 2007.

Recent Accounting Developments

SFAS 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and we will be required to adopt SFAS 157 on January 1, 2008. We do not believe SFAS 157 will have a material impact on our financial position, results of operations, and cash flows since we already apply its basic concepts in measuring fair values used to record various transactions such as business combinations and asset acquisitions.

SFAS 159, Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in net income. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparisons between the different measurement attributes the company elects for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not believe SFAS 159 will have a material impact on our financial position, results of operations, and cash flows.

Note 3. Accounting for Unit-Based Awards

We account for unit-based awards in accordance with SFAS 123(R). SFAS 123(R) requires us to recognize compensation expense related to equity awards based on the fair value of the award at grant date. The fair value of restricted unit awards is based on the market price of the underlying common units on the date of grant. The fair value of other unit-based awards is estimated using the Black-Scholes option pricing model. Under SFAS 123(R), the fair value of an equity-classified award is amortized to earnings on a straight-line basis over the requisite service or vesting period. Compensation expense for liability-classified awards is recognized over the requisite service or vesting period of an award based on the fair value of the award remeasured at each reporting period.

Unit Options and Restricted Units

Under EPCO s 1998 Long-Term Incentive Plan (the 1998 Plan), non-qualified incentive options to purchase a fixed number of our common units may be granted to EPCO s key employees who perform management, administrative or operational functions for us.

The information in the following table presents unit option activity under the 1998 Plan for the periods indicated:

	Number of Units	Weighted-average strike price (dollars/unit)	Weighted-average remaining contractual term (in years)	Aggregate Intrinsic Value [1]
Outstanding at December 31, 2006	2,416,000	$ 23.32		
Granted [2]	795,000	30.96		
Exercised	(230,500)	18.89		
Settled	(710,000)	24.35		
Outstanding at June 30, 2007	2,270,500	26.12	8.14	$ 3,502
Options exercisable at:				
June 30, 2007	360,500	$ 22.10	4.52	$ 3,502

(1) Aggregate intrinsic value reflects fully vested unit options at June 30, 2007.

(2) The total grant date value of these awards was $2.1 million based on the following assumptions (i) expected life of the option of seven years; (ii) risk-free interest rate of 4.83%; (iii) expected distribution yield on units of 8.42%; and (iv) expected unit price volatility on units of 23.21%.

The total intrinsic value of unit options exercised during the three and six months ended June 30, 2007 was $1.2 million and $2.8 million, respectively. We recognized $3.9 million and $0.2 million of compensation expense associated with unit options during the three month periods ended June 30, 2007 and 2006, respectively. We recognized $4.1 million and $0.3 million of compensation expense associated with unit options during the six months ended June 30, 2007 and 2006, respectively. Compensation expense for the three and six months ended June 30 ,2007 includes $3.7 million associated with the resignation of our former chief executive officer.

As of June 30, 2007, there was an estimated $3.2 million of total unrecognized compensation cost related to non-vested unit options granted under the 1998 Plan. We expect to recognize our share of this cost over a weighted-average period of 3.25 years in accordance with the EPCO administrative services agreement.

During the six months ended June 30, 2007 and 2006, we received cash of $7.3 million and $1.6 million, respectively, from the exercise of unit options, and our option-related reimbursements to EPCO were $2.8 million and $0.7 million, respectively.

Under the 1998 Plan, we may also issue restricted common units to key employees of EPCO and directors of our general partner. The following table summarizes information regarding our restricted common units for the periods indicated:

	Number of Units	**Weighted-Average Grant Date Fair Value per Unit** [(1)]
Restricted units at December 31, 2006	1,105,237	
Granted [(2)]	620,140	$ 25.74
Forfeited or settled	(129,053)	$ 23.28
Restricted units at June 30, 2007	1,596,324	

(1) Determined by dividing the aggregate grant date fair value of awards (including an allowance for forfeitures) by the number of awards issued.

