SemGroup Energy Partners, L.P.
Form S-1/A
May 25, 2007
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As filed with the Securities and Exchange Commission on May 25, 2007

Registration No. 333-141196

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SEMGROUP ENERGY PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**4610**	**20-8536826**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

Two Warren Place

6120 South Yale Avenue, Suite 700

Tulsa, Oklahoma 74136

(918) 524-8100

(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Kevin L. Foxx

President and Chief Executive Officer

SemGroup Energy Partners G.P., L.L.C.

Two Warren Place

6120 South Yale Avenue, Suite 700

Tulsa, Oklahoma 74136

(918) 524-8100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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(713) 758-2222

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED May 25, 2007

P R O S P E C T U S

12,500,000 Common Units

Representing Limited Partner Interests

SemGroup Energy Partners, L.P.

$ per Common Unit

The selling unitholder named in this prospectus is selling 12,500,000 common units. We will not receive any proceeds from the sale of the common units by the selling unitholder. We have granted the underwriters an option to purchase up to 1,875,000 additional common units from us to cover over-allotments.

This is the initial public offering of our common units. We currently expect the initial public offering price to be between $ and $ per common unit. We have applied to list our common units on The NASDAQ Global Market under the symbol SGLP.

Investing in our common units involves risks. Please see Risk Factors beginning on page 18.

These risks include the following:

- We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

- On a pro forma basis, we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all units for the year ended December 31, 2006.

- We depend upon SemGroup, L.P. for a substantial majority of our revenues, and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

- We are exposed to the credit risk of SemGroup, L.P. and any material nonperformance by SemGroup, L.P. could reduce our ability to make distributions to our unitholders.

SemGroup, L.P. controls our general partner, which has sole responsibility for conducting our business and managing our operations. SemGroup, L.P. has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

SemGroup, L.P. is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Common Unit	Total
Public Offering Price	$	$
Underwriting Discount (1)	$	$
Proceeds to selling unitholder (before expenses)	$	$

(1) Excludes an aggregate structuring fee payable to Citigroup Global Markets Inc. equal to 0.375% of the gross proceeds of this offering before any exercise of the underwriters over-allotment option, or approximately $, in consideration of advice rendered by Citigroup Global Markets Inc. regarding the structure of this offering and our partnership.

The underwriters expect to deliver the common units through the facilities of The Depository Trust Company on or about , 2007.

Citi **Merrill Lynch & Co.**

Lehman Brothers

RBC Capital Markets

Wachovia Securities

A.G. Edwards

Raymond James

Sanders Morris Harris

BOSC, Inc.

, 2007

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You should rely only on the information contained in this prospectus. We have not, and the underwriters and the selling unitholder have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters and the selling unitholder are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Until , 2007 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common units, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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SUMMARY

This summary provides a brief overview of information contained elsewhere in this prospectus. Because it is abbreviated, this summary does not contain all of the information that you should consider before investing in our common units. You should read the entire prospectus carefully, including the historical and unaudited pro forma financial statements and the notes to those financial statements. You should read Risk Factors beginning on page 18 for more information about important risks that you should consider carefully before buying our common units.

Unless indicated otherwise, the information presented in this prospectus assumes (1) an initial public offering price of $20.00 per common unit and (2) that the underwriters do not exercise their over-allotment option. As used in this prospectus, unless we indicate otherwise: (1) SemGroup Energy Partners, our, we, us and similar terms refer to SemGroup Energy Partners, L.P., together with our subsidiaries, after giving effect to the formation transactions described on page 6 of this prospectus, (2) our Parent refers to SemGroup, L.P. and its subsidiaries and affiliates (other than us), (3) selling unitholder and SemGroup Holdings refer to SemGroup Holdings, L.P., a wholly owned subsidiary of our Parent and our sole limited partner prior to the closing of this offering, and (4) references to our pro forma financial information refer to the historical financial information of our predecessor described on page 14 of this prospectus as adjusted to give effect to the Throughput Agreement, the Omnibus Agreement and the other formation transactions described below. We include a glossary of some of the terms used in this prospectus as Appendix B.

SemGroup Energy Partners, L.P.

