Regency Energy Partners LP
Form 10-Q
August 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 June 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). ¨ 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.

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

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

The issuer had 119,618,704 common units outstanding as of August 2, 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
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 ETP
ETC III	ETC Midcontinent Express Pipeline III L.L.C., a 100 percent owned subsidiary of ETP
ETE	Energy Transfer Equity, L.P.
ETE GP	ETE GP Acquirer LLC
ETP	Energy Transfer Partners, L.P.
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, combined 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
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
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

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 compression 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 and 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 indemnification for environmental cleanup liabilities and to clean up any hazardous material release on satisfactory terms;
- 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 required to be 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 June 30, 2010 (unaudited)	Predecessor December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,296	$ 9,827
Restricted cash	1,011	1,511
Trade accounts receivable, net of allowance of $475 and $1,130	22,801	30,433
Accrued revenues	76,272	95,240
Related party receivables	33,444	6,222
Derivative assets	19,833	24,987
Other current assets	8,420	10,556
Total current assets	166,077	178,776
Property, Plant and Equipment:		
Gathering and transmission systems	488,336	465,959
Compression equipment	785,685	823,060
Gas plants and buildings	131,537	159,596
Other property, plant and equipment	101,046	162,433
Construction-in-progress	125,528	95,547
Total property, plant and equipment	1,632,132	1,706,595
Less accumulated depreciation	(8,740)	(250,160)
Property, plant and equipment, net	1,623,392	1,456,435
Other Assets:		
Investment in unconsolidated subsidiaries	1,369,921	453,120
Long-term derivative assets	1,241	207
Other, net of accumulated amortization of debt issuance costs of $564 and $10,743	34,206	19,468
Total other assets	1,405,368	472,795
Intangible Assets and Goodwill:		
Intangible assets, net of accumulated amortization of $2,159 and $33,929	666,781	197,294
Goodwill	733,674	228,114
Total intangible assets and goodwill	1,400,455	425,408
TOTAL ASSETS	$ 4,595,292	$ 2,533,414
LIABILITIES & PARTNERS CAPITAL AND NONCONTROLLING INTEREST		
Current Liabilities:		
Trade accounts payable	$ 43,513	$ 44,912
Accrued cost of gas and liquids	75,619	76,657
Related party payables	4,417	2,312
Deferred revenues, including related party amounts of $0 and $338	11,244	11,292
Derivative liabilities	3,576	12,256
Escrow payable	1,011	1,511
Other current liabilities, including related party amounts of $630 and $0	14,985	12,368

Total current liabilities	154,365	161,308
Long-term derivative liabilities	52,609	48,903
Other long-term liabilities	14,249	14,183
Long-term debt, net	1,276,640	1,014,299
Commitments and contingencies		
Series A convertible redeemable preferred units, redemption amount of $83,891 and $83,891	70,850	51,711
Partners Capital and Noncontrolling Interest:		
Common units (120,676,002 and 94,243,886 units authorized; 119,614,719 and 93,188,353 units issued and outstanding at June 30, 2010 and December 31, 2009)	2,659,907	1,211,605
General partner interest	335,193	19,249
Accumulated other comprehensive loss		(1,994)
Noncontrolling interest	31,479	14,150
Total partners capital and noncontrolling interest	3,026,579	1,243,010
TOTAL LIABILITIES AND PARTNERS CAPITAL AND NONCONTROLLING INTEREST	$ 4,595,292	$ 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 Period from Acquisition (May 26, 2010) to June 30, 2010	Predecessor Period from April 1, 2010 to May 25, 2010	Three Months Ended June 30, 2009
REVENUES			
Gas sales, including related party amounts of $447, $0, and $0	$ 48,103	$ 89,170	$ 106,897
NGL sales including related party amounts of $18,054, $0, and $0	28,766	69,033	57,676
Gathering, transportation and other fees, including related party amounts of $2,086, $3,680, and $2,239	22,884	45,733	69,231
Net realized and unrealized (loss) gain from derivatives	(130)	223	12,515
Other	3,357	7,336	7,223
Total revenues	102,980	211,495	253,542
OPERATING COSTS AND EXPENSES			
Cost of sales, including related party amounts of $2,281, $3,198, and $1,453	74,081	147,262	157,347
Operation and maintenance	11,942	21,430	31,974
General and administrative, including related party amounts of $833, $0, and $0	7,104	21,809	14,127
Loss on asset sales, net	10	19	651
Depreciation and amortization	10,995	18,609	26,236
Total operating costs and expenses	104,132	209,129	230,335
OPERATING (LOSS) INCOME	(1,152)	2,366	23,207
Income from unconsolidated subsidiaries	8,121	7,959	1,587
Interest expense, net	(8,109)	(14,114)	(19,568)
Other income and deductions, net	(3,510)	(624)	214
(LOSS) INCOME BEFORE INCOME TAXES	(4,650)	(4,413)	5,440
Income tax expense (benefit)	245	83	(515)
NET (LOSS) INCOME	$ (4,895)	$ (4,496)	$ 5,955
Net income attributable to noncontrolling interest	(29)	(244)	(65)
NET (LOSS) INCOME ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	$ (4,924)	$ (4,740)	$ 5,890
Amounts attributable to Series A convertible redeemable preferred units	668	1,335	
General partner s interest, including IDR	803		741
Amount allocated to non-vested common units			(137)
Limited partners interest	$ (6,395)	$ (6,075)	$ 5,286