(2) Aggregate grant date fair value of restricted common unit awards issued during 2007 was $16.0 million based on a grant date market price of our common units ranging from $30.16 to $30.96 per unit and estimated forfeiture rates ranging from 9.2% to 17.0%.

During the three months ended June 30, 2007 and 2006, we recognized $2.3 million and $1.8 million, respectively, of compensation expense in connection with restricted common units. We recognized $3.7 million and $2.7 million of compensation expense in connection with restricted common units during the six months ended June 30, 2007 and 2006, respectively. No restricted units vested during the three and six months ended June 30, 2007. Compensation expense for the three and six months ended June 30 ,2007 includes $0.9 million associated with the resignation of our former chief executive officer.

As of June 30, 2007, there was $27.8 million of total unrecognized compensation cost related to restricted common units. We will recognize our share of such costs in accordance with the EPCO administrative services agreement. At June 30, 2007, these costs are expected to be recognized over a weighted-average period of 2.8 years.

The 1998 Plan provides for the issuance of up to 7,000,000 common units. As of June 30, 2007, 1,689,500 common units had been issued in connection with the exercise of unit options. After giving effect to outstanding unit options at June 30, 2007 and the issuance and forfeiture of restricted common units through June 30, 2007, a total of 3,606,303 additional common units could be issued under the 1998 Plan.

Employee Partnerships

For the three months ended June 30, 2007 and 2006, we recorded $0.7 million and $0.6 million, respectively, of compensation expense associated with EPE Unit I, EPE Unit II and EPE Unit III (the Employee Partnerships). We recorded $1.2 million and $1.1 million of compensation expense associated with the Employee Partnerships during the six months ended June 30, 2007 and 2006, respectively. As of June 30, 2007, there was $8.2 million of total unrecognized compensation cost related to EPE Unit I and EPE Unit II, of which we will recognize our share in accordance with the EPCO administrative services agreement.

EPE Unit III. EPE Unit III was formed on May 7, 2007 and owns 4,421,326 units of Enterprise GP Holdings contributed to it by a private company affiliate of EPCO, which, in turn, was made the Class A limited partner of EPE Unit III. On the date of contribution, the fair market value of the units contributed by the Class A limited partner was $170.0 million (the Class A limited partner capital base). Certain EPCO employees were issued Class B limited partner interests and admitted as Class B limited partners of EPE Unit III without any capital contribution. The profits interest awards (i.e., Class B limited partner interests) in EPE Unit III entitle the holder to participate in the appreciation in value of units of Enterprise GP Holdings owned by EPE Unit III.

Unless otherwise agreed to by EPCO, the Class A limited partner and a majority in interest of the Class B limited partners of EPE Unit III, EPE Unit III will be liquidated upon the earlier of: (i) May 7, 2012 or (ii) a change in control of Enterprise GP Holdings or its general partner. EPE Unit III has the following material terms regarding its quarterly cash distribution to partners:

§ Distributions of Cashflow Each quarter, 100% of the cash distributions received by EPE Unit III from Enterprise GP Holdings will be distributed to the Class A limited partner until it has received an amount equal to the Class A preferred return (as defined below), and any remaining distributions received by EPE Unit III will be distributed to the Class B limited partners. The Class A preferred return equals 3.797%, of the Class A limited partner s capital base. The Class A limited partner s capital base equals approximately $170.0 million plus any unpaid Class A preferred return from prior periods, less any distributions made by EPE Unit III of proceeds from the sale of Enterprise GP Holdings units owned by EPE Unit III (as described below).

§ Liquidating Distributions Upon liquidation of EPE Unit III, units having a fair market value equal to the Class A limited partner capital base will be distributed to a private company affiliate of EPCO, plus any accrued Class A preferred return for the quarter in which liquidation occurs. Any remaining units will be distributed to the Class B limited partners.

§ Sale Proceeds If EPE Unit III sells any of the 4,421,326 of Enterprise GP Holdings units that it owns, the sale proceeds will be distributed to the Class A limited partner and the Class B limited partners in the same manner as liquidating distributions described above.