We are a Delaware limited partnership formed on February 22, 2007 by our Parent, a provider of midstream energy services, to own, operate and develop a diversified portfolio of complementary midstream energy assets. We currently provide crude oil gathering, transportation, terminalling and storage services primarily in our core operating areas in Oklahoma, Kansas and Texas. Prior to the closing of this offering, we will enter into a crude oil gathering, transportation, terminalling and storage agreement with our Parent, which we refer to as the Throughput Agreement. Pursuant to the Throughput Agreement, our Parent will pay us a fee based on the number of barrels of crude oil we gather, transport, terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum revenues of $6.4 million per month. We intend to acquire and construct a significant amount of additional midstream energy assets, including acquisitions from our Parent and jointly with our Parent. At March 31, 2007, our Parent had total net book value of property, plant and equipment of $1.1 billion, with the crude oil gathering, transportation, terminalling and storage assets to be contributed to us prior to the closing of this offering, which we refer to as the Crude Oil Business, representing approximately $102.0 million of this amount.

Our network of assets provides our customers the flexibility to access multiple points for the receipt and delivery of crude oil. We do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal and store. As a result, our operations have minimal direct exposure to changes in crude oil prices, but the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. We generate revenues by charging a fee for services provided at each transportation stage as crude oil is shipped from its origin at the wellhead to destination points such as the Cushing Interchange, to refineries in Oklahoma, Kansas and Texas or to pipelines, as described below:

- ***Terminalling and storage assets and services.*** We provide crude oil terminalling and storage services at our terminalling and storage facilities located in Oklahoma, Kansas and Texas. We currently own and operate an aggregate of approximately 6.7 million barrels of storage capacity. Of this storage capacity, approximately 4.8 million barrels are located at our terminal in Cushing, Oklahoma. Our Cushing terminal is strategically located within the Cushing Interchange, the largest crude oil

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marketing hub in the United States and the designated point of delivery specified in all New York Mercantile Exchange, or NYMEX, crude oil futures contracts. Our terminals have a combined capacity to receive or deliver approximately 10.0 million barrels of crude oil per month. We also own approximately 26 acres of additional land within the Cushing Interchange where we can develop additional storage capacity.

Gathering and transportation assets and services. We own and operate two pipeline systems, the Mid-Continent system and the Longview system, collectively consisting of approximately 1,120 miles of pipelines that gather crude oil for our Parent and other third-party customers and transport it to refiners, to common carrier pipelines for ultimate delivery to refiners or to terminalling and storage facilities owned by us and others. Our pipeline gathering and transportation system located in Oklahoma and the Texas Panhandle, which we refer to as the Mid-Continent system, has a combined length of approximately 820 miles. Our second pipeline gathering and transportation system located in East Texas, which we refer to as the Longview system, consists of approximately 300 miles of tariff-regulated crude oil gathering pipeline. In addition to our pipelines, we use our approximately 200 owned or leased tanker trucks to gather crude oil in Kansas, Oklahoma, Texas, New Mexico and Colorado for our Parent and other third-party customers at remote wellhead locations generally not connected to pipeline and gathering systems and transport the crude oil to aggregation points and storage facilities located along pipeline gathering and transportation systems. In connection with our gathering services, we also provide a number of producer field services, ranging from gathering condensates from natural gas producers to hauling production waste water to disposal wells.

We derive a substantial majority of our revenues from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. For the year ended December 31, 2006 and the three months ended March 31, 2007, our Parent represented approximately 82.5% and 82.4%, respectively, of our pro forma revenues and third parties accounted for the remainder. Our Parent s crude oil purchasing, marketing and distribution operations are substantially dependent on our services and assets. The Throughput Agreement has an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon prior notice. Our Parent will pay us a fee based on the number of barrels we gather, transport, terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum revenues of $6.4 million per month, which we expect to be sufficient to initially pay nearly all of the minimum quarterly distribution on our common units but no distribution on our subordinated units. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent.

For the year ended December 31, 2006 and the three months ended March 31, 2007, we generated pro forma net income of approximately $32.0 million and $7.4 million, respectively, and pro forma net income before interest, income taxes, depreciation and amortization, or EBITDA, of $49.8 million and $11.8 million, respectively. For an explanation of EBITDA and a reconciliation of EBITDA to its most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles, or GAAP, please see Non-GAAP Financial Measures.