Basic and Diluted (loss) earnings per unit:			
Amount allocated to common units	$ (6,395)	$ (6,075)	$ 5,286
Weighted average number of common units outstanding	119,600,652	92,832,219	80,550,149
Basic (loss) income per common unit	$ (0.05)	$ (0.07)	$ 0.07
Diluted (loss) income per common unit	$ (0.05)	$ (0.07)	$ 0.06
Distributions paid per unit	$ 0.445	$	$ 0.445

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 June 30, 2010	Period from January 1, 2010 to May 25, 2010	Six Months Ended June 30, 2009
REVENUES			
Gas sales, including related party amounts of $447, $0, and $0	$ 48,103	$ 232,063	$ 254,793
NGL sales including related party amounts of $18,054, $0, and $0	28,766	166,362	107,261
Gathering, transportation and other fees, including related party amounts of $2,086, $12,200 and $3,376	22,884	116,061	142,079
Net realized and unrealized (loss) gain from derivatives	(130)	(716)	26,970
Other	3,357	15,477	12,417
Total revenues	102,980	529,247	543,520
OPERATING COSTS AND EXPENSES			
Cost of sales, including related party amounts of $2,281, $6,564 and $1,700	74,081	371,871	339,875
Operation and maintenance	11,942	53,841	68,016
General and administrative, including related party amounts of $833, $0, and $0	7,104	37,212	29,205
Loss (gain) on asset sales, net	10	303	(133,280)
Depreciation and amortization	10,995	46,084	54,125
Total operating costs and expenses	104,132	509,311	357,941
OPERATING (LOSS) INCOME	(1,152)	19,936	185,579
Income from unconsolidated subsidiaries	8,121	15,872	1,923
Interest expense, net	(8,109)	(36,459)	(33,795)
Other income and deductions, net	(3,510)	(3,891)	256
(LOSS) INCOME BEFORE INCOME TAXES	(4,650)	(4,542)	153,963
Income tax expense (benefit)	245	404	(416)
NET (LOSS) INCOME	$ (4,895)	$ (4,946)	$ 154,379
Net income attributable to noncontrolling interest	(29)	(406)	(100)
NET (LOSS) INCOME ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	$ (4,924)	$ (5,352)	$ 154,279
Amounts attributable to Series A convertible redeemable preferred units	668	3,336	
General partner s interest, including IDR	803	662	4,274
Amount allocated to non-vested common units		(79)	1,217
Beneficial conversion feature for Class D common units			820
Limited partners interest	$ (6,395)	$ (9,271)	$ 147,968

Basic and Diluted (loss) earnings per unit:						
Amount allocated to common units	$	(6,395)	$	(9,271)	$	147,968
Weighted average number of common units outstanding		119,600,652		92,788,319		78,920,074
Basic (loss) income per common unit	$	(0.05)	$	(0.10)	$	1.87
Diluted (loss) income per common unit	$	(0.05)	$	(0.10)	$	1.85
Distributions paid per unit	$	0.445	$	0.445	$	0.89
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 (Loss) Income

Unaudited

(in thousands)

	Three Months Ended June 30, 2010 and 2009		
	Successor	Predecessor	
	Period from Acquisition (May 26, 2010) to June 30, 2010	Period from April 1, 2010 to May 25, 2010	Three Months Ended June 30, 2009
Net (loss) income	$ (4,895)	$ (4,496)	$ 5,955
Net hedging amounts reclassified to earnings		(512)	(13,644)
Net change in fair value of cash flow hedges		8,649	(14,622)
Comprehensive (loss) income	$ (4,895)	$ 3,641	$ (22,311)
Comprehensive income attributable to noncontrolling interest	29	244	65
Comprehensive (loss) income attributable to Regency Energy Partners LP	$ (4,924)	$ 3,397	$ (22,376)