The Class B limited partner interests in EPE Unit III that are owned by EPCO employees are subject to forfeiture if the participating employee s employment with EPCO and its affiliates is terminated prior to May 7, 2012, with customary exceptions for death, disability and certain retirements. The risk of forfeiture associated with the Class B limited partner interests in EPE Unit III will also lapse upon certain change of control events.

As of June 30, 2007, there was $22.4 million of total unrecognized compensation cost related to these awards, of which we will recognize our share in accordance with the EPCO administrative services agreement.

Note 4. Financial Instruments

We are exposed to financial market risks, including changes in commodity prices and interest rates. In addition, we are exposed to fluctuations in exchange rates between the U.S. dollar and Canadian dollar. We may use financial instruments (i.e., futures, forwards, swaps, options and other financial instruments with similar characteristics) to mitigate the risks of certain identifiable and anticipated transactions. In general, the type of risks we attempt to hedge are those related to (i) variability of future earnings, (ii) fair values of certain debt instruments and (iii) cash flows resulting from changes in applicable interest rates, commodity prices or exchange rates. As a matter of policy, we do not use financial instruments for speculative (or trading) purposes.

Interest Rate Risk Hedging Program

Our interest rate exposure results from variable and fixed interest rate borrowings under various debt agreements. We manage a portion of our interest rate exposure by utilizing interest rate swaps and similar arrangements, which allow us to convert a portion of fixed rate debt into variable rate debt or a portion of variable rate debt into fixed rate debt.

Fair Value Hedges Interest Rate Swaps. As summarized in the following table, we had eleven interest rate swap agreements outstanding at June 30, 2007 that were accounted for as fair value hedges.

Hedged Fixed Rate Debt	Number Of Swaps	Period Covered by Swap	Termination Date of Swap	Fixed to Variable Rate (1)	Notional Amount
Senior Notes B, 7.50% fixed rate, due Feb. 2011	1	Jan. 2004 to Feb. 2011	Feb. 2011	7.50% to 8.74%	$50 million
Senior Notes C, 6.375% fixed rate, due Feb. 2013	2	Jan. 2004 to Feb. 2013	Feb. 2013	6.38% to 7.28%	$200 million
Senior Notes G, 5.6% fixed rate, due Oct. 2014	6	4th Qtr. 2004 to Oct. 2014	Oct. 2014	5.60% to 6.30%	$600 million
Senior Notes K, 4.95% fixed rate, due June 2010	2	Aug. 2005 to June 2010	June 2010	4.95% to 5.80%	$200 million

(1) The variable rate indicated is the all-in variable rate for the current settlement period.

The total fair value of these eleven interest rate swaps at June 30, 2007 and December 31, 2006, was a liability of $49.7 million and $29.1 million, respectively, with an offsetting decrease in the fair value of the underlying debt. Interest expense for the three months ended June 30, 2007 and 2006 includes a $2.3 million and $1.1 million loss from these swap agreements, respectively. For the six months ended June 30, 2007 and 2006, interest expense reflects a loss of $4.6 million and $0.9 million from these swap agreements, respectively.

Cash Flow Hedges Treasury Locks. During the fourth quarter of 2006, EPO entered into treasury lock transactions having a notional value of $562.5 million. EPO entered into these transactions to hedge the underlying U.S. treasury rates related to its anticipated issuances of debt during the second and fourth quarters of 2007. On February 27, 2007, EPO entered into additional treasury lock transactions having a notional value of $437.5 million. EPO entered into these transactions to hedge the underlying U.S. treasury rates related to its anticipated issuances of debt during 2007. Each of the treasury lock transactions was designated as a cash flow hedge under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted.