Competitive Strengths

We believe we are well positioned to successfully achieve our primary business objectives and execute our business strategies based on the following competitive strengths:

- a substantial majority of our operations generate fee-based revenues, with contracted minimum revenues pursuant to the Throughput Agreement;

- our primary terminalling and storage facilities are strategically located within the Cushing Interchange, the largest crude oil marketing hub in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts;

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- our gathering and transportation systems give us the ability to transport crude oil to multiple end points, particularly the Cushing Interchange, which creates increased demand for our services by allowing our customers the flexibility to effectively manage their marketing of crude oil and increase their profitability;

- our relationship with our Parent enhances our ability to make strategic acquisitions and to access other business opportunities;

- our properties and facilities have been well maintained resulting in reliable and efficient operations;

- we have the financial flexibility through the available capacity under our new five-year credit facility and our ability to access the capital markets to pursue expansion and acquisition opportunities. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow; and

- our Parent has a knowledgeable management team with significant experience in the energy industry and in executing acquisition and expansion strategies.

Business Strategies

Our primary business objectives are to maintain stable cash flows and to increase distributable cash flow per unit over time by becoming a leading provider of midstream services to the energy industry. We intend to accomplish these objectives by executing the following strategies:

- leveraging our relationship with our Parent to pursue acquisition and organic growth opportunities by:
  - jointly pursuing acquisition opportunities in a manner that minimizes our direct commodity price exposure; and
  - acquiring additional assets or businesses directly from our Parent;
- pursuing both strategic and accretive acquisitions within the midstream energy industry, by:
  - evaluating opportunities in our existing areas of operation as well as other midstream energy acquisition opportunities; and
  - seeking acquisitions that will enable us to grow our distributable cash flow per unit and enhance our service capabilities;
- pursuing organic expansion opportunities through:
  - constructing additional assets in strategic locations that will allow us to leverage our existing market position; and
  - expanding storage capacity, particularly at our Cushing terminal;

- increasing the profitability of our existing assets by:
  - improving our operating efficiency and by monitoring and controlling our cost structure; and
  - increasing the utilization of our existing asset infrastructure.

Our Relationship with our Parent

One of our principal strengths is our relationship with our Parent, a provider of midstream energy services in the United States. Our Parent provides gathering, transportation, terminalling, storage, distribution, marketing and other midstream services primarily to independent natural gas and crude oil producers, as well as refiners located along the North American energy corridor from the Gulf Coast to Central Canada and the West Coast of the United Kingdom. Our Parent has a significant asset base consisting primarily of pipelines, gathering systems, processing plants, storage facilities, terminals and other distribution facilities located between North American

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production and supply areas, including the Gulf Coast and Mid-Continent regions of the United States and the province of Alberta, Canada and high demand regions such as the Midwest. A substantial majority of our revenues are generated by providing services to our Parent s crude oil purchasing, marketing and distribution operations.

Since our Parent s inception in April 2000 through March 31, 2007, our Parent has completed 47 acquisitions at an aggregate purchase price of approximately $978 million, excluding amounts paid for working capital. Our Parent has indicated that it intends to use us as a growth vehicle to pursue the acquisition and expansion of midstream energy businesses and assets. Although we expect to have the opportunity to make acquisitions directly from our Parent in the future, we cannot say with any certainty which, if any, of these acquisition opportunities may be made available to us or if we will choose to pursue any such opportunity. In addition, through our relationship with our Parent, we will have access to a significant pool of management talent and strong commercial relationships throughout the energy industry. While our relationship with our Parent may benefit us, it is also a source of potential conflicts. For example, our Parent is not restricted from competing with us. Our Parent has retained substantial midstream assets and may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets. Please see Conflicts of Interest and Fiduciary Duties.

Our Parent will retain a significant indirect interest in our partnership through its ownership of a 45.2% limited partner interest, a 2% general partner interest and incentive distribution rights. We will enter into the Throughput Agreement and an omnibus agreement with our Parent, which we refer to as the Omnibus Agreement, that will govern our relationship with our Parent. Please see Business Throughput Agreement and Certain Relationships and Related Party Transactions Omnibus Agreement. Our Parent employed approximately 1,900 people as of March 31, 2007, approximately 300 of whom will be dedicated to supporting our operations following the formation transactions. We will not have any employees. Please see Business Employees.