	Six Months Ended June 30, 2010 and 2009		
	Successor	Predecessor	
	Period from Acquisition (May 26, 2010) to June 30, 2010	Period from January 1, 2010 to May 25, 2010	Six Months Ended June 30, 2009
Net (loss) income	$ (4,895)	$ (4,946)	$ 154,379
Net hedging amounts reclassified to earnings		2,145	(27,894)
Net change in fair value of cash flow hedges		18,486	(9,242)
Comprehensive (loss) income	$ (4,895)	$ 15,685	$ 117,243
Comprehensive income attributable to noncontrolling interest	29	406	100
Comprehensive (loss) income attributable to Regency Energy Partners LP	$ (4,924)	$ 15,279	$ 117,143

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 June 30, 2010	Period from January 1, 2010 to May 25, 2010	Six Months Ended June 30, 2009
OPERATING ACTIVITIES			
Net (loss) income	$ (4,895)	$ (4,946)	$ 154,379
Adjustments to reconcile net (loss) income to net cash flows provided by (used in) operating activities:			
Depreciation and amortization, including debt issuance cost amortization	11,330	49,363	56,750
Write-off of debt issuance costs		1,780	
Income from unconsolidated subsidiaries	(8,121)	(15,872)	(1,923)
Derivative valuation changes	6,921	12,004	(6,293)
Loss (gain) on asset sales, net	10	303	(133,280)
Unit-based compensation expenses	137	12,070	2,750
Cash flow changes in current assets and liabilities:			
Trade accounts receivable, accrued revenues, and related party receivables	13,843	(11,272)	38,073
Other current assets	585	2,516	3,728
Trade accounts payable, accrued cost of gas and liquids, related party payables and deferred revenues	(15,460)	8,649	(39,185)
Other current liabilities	(20,497)	22,614	(7,396)
Distributions received from unconsolidated subsidiaries		12,446	1,900
Other assets and liabilities	(60)	(234)	(232)
Net cash flows (used in) provided by operating activities	(16,207)	89,421	69,271
INVESTING ACTIVITIES			
Capital expenditures	(20,875)	(63,787)	(119,185)
Capital contribution to unconsolidated subsidiaries	(38,922)	(20,210)	
Acquisitions, net of cash received	12,848	(75,114)	
Proceeds from asset sales	14	10,661	83,182
Net cash flows (used in) investing activities	(46,935)	(148,450)	(36,003)
FINANCING ACTIVITIES			
Net borrowings (repayments) under revolving credit facility	37,000	199,008	(177,249)
Proceeds from issuance of senior notes, net of discount			236,240
Debt issuance costs	(132)	(15,728)	(11,939)
Partner contributions	7,436		
Partner distributions		(86,078)	(71,644)
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	150	120	
Equity issuance costs		(89)	
Distributions to redeemable convertible preferred units		(1,945)	

Tax withholding on unit-based vesting				(4,994)		
Net cash flows provided by (used in) financing activities		44,454		72,186		(24,592)
Net change in cash and cash equivalents		(18,688)		13,157		8,676
Cash and cash equivalents at beginning of period		22,984		9,827		599
Cash and cash equivalents at end of period	$	4,296	$	22,984	$	9,275
Supplemental cash flow information:						
Non-cash capital expenditures	$	16,159	$	18,051	$	9,480
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				500		
Contribution of fixed assets, goodwill and working capital to HPC						263,921
Contribution receivable		12,288				

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

	Units	Regency Energy Partners LP				
	Common	**Common Unitholders**	**General Partner Interest**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interest**	**Total**
Successor						
Balance - May 26, 2010	93,340,428	$ 2,073,532	$ 304,950	$	$ 31,450	$ 2,409,932
Issuance of common units, net of costs	26,266,791	584,436				584,436
Exercise of common unit options	7,500	150				150
Unit-based compensation expenses		137				137
Acquisition of assets between entities under common control below historical cost			17,152			17,152
Partner contributions		7,436	12,288			19,724
Net (loss) income		(5,727)	803		29	(4,895)
Accretion of Series A convertible redeemable preferred units		(57)				(57)

Balance - June 30, 2010	119,614,719	$ 2,659,907	$ 335,193	$	$	31,479	$ 3,026,579

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, processing and transporting of natural gas and NGLs as well as providing contract compression services.