During the second quarter of 2007, treasury locks having a notional amount of $875.0 million were terminated. Treasury locks having a notional amount of $500.0 million were terminated concurrent with the issuance of EPO s Junior Notes B (see Note 9). An additional $375.0 million notional amount of treasury locks related to the anticipated issuance of debt in the fourth quarter of 2007 were also terminated. The termination of the treasury locks resulted in gains of $42.3 million of which $10.6 million is related to EPO s Junior Notes B and the remaining $31.7 million is related to a future debt issuance. The $10.6 million gain is being amortized into income using the effective interest method as reductions to future interest expense over the fixed rate term of the Junior Notes B, which is ten years. The remaining $31.7 million gain will be amortized into income over the life of the future debt issuance using the effective interest rate method.

At June 30, 2007, there was one treasury lock outstanding which has a notional amount of $125.0 million and a fair value of $9.3 million.

Commodity Risk Hedging Program

The prices of natural gas, NGLs and certain petrochemical products are subject to fluctuations in response to changes in supply, market uncertainty and a variety of additional factors that are beyond our control. In order to manage the price risks associated with such products, we may enter into commodity financial instruments.

The primary purpose of our commodity risk management activities is to hedge our exposure to price risks associated with (i) natural gas purchases, (ii) the value of NGL production and inventories, (iii) related firm commitments, (iv) fluctuations in transportation revenues where the underlying fees are based on natural gas index prices and (v) certain anticipated transactions involving either natural gas, NGLs or certain petrochemical products. From time to time, we inject natural gas into storage and utilize hedging instruments to lock in the value of our inventory positions. The commodity financial instruments we utilize may be settled in cash or with another financial instrument.

14

At June 30, 2007 and December 31, 2006, we had a limited number of commodity financial instruments in our portfolio, which primarily consisted of cash flow hedges. The fair value of our commodity financial instrument portfolio at June 30, 2007 and December 31, 2006 was a liability of $1.0 million and $3.2 million, respectively. During the three and six months ended June 30, 2007, we recorded income of $1.1 million and expense of $1.3 million, respectively, related to our commodity financial instruments. During the three and six months ended June 30, 2006 we recorded $5.9 million and $5.5 million, respectively, of expense related to our commodity financial instruments.

Foreign Currency Hedging Program

We own an NGL marketing business located in Canada and have entered into construction agreements where payments are indexed to the Canadian dollar. As a result, we could be adversely affected by fluctuations in the foreign currency exchange rate between the U.S. dollar and the Canadian dollar. We attempt to hedge this risk using foreign exchange purchase contracts to fix the exchange rate. Due to the limited duration of these contracts, we utilize mark-to-market accounting for these transactions, the effect of which has had a minimal impact on our earnings. We had $3.1 million of such contracts outstanding at June 30, 2007 that settled in July 2007.

Note 5. Inventories

Our inventory amounts were as follows at the dates indicated:

	June 30, 2007	December 31, 2006
Working inventory	$ 325,539	$ 387,973
Forward-sales inventory	10,083	35,871
Inventory	$ 335,622	$ 423,844

Our regular trade (or working) inventory is comprised of inventories of natural gas, NGLs, and certain petrochemical products that are available-for-sale or used by us in the provision of services. Our forward sales inventory consists of segregated NGL and natural gas volumes dedicated to the fulfillment of forward-sales contracts. Our inventory values reflect payments for product purchases, freight charges associated with such purchase volumes, terminal and storage fees, vessel inspection costs, demurrage charges and other related costs. We value our inventories at the lower of average cost or market.

Operating costs and expenses, as presented on our Unaudited Condensed Statements of Consolidated Operations, include cost of sales amounts related to the sale of inventories. Our cost of sales was $3.6 billion and $3.0 billion for the three months ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007 and 2006, our cost of sales was $6.4 billion and $5.7 billion, respectively.

Due to fluctuating commodity prices in the NGL, natural gas and petrochemical industry, we recognize lower of cost or market (LCM) adjustments when the carrying value of our inventories exceed their net realizable value. These non-cash charges are a component of cost of sales in the period they are recognized. For the three months ended June 30, 2007 and 2006, we recognized LCM adjustments of approximately $2.1 million and $0.3 million, respectively. We recognized LCM adjustments of $13.1 million and $12.0 million for the six months ended June 30, 2007 and 2006, respectively.