Summary of Risk Factors

An investment in our common units involves risks associated with our business, regulatory and legal matters, our partnership structure and the tax characteristics of our common units. The following list of risk factors is not exhaustive. Please read carefully these and other risks described under the caption Risk Factors.

Risks Related to Our Business

- We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

- On a pro forma basis, we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all units for the year ended December 31, 2006.

- We depend upon our Parent for a substantial majority of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

- We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

- Our Parent s obligations under the Throughput Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders. Please see Risk Factors Our Parent s obligations under the Throughput Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

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The assumptions underlying our estimate of cash available for distribution we include in Our Cash Distribution Policy and Restrictions on Distributions are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our Parent is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses.

Cost reimbursements due to our general partner and its affiliates for services provided, which will be determined by our general partner in good faith (which means it must believe the determination is in the best interest of our partnership) in accordance with our partnership agreement and the Omnibus Agreement, may be substantial and will reduce our cash available for distribution to you.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent because our general partner and its affiliates will own a sufficient number of units upon completion of this offering to be able to prevent its removal.

We may issue additional units without your approval, which would dilute your ownership interests.

Common units held by persons who are not Eligible Holders will be subject to the possibility of redemption.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service, or IRS, were to treat us as a corporation or if we were to become subject to a material amount of entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

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

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

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

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

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

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

- You likely will be subject to state and local taxes and return filing or withholding requirements in states where you do not live as a result of investing in our common units.

Formation Transactions and Partnership Structure

General

Prior to the closing of this offering, the following transactions, which we refer to as the formation transactions, will have occurred:

- SemGroup Holdings will transfer the Crude Oil Business to us;

- we will issue to SemGroup Holdings 12,500,000 common units and 10,713,430 subordinated units;

- we will issue to our general partner, SemGroup Energy Partners G.P., L.L.C., a wholly owned subsidiary of SemGroup Holdings, 473,743 general partner units representing its initial 2% general partner interest in us, and all of our incentive distribution rights, which incentive distribution rights will entitle our general partner to increasing percentages of the cash we distribute in excess of $0.3881 per unit per quarter;

- we will borrow $137.5 million under our new $250.0 million five-year credit facility and distribute the proceeds to SemGroup Holdings;

- we will enter into the Throughput Agreement pursuant to which we will provide certain gathering, transportation, terminalling and storage services to our Parent in exchange for contracted fees; and

- we will enter into the Omnibus Agreement with our Parent and our general partner which will address, among other things, the provision of, and the reimbursement for, general and administrative and operating services and indemnification matters.

SemGroup Holdings has informed us that it intends to use the proceeds distributed to it from borrowings under our credit facility to repay outstanding indebtedness of our Parent and to fund offering-related expenses.

At the closing of this offering, SemGroup Holdings will sell 12,500,000 common units to the public in this offering, after which SemGroup Holdings will have an aggregate 45.2% limited partner interest in us and the public will have an aggregate 52.8% limited partner interest in us. SemGroup Holdings has informed us that it intends to use the net proceeds received by it from the sale of the common units to repay outstanding indebtedness of our Parent.

We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our new credit facility. If the underwriters exercise their over-allotment option in full, the ownership interest of the public unitholders will increase to 14,375,000 common units, representing an

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aggregate 56.2% limited partner interest in us, the ownership interest of our general partner will increase to 512,009 general partner units, representing a 2% general partner interest in us, and the ownership interest of our Parent will remain at 10,713,430 subordinated units, representing a 41.8% limited partner interest in us.

As is common with publicly traded limited partnerships and in order to maximize operational flexibility, we will conduct our operations through subsidiaries. We will have one direct subsidiary initially, SemGroup Energy Partners Operating, L.L.C., a Delaware limited liability company, that will conduct business through itself and its subsidiaries.

The diagram on the following page depicts our organization and ownership after giving effect to the formation transactions and the offering.

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Simplified Organizational Structure and Ownership of SemGroup Energy Partners, L.P. After the Formation Transactions

Public Common Units	52.8%
Parent Subordinated Units	45.2%
General Partner Units	2.0%
Total	100.0%

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Management of SemGroup Energy Partners, L.P.