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 the outstanding limited partners interests in the General Partner, which is the sole general partner of the Partnership, and the entire member s interest in the Managing General Partner, which is the sole general partner of the General Partner and, by virtue of that position, controlled the Partnership. Control of the Partnership transferred from GE EFS to ETE as a result of the ETE Acquisition. In connection with this transaction, the Partnership s assets and liabilities were required to be adjusted to fair value on the closing date (May 26, 2010) by application of push-down accounting (the Push-down Adjustments). Total enterprise value of the Partnership as of May 26, 2010 was $3,783,680,000, giving effect to the transaction and the associated Push-down Adjustments, which is calculated below:

	(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
Series A convertible redeemable preferred units	70,793
Fair value of long-term debt	1,239,863
Other long-term liabilities	63,092
Enterprise value	$ 3,783,680

The Partnership has developed the preliminary amount of the fair value of its assets and liabilities. Management is reviewing the valuation and confirming results to determine the final purchase price allocation. The Partnership allocated the enterprise value to the following assets and liabilities based on their respective estimated fair values as of May 26, 2010:

	At May 26, 2010 (in thousands)
Working capital	$ (3,286)
Gathering and transmission systems	487,792
Compression equipment	779,634
Gas plants and buildings	131,537
Other property, plant and equipment	100,267
Construction-in-progress	114,146
Other long-term assets	36,839
Investment in unconsolidated subsidiary	734,137
Intangible assets	668,940
Goodwill	733,674
	$ 3,783,680

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

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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	$ 604,840	$ 64,100	$ 668,940
Amortization	(1,905)	(254)	(2,159)
Balance at June 30, 2010	$ 602,935	$ 63,846	$ 666,781

As of June 30, 2010, customer relations and trade names are amortized over 30 and 20 years, respectively. 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)	$ 11,606
2011	23,211
2012	23,211
2013	23,211
2014	23,211

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.

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. (Loss) Income 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 earnings per common unit computations for the three and six months ended June 30, 2010 and 2009.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Three Months Ended June 30, 2010 and 2009

	Successor Period from Acquisition (May 26, 2010) to June 30, 2010			Predecessor Period from April 1, 2010 to Disposition (May 25, 2010)			Predecessor Three Months Ended June 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)			(in thousands except unit and per unit data)					
Basic (Loss) Earnings per Unit									
Limited partners interests	$ (6,395)	119,600,652	$ (0.05)	$ (6,075)	92,832,219	$ (0.07)	$ 5,286	80,550,149	$ 0.07
Effect of Dilutive Securities									
Restricted (non-vested) common units							(137)	621,337	
Diluted (Loss) Earnings per Unit	$ (6,395)	119,600,652	$ (0.05)	$ (6,075)	92,832,219	$ (0.07)	$ 5,149	81,171,486	$ 0.06

Six Months Ended June 30, 2010 and 2009

	Successor Period from Acquisition (May 26, 2010) to June 30, 2010			Predecessor Period from January 1, 2010 to Disposition (May 25, 2010)			Predecessor Six Months Ended June 30, 2009		
	Loss (Numerator)	Units (Denominator)	Per-Unit Amount	Income (Numerator)	Units (Denominator)	Per-Unit Amount	Income (Numerator)	Units (Denominator)	Per-Unit Amount
	(in thousands except unit and per unit data)			(in thousands except unit and per unit data)					
Basic (Loss) Earnings per Unit									
Limited partners interest	$ (6,395)	119,600,652	$ (0.05)	$ (9,271)	92,788,319	$ (0.10)	$ 147,968	78,920,074	$ 1.87
Effect of Dilutive Securities									
Restricted (non-vested) common units							1,217	652,740	
Class D common units							820	1,608,068	
Diluted (Loss) Earnings per Unit	$ (6,395)	119,600,652	$ (0.05)	$ (9,271)	92,788,319	$ (0.10)	$ 150,005	81,180,882	$ 1.85

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 Period from Acquisition (May 26, 2010) to June 30, 2010	Predecessor Period from April 1, 2010 to Disposition (May 25, 2010)	Three Months Ended June 30, 2009	Period from January 1, 2010 to Disposition (May 25, 2010)	Six Months Ended June 30, 2009

Restricted (non-vested) common units		356,954		396,918	
Phantom units *	322,750	351,345	332,860	369,346	332,860
Common unit options	290,150	290,150	372,768	298,400	376,518
Convertible redeemable preferred units	4,584,192	4,584,192		4,584,192	

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

3. Acquisitions

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.

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 is a 500 mile natural gas pipeline system that extends 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.