Note 6. Property, Plant and Equipment

Our property, plant and equipment values and accumulated depreciation balances were as follows at the dates indicated:

	Estimated Useful Life in Years	June 30, 2007	December 31, 2006
Plants and pipelines (1)	3-35 (5)	$ 9,454,757	$ 8,774,683
Underground and other storage facilities (2)	5-35 (6)	679,147	596,649
Platforms and facilities (3)	20-31	591,272	161,839
Transportation equipment (4)	3-10	28,964	27,008
Land		41,945	40,010
Construction in progress		1,632,248	1,734,083
Total		12,428,333	11,334,272
Less accumulated depreciation		1,694,203	1,501,725
Property, plant and equipment, net		$ 10,734,130	$ 9,832,547

(1) Plants and pipelines include processing plants; NGL, petrochemical, oil and natural gas pipelines; terminal loading and unloading facilities; office furniture and equipment; buildings; laboratory and shop equipment; and related assets.

(2) Underground and other storage facilities include underground product storage caverns; storage tanks; water wells; and related assets.

(3) Platforms and facilities include offshore platforms and related facilities and other associated assets.

(4) Transportation equipment includes vehicles and similar assets used in our operations.

(5) In general, the estimated useful lives of major components of this category are as follows: processing plants, 20-35 years; pipelines, 18-35 years (with some equipment at 5 years); terminal facilities, 10-35 years; office furniture and equipment, 3-20 years; buildings 20-35 years; and laboratory and shop equipment, 5-35 years.

(6) In general, the estimated useful lives of major components of this category are as follows: underground storage facilities, 20-35 years (with some components at 5 years); storage tanks, 10-35 years; and water wells, 25-35 years (with some components at 5 years).

Depreciation expense for the three months ended June 30, 2007 and 2006 was $99.1 million and $86.9 million, respectively. For the six months ended June 30, 2007 and 2006, depreciation expense was $194.1 million and $170.4 million, respectively. We capitalized $20.4 million and $12.4 million of interest in connection with capital projects during the three months ended June 30, 2007 and 2006, respectively. During the six months ended June 30, 2007 and 2006, we capitalized $41.1 million and $21.6 million, respectively, in connection with capital projects.

Note 7. Investments In and Advances to Unconsolidated Affiliates

We own interests in a number of related businesses that are accounted for using the equity method of accounting. Our investments in and advances to unconsolidated affiliates are grouped according to the business segment to which they relate. See Note 11 for a general discussion of our business segments.

The following table presents our investments in and advances to unconsolidated affiliates at the dates indicated:

	Ownership Percentage at	Investments in and advances to unconsolidated affiliates at	
	June 30, 2007	**June 30, 2007**	**December 31, 2006**
NGL Pipelines & Services:			
Venice Energy Service Company L.L.C. (VESCO)	13.1%	$ 42,340	$ 39,618
K/D/S Promix, L.L.C. (Promix)	50%	55,091	46,140
Baton Rouge Fractionators LLC (BRF)	32.3%	25,057	25,471
Onshore Natural Gas Pipelines & Services:			
Jonah Gas Gathering Company (Jonah)	19.6%	200,649	120,370
Evangeline [1]	49.5%	3,641	4,221
Offshore Pipelines & Services:			
Poseidon Oil Pipeline Company, L.L.C. (Poseidon)	36%	59,161	62,324
Cameron Highway Oil Pipeline Company (Cameron Highway [2])	50%	259,369	60,216
Deepwater Gateway, L.L.C. (Deepwater Gateway)	50%	113,345	117,646
Neptune Pipeline Company, L.L.C. (Neptune)	25.7%	56,676	58,789
Nemo Gathering Company, LLC (Nemo [3])	33.9%	2,637	11,161
Petrochemical Services:			
Baton Rouge Propylene Concentrator, LLC (BRPC)	30%	13,896	13,912
La Porte [4]	50%	4,229	