SemGroup Energy Partners G.P., L.L.C., our general partner, will manage our operations and activities, and its board of directors and officers will make decisions on our behalf. All of the executive officers and some of the directors of our general partner also serve as executive officers or directors of our Parent. Our general partner will not receive any management fee or other compensation in connection with the management of our business and this offering, but it will be entitled to reimbursement of all direct and indirect expenses incurred on our behalf. Pursuant to the Omnibus Agreement we will pay our general partner a fixed fee for specified general and administrative services it provides to us. Our general partner will also be entitled to distributions on its general partner interest and, if specified requirements are met, on its incentive distribution rights. Our Parent indirectly holds all of the membership interests in our general partner and consequently is indirectly entitled to all of the distributions that we make to our general partner, subject to the terms of the limited liability company agreement of our general partner and relevant legal restrictions. Please see Our Cash Distribution Policy and Restrictions on Distributions, Management Executive Compensation and Certain Relationships and Related Party Transactions.

Unlike shareholders in a publicly traded corporation, our unitholders will not be entitled to elect our general partner or its directors. Our Parent will elect all of the members to the board of directors of our general partner and we will ultimately have three directors who are independent as defined under the independence standards established by The NASDAQ Global Market. For more information about these individuals, please see Management Directors and Executive Officers.

Summary of Conflicts of Interest and Fiduciary Duties

Our general partner has a legal duty to manage us in a manner beneficial to holders of our common units and subordinated units. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. However, because our general partner is owned by our Parent, the officers and directors of our general partner also have fiduciary duties to manage our general partner in a manner beneficial to our Parent. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates on the other hand.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to holders of our common units and subordinated units. Our partnership agreement also restricts the remedies available to our unitholders for actions that might otherwise constitute a breach of our general partner s fiduciary duties owed to our unitholders. Our partnership agreement also provides that our Parent is not restricted from competing with us. By purchasing a common unit, the purchaser agrees to be bound by the terms of our partnership agreement and, pursuant to the terms of our partnership agreement, each holder of common units consents to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

For a more detailed description of the conflicts of interest and fiduciary duties of our general partner, please see Conflicts of Interest and Fiduciary Duties.

Principal Executive Offices and Internet Address

Our principal executive offices are located at Two Warren Place, 6120 South Yale Avenue, Suite 700, Tulsa, Oklahoma 74136 and our telephone number is (918) 524-8100. Our website will be located at www.semgroupenergypartners.com. We expect to make our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, or SEC, available, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

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The Offering

Common units offered to the public	12,500,000 common units.
	14,375,000 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	12,500,000 common units and 10,713,430 subordinated units, representing 52.8% and 45.2%, respectively, limited partner interests in us (14,375,000 common units and 10,713,430 subordinated units, representing 56.2% and 41.8% limited partner interests in us if the underwriters exercise their over-allotment option in full). The general partner will own 473,743 general partner units, or 512,009 general partner units if the underwriters exercise their over-allotment option in full, in each case representing a 2% general partner interest in us.
Use of proceeds	We will not receive any proceeds from any common units sold by SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the net proceeds received by it from the sale of the common units to repay outstanding indebtedness of our Parent.
	We will borrow $137.5 million under our new five-year credit facility prior to the closing of this offering and distribute the proceeds to SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the proceeds distributed to it from borrowings under our credit facility to repay outstanding indebtedness of our Parent and to fund offering-related expenses.
	If the underwriters over-allotment option is exercised in full, we expect to receive net proceeds of approximately $35.1 million, after deducting underwriting discounts. We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our new credit facility.
Cash distributions	We expect to make an initial quarterly distribution of $0.3375 per common unit ($1.35 per common unit on an annualized basis) to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses. We will adjust the quarterly distribution for the period of the closing of the offering through June 30, 2007 based on the actual length of the period. Our ability to pay cash distributions at this initial distribution rate is subject to various restrictions and other factors described in more detail under the caption Our Cash Distribution Policy and Restrictions on Distributions.
	Our partnership agreement requires us to distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner. We refer to this distributable cash as available cash, and we define its meaning in our partnership agreement and in the glossary of terms attached as Appendix B to this prospectus. Our

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partnership agreement also requires that we distribute all of our available cash from operating surplus each quarter in the following manner:

first, 98% to the holders of common units and 2% to our general partner, until each common unit has received a minimum quarterly distribution of $0.3375 plus any arrearages from prior quarters;

second, 98% to the holders of subordinated units and 2% to our general partner, until each subordinated unit has received a minimum quarterly distribution of $0.3375;

third, 98% to all unitholders, pro rata, and 2% to our general partner, until each unit has received a distribution of $0.3881;

fourth, 85% to all unitholders, pro rata, and 15% to our general partner, until each unit has received a distribution of $0.4219;

fifth, 75% to all unitholders, pro rata, and 25% to our general partner, until each unit has received a distribution of $0.5063; and

thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

We refer to the distributions to our general partner in excess of 2% as incentive distributions. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions.