The following unaudited pro forma financial information has been prepared as if the transactions involving the purchase of 6.99 percent general partner interest in HPC, purchase of the 49.9 percent interest in MEP, together with the Push-down Adjustments described in Note 1 occurred as of the beginning of the earliest period presented. 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 the dates referred to above or the results of operations that may be expected in the future.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Pro Forma Results for the			
	Period from April 1, 2010 to May 25, 2010	Three Months Ended June 30, 2009	Period from January 1, 2010 to May 25, 2010	Six Months Ended June 30, 2009
	(in thousands except unit and per unit data)			
Total revenues	$ 211,495	$ 253,542	$ 529,247	$ 531,547
Net (loss) income attributable to Regency Energy Partners LP	$ (4,361)	$ (2,581)	$ (6,108)	$ 133,911
Amounts attributable to Series A convertible redeemable preferred units	1,335		3,336	
General partner s interest, including IDR	801	773	1,641	4,270
Amount allocated to non-vested common units		(196)	(80)	711
Beneficial conversion feature for Class D common units				820
Limited partners interest	$ (6,497)	$ (3,158)	$ (11,005)	$ 128,110
Basic and Diluted earnings (loss) per unit:				
Amount allocated to common units	$ (6,497)	$ (3,158)	$ (11,005)	$ 128,110
Weighted average number of common units outstanding	119,099,010	106,816,940	119,055,110	105,186,865
Basic (loss) income per common unit	$ (0.05)	$ (0.03)	$ (0.09)	$ 1.22
Diluted (loss) income per common unit	$ (0.05)	$ (0.03)	$ (0.09)	$ 1.21
Distributions paid per unit	$ 0.445	$ 0.445	$ 0.445	$ 0.890
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 per unit	$	$	$	$

4. Investment in Unconsolidated Subsidiaries

Investment in HPC. HPC was established in March 2009 and as of June 30, 2010, the Partnership owns 49.99 percent interest in HPC. Following table summarizes the changes in the Partnership s investment in HPC.

	Successor	Predecessor			
	Period from Acquisition (May 26, 2010) to June 30, 2010	Period from April 1, 2010 to Disposition (May 25, 2010)	Three Months Ended June 30, 2009	Period from January 1, 2010 to Disposition (May 25, 2010)	Six Months Ended June 30, 2009
	(in thousands)	(in thousands)			
Contributions to HPC	$	$ 20,210	$	$ 20,210	$ 400,000
Distributions received from HPC		8,920	1,900	12,446	1,900
Partnership s share of HPC s net income	4,460	7,959	1,587	15,872	1,923

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) $143,757,000 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) $38,510,000 could not be attributed to a specific asset and therefore will not be amortized in future periods. For the period from May 26, 2010 to June 30, 2010, the Partnership recorded $365,000 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)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Total current assets	$ 48,383	$ 39,239
Restricted cash, non-current	43,314	33,595
Property, plant and equipment, net	888,542	861,570
Total other assets	149,065	149,755
TOTAL ASSETS	$ 1,129,304	$ 1,084,159
LIABILITIES & PARTNERS CAPITAL		
Total current liabilities	$ 17,273	$ 30,967
Partners capital	1,112,031	1,053,192
TOTAL LIABILITIES & PARTNERS CAPITAL	$ 1,129,304	$ 1,084,159

RIGS Haynesville Partnership Co.

Condensed Consolidated Income Statements

(in thousands)

	For the Three Months Ended June 30, 2010	2009	For the Six Months Ended June 30, 2010	From Inception (March 18, 2009) to June 30, 2009
	(Unaudited)		(Unaudited)	
Total revenues	$ 44,375	$ 11,707	$ 79,564	$ 13,533
Total operating costs and expenses	18,425	8,038	35,148	9,084
OPERATING INCOME	25,950	3,669	44,416	4,449
Interest expense	(99)		(201)	
Other income and deductions, net	20	508	59	612
NET INCOME	$ 25,871	$ 4,177	$ 44,274	$ 5,061

Investment in MEP. On May 26, 2010, the Partnership purchased a 49.9 interest in the 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 June 30, 2010, the Partnership recognized $4,026,000 in income from unconsolidated subsidiaries for its ownership interest.

The summarized financial information of MEP is disclosed below.

Midcontinent Express Pipeline LLC

Condensed Balance Sheet

(in thousands)

	June 30, 2010 (Unaudited)
ASSETS	
Total current assets	$ 32,987
Property, plant and equipment, net	2,225,383
Total other assets	5,588
TOTAL ASSETS	$ 2,263,958
LIABILITIES & PARTNERS CAPITAL	
Total current liabilities	$ 92,795
Long-term debt	800,000
Partners capital	1,371,163
TOTAL LIABILITIES & PARTNERS CAPITAL	$ 2,263,958

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Midcontinent Express Pipeline LLC

Condensed Income Statement

(in thousands)

	Month Ended June 30, 2010 (Unaudited)
Total revenues	$ 21,269
Total operating costs and expenses	9,770
OPERATING INCOME	11,499
Interest expense, net	(3,431)
NET INCOME	$ 8,068

5. 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 operation. 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 to 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 are currently accounted for under the mark-to-market method of accounting.

The Partnership executes natural gas, NGLs and WTI trades on a periodic basis to hedge its anticipated equity exposure. Subsequent to June 30, 2010, the Partnership has executed additional NGL swaps to hedge its 2011 and 2012 price 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 June 30, 2010			As of August 8, 2010		
	2010	2011	2012	2010	2011	2012
NGLs	87%	52%	0%	87%	67%	6%
Condensate	96%	74%	7%	96%	74%	7%
Natural gas	74%	42%	0%	74%	42%	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 June 30, 2010, the Partnership had $655,650,000 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 additional 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

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 $21,346,000, which would be reduced by $2,824,000 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.

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

	Assets		Liabilities	
	June 30, 2010 (unaudited)	December 31, 2009	June 30, 2010 (unaudited)	December 31, 2009
	(in thousands)			
Derivatives designated as cash flow hedges				
Current amounts				
Interest rate contracts	$	$	$	$ 1,064
Commodity contracts		9,521		11,161
Long-term amounts				
Commodity contracts		207		931
Total cash flow hedging instruments		9,728		13,156
Derivatives not designated as cash flow hedges				
Current amounts				
Commodity contracts	19,833	15,466	2,052	31
Interest rate contracts			1,524	
Long-term amounts				
Commodity contracts	1,241		15	3,378
Interest rate contracts			355	
Embedded derivatives in Series A Preferred Units			52,239	44,594
Total derivatives not designated as cash flow hedges	21,074	15,466	56,185	48,003
Total derivatives	$ 21,074	$ 25,194	$ 56,185	$ 61,159

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

For the Three Months Ended June 30, 2010 and 2009

		Successor	Predecessor	
		Period from May 26, 2010 through June 30, 2010	Period from April 1, 2010 through May 25, 2010	For the Three Months Ended June 30, 2009
		(in thousands)	(in thousands)	
		Change in Value Recognized in OCI on Derivatives (Effective Portion)		
Derivatives in cash flow hedging relationships:				
Commodity derivatives			7,428	(13,946)
Interest rate swap derivatives				(676)
			7,428	(14,622)
	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	Revenues		(709)	15,546
Interest rate swap derivatives	Interest expense			(1,515)
			(709)	14,031
	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	Revenues		(301)	1,616
Interest rate swap derivatives	Interest expense			
			(301)	1,616
	Location of Gain (Loss) Recognized in Income	**Amount of Gain/(Loss) from Dedesignation Amortized from AOCI into Income**		
Derivatives not designated in a hedging relationship:				
Commodity derivatives	Revenues		1,221	(387)
Interest rate swap derivatives	Interest expense			
			1,221	(387)

	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	Revenues	(824)	12	(5,690)
Interest rate swap derivatives	Interest expense	(1,715)	(824)	
Embedded derivative	Other income & deductions	(3,606)	(654)	
		(6,145)	(1,466)	(5,690)

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

For the Six Months Ended June 30, 2010 and 2009

		Successor	Predecessor	
		Period from May 26, 2010 through June 30, 2010 (in thousands)	Period from January 1, 2010 through May 25, 2010	For the Six Months Ended June 30, 2009 (in thousands)
			Change in Value Recognized in OCI on Derivatives (Effective Portion)	
Derivatives in cash flow hedging relationships:				
Commodity derivatives			14,371	(7,728)
Interest rate swap derivatives				(1,514)
			14,371	(9,242)
	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	Revenues		(5,200)	32,065
Interest rate swap derivatives	Interest expense		(1,060)	(2,987)
			(6,260)	29,078
	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	Revenues		(799)	2,231
Interest rate swap derivatives	Interest expense			
			(799)	2,231
	Location of Gain (Loss) Recognized in Income		Amount of Gain/(Loss) from Dedesignation Amortized from AOCI into Income	
Derivatives not designated in a hedging relationship:				
Commodity derivatives	Revenues		4,115	(1,184)

Interest rate swap derivatives	Interest expense			
			4,115	(1,184)

	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	Revenues	(824)	1,247	(7,092)
Interest rate swap derivatives	Interest expense	(1,715)	(824)	
Embedded derivative	Other income & deductions	(3,606)	(4,039)	
		(6,145)	(3,616)	(7,092)

6. Long-term Debt

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

	June 30, 2010	December 31, 2009
	(in thousands)	
Senior notes	$ 620,990	$ 594,657
Revolving loans	655,650	419,642
Total	1,276,640	1,014,299
Less: current portion		
Long-term debt	$ 1,276,640	$ 1,014,299
Availability under revolving credit facility:		
Total credit facility limit	$ 900,000	$ 900,000
Unfunded commitments		(10,675)
Revolving loans	(655,650)	(419,642)
Letters of credit	(17,032)	(16,257)
Total available	$ 227,318	$ 453,426

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

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Year Ending December 31,	Amount (in thousands)
2010	$
2011	
2012	
2013	357,500
2014	655,650
Thereafter	250,000
Total	$ 1,263,150

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 5.74 percent during the period from May 26, 2010 to June 30, 2010, 7.98 percent during the period from April 1, 2010 to May 25, 2010, 6.69 percent during the three months ended June 30, 2009, 7.98 percent during the period from January 1, 2010 to May 25, 2010 and 5.94 percent during the six months ended June 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 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 June 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 certain wholly owned subsidiaries, 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 its 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.

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

Regency Energy Partners LP

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Successor June 30, 2010	Predecessor December 31, 2009
	(in thousands)	
Senior Notes Due 2013		
Principal amount	$ 357,500	$ 357,500
add:		
Unamortized premium	6,998	
Carrying value	$ 364,498	$ 357,500
Senior Notes Due 2016		
Principal amount	$ 250,000	$ 250,000
add/ deduct:		
Unamortized premium (discount)	6,492	(12,843)
Carrying value	$ 256,492	$ 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 (the previous credit agreement) and the new credit agreement include:

- extension of the maturity date to June 15, 2014 from August 15, 2011, subject to the following contingency:
  - if the Partnership s 8.375 percent senior notes due December 15, 2013 have not been refinanced or paid off by June 15, 2013, then the maturity date of the revolving credit facility will be June 15, 2013;
- an increase in the amount of allowed investments in HPC to $250,000,000 from $135,000,000;
- the addition of an allowance for joint venture investments (other than HPC) of up to $75,000,000, provided that (i) distributed cash and net income from joint ventures under this basket shall be excluded from consolidated net income and (ii) equity interests in joint ventures created under this basket shall be pledged as collateral;
- 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;
- 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 $15,861,000 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 its Fifth Amended and Restated 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 in the credit agreement to include MEP;
- amends the definition of Permitted Acquisition in the agreement to clarify that the initial investment in MEP is a permitted acquisition;
- amends the definition of Permitted Holder to include 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;
- requires that the Partnership and its subsidiaries maintain a senior consolidated secured leverage ratio not to exceed 3 to 1.

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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 June 30, 2010, the Partnership was in compliance with each of the financial covenants required under the term of the credit agreement.

7. Commitments and Contingencies

Legal. The Partnership is involved in various claims and lawsuits 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.

Escrow Payable. At June 30, 2010, $1,011,000 remained in escrow pending the completion by El Paso of 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. In the El Paso PSA, El Paso indemnified Regency Gas Services LLC, now known as Regency Gas Services LP, against losses arising from pre-closing and known environmental liabilities subject to a limit of $84,000,000 and certain deductible limits. Upon completion of a Phase II environmental study, the Partnership notified El Paso of remediation obligations amounting to $1,800,000 with respect to known environmental matters and $3,600,000 with respect to pre-closing environmental liabilities. This escrow amount will be further reduced under a specified schedule as El Paso completes its cleanup obligations and the remainder will be released upon completion. In connection with this matter, $500,000 was released on May 6, 2010.

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.

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. The Partnership may also be subject to additional taxes, interest and possible penalties for past condensate sales.

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.

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8. 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 its option, require the Partnership to purchase the 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 six months ended June 30, 2010.

	For the Six Months Ended June 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 June 30, 2010		57
Ending balance as of June 30, 2010	4,371,586	$ 70,850*

* This amount will be accreted to $80,000,000 plus any accrued and unpaid distributions by deducting amounts from partners capital over the 19.25 remaining years.

9. Related Party Transactions

The employees operating the assets of the Partnership and its subsidiaries and all 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 $5,660,000, $10,370,000, $31,065,000, $8,591,000 and $16,209,000, were recorded in the Partnership s financial statements during the periods from May 26, 2010 to June 30, 2010, from April 1, 2010 to May 25, 2010, from January 1, 2010 to May 25, 2010 and for the three and six months ended June 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 $13,114,000, $2,603,000, $26,241,000 and $12,181,000 during the period from April 1, 2010 to May 25, 2010, the three months ended June 30, 2009, the period from January 1, 2010 to May 25, 2010 and the six months ended June 30, 2009, respectively.

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 other segment. The Partnership also incurs expenditures on behalf of HPC and these amounts are billed to HPC on a monthly basis. For the periods from May 26, 2010 to June 30, 2010, from April 1, 2010 to May 25, 2010, from January 1, 2010 to May 25, 2010, and the three and six months ended June 30, 2009, the related party general and administrative expenses reimbursed to the Partnership were $1,400,000, $2,800,000, $6,933,000, $1,500,000, and $1,726,000, respectively.

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 those units were not outstanding (April 1, 2010 to May 25, 2010).

As of June 30, 2010, the Partnership has a related party receivable of $12,288,000 from ETE for an additional capital contribution, which was received on August 6, 2010.

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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.

As disclosed in Note 3, the Partnership s acquisition of additional 6.99 percent 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 compression segment provides contract compression services to HPC and records revenue in gathering, transportation and other fees on the statement of operation. 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 the 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 June 30, 2010, the Partnership s related party receivables and related party payables included $18,501,000 and $422,000, respectively, from and to subsidiaries of Enterprise GP.

10. Segment Information

In 2009, the Partnership s management realigned the composition of its segments. Accordingly, the Partnership has restated the items of segment information for earlier periods to reflect this new alignment.

The Partnership has four reportable segments: (a) gathering and processing, (b) transportation, (c) contract compression and (d) corporate and others. Gathering and processing involves collecting raw natural gas from producer wells and transporting it to treating plants where water and other impurities such as hydrogen sulfide and carbon dioxide are removed. Treated gas is then processed to remove the natural gas liquids. The treated and processed natural gas is then transported to market separately from the natural gas liquids. Revenues and the associated cost of sales from the gathering and processing segment directly expose the Partnership to commodity price risk, which is managed through derivative contracts and other measures. The Partnership aggregates the results of its gathering and processing activities across five geographic regions into a single reporting segment. The Partnership, through its producer services function, primarily purchases natural gas from producers at gathering systems and plants connected to its pipeline systems and sells this gas at downstream outlets.

The transportation segment consists of the Partnership s 49.99 percent interest in HPC, which we operate, and the 49.9 percent interest in MEP. Prior periods have been restated to reflect the Partnership s then wholly-owned subsidiary of Regency Intrastate Gas LLC as the exclusive reporting unit within this segment. The transportation segment uses pipelines to transport natural gas from receipt points on its system to interconnections with other pipelines, storage facilities or end-use markets. RIG performs transportation services for shipping customers under firm or interruptible arrangements. In either case, revenues are primarily fee based and involve minimal direct exposure to commodity price fluctuations. The north Louisiana intrastate pipeline operated by this segment serves the Partnership s gathering and processing facilities in the same area and those transactions create a portion of the intersegment revenues shown in the table below.

The contract compression segment provides customers with turn-key natural gas compression services to maximize their natural gas and crude oil production, throughput, and cash flow. The Partnership s integrated solutions include a comprehensive assessment of a customer s natural gas contract compression needs and the design and installation of a compression system that addresses those particular needs. The Partnership is responsible for the installation and on-going operation, service, and repair of its compression units, which are modified as necessary to adapt to customers changing operating conditions. The contract compression segment also provides services to certain operations in the gathering and processing segment, creating a portion of the intersegment revenues shown in the table below.

The corporate and others segment comprises regulated entities and the Partnership s corporate offices. Revenues in this segment 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 compression 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 revenues generating

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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.

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

	Gathering and Processing	Transportation	Contract Compression	Corporate and Others	Eliminations	Total
			(in thousands)			
External Revenues						
Period from May 26, 2010 to June 30, 2010	$ 90,147	$	$ 12,053	$ 780	$	$ 102,980
Period from April 1, 2010 to May 25, 2010	183,582		23,992	3,921		211,495
For the three months ended June 30, 2009	209,939	1,531	39,011	3,061		253,542
Period from January 1, 2010 to May 25, 2010	460,423		58,971	9,853		529,247
For the six months ended June 30, 2009	453,093	9,075	77,499	3,853		543,520
Intersegment Revenues						
Period from May 26, 2010 to June 30, 2010			1,999	22	(2,021)	
Period from April 1, 2010 to May 25, 2010			3,794	53	(3,847)	
For the three months ended June 30, 2009	(6,745)	(128)	975	40	5,858	
Period from January 1, 2010 to May 25, 2010			9,126	91	(9,217)	
For the six months ended June 30, 2009	(8,755)	4,936	1,785	144	1,890	
Cost of Sales						
Period from May 26, 2010 to June 30, 2010	73,311		1,564	(772)	(22)	74,081
Period from April 1, 2010 to May 25, 2010	144,768		2,460	87	(53)	147,262
For the three months ended June 30, 2009	144,816	1,243	4,186	269	6,833	157,347
Period from January 1, 2010 to May 25, 2010	366,900		5,741	(679)		