Our pro forma cash available for distribution for the year ended December 31, 2006 would have been sufficient to allow us to pay the full minimum quarterly distribution on all of our common units, but only 66% of the minimum quarterly distribution on our subordinated units during this period (64% assuming the underwriters exercise their over-allotment option in full). Our pro forma cash available for distribution for the twelve months ended March 31, 2007 would have been sufficient to allow us to pay the full minimum quarterly distribution on all of our common units and on all of our subordinated units during this period (but only 98% of the minimum quarterly distribution on our subordinated units if the underwriters exercise their over-allotment option in full). Please see Our Cash Distribution Policy and Restrictions on Distributions.

We believe that, based on the estimates contained and the assumptions listed under the caption Our Cash Distribution Policy and Restrictions on Distributions, we will have sufficient cash available from operations to make cash distributions for the four quarters ending June 30, 2008 at the initial quarterly distribution rate of $0.3375 per unit per quarter on all units.

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Subordinated units	Our Parent will initially own all of our subordinated units. The principal difference between our common units and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are entitled to receive the minimum quarterly distribution of $0.3375 per unit only after the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.
End of subordination period and early conversion of subordinated units	The subordination period generally will end if we have earned and paid at least $0.3375 on each outstanding unit and general partner unit for any three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2010, but may end on or after June 30, 2008 if we have earned and paid at least $2.025 (150% of the annualized minimum quarterly distribution) on each outstanding common unit, subordinated unit and general partner unit for any four-quarter period.
	When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.
General partner s right to reset the target distribution levels	Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution amount as in our current target distribution levels.
	In connection with resetting these target distribution levels, our general partner will be entitled to receive Class B units. The Class B units will be entitled to the same cash distributions per unit as our common units and will be convertible at any time into an equal number of common units. The number of Class B units to be issued will be equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. For a more detailed description of our general partner s right

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	to reset the target distribution levels upon which the incentive distribution payments are based and the concurrent right of our general partner to receive Class B units in connection with this reset, please read Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner s Right to Reset Incentive Distribution Levels.
Issuance of additional units	We can issue an unlimited number of units without the consent of our unitholders. Please see Units Eligible for Future Sale and The Partnership Agreement Issuance of Additional Securities.
Limited voting rights	Our general partner will manage and operate us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66 $^{2}/_{3}$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon consummation of this offering, our general partner and its affiliates will own an aggregate of 46.2% of our common and subordinated units (prior to giving effect to any purchases by management of our general partner or our Parent in our directed unit program). This will give our general partner the ability to prevent its involuntary removal. Please see The Partnership Agreement Voting Rights.
Limited call right	If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2010 you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 20% or less of the cash distributed to you with respect to that period. For example, if you receive an annual distribution of $1.35 per unit, we estimate that your average allocable federal taxable income per year will be no more than $0.27 per unit. Please see Material Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions.
Material tax consequences	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please see Material Tax Consequences.
Exchange listing	We have applied to list the common units on The NASDAQ Global Market under the symbol SGLP.

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Summary Historical and Unaudited Pro Forma Financial and Operating Data

The following table shows summary historical financial and operating data of SemGroup Energy Partners, L.P. Predecessor, our predecessor, and pro forma financial and operating data of SemGroup Energy Partners, L.P. for the periods and as of the dates presented. Prior to the closing of this offering, our Parent will contribute its Crude Oil Business to us, which comprises a substantial majority of our Parent s crude oil gathering, transportation, terminalling and storage assets. The Crude Oil Business has historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. Accordingly, revenues reflected in our historical financial statements represent services provided to third parties and do not include any revenues for services provided to our Parent. For this reason and due to the other factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Items Impacting the Comparability of Our Financial Results, our future results of operations will not be comparable to our predecessor s historical results. The summary historical financial data as of and for the years ended December 31, 2004, 2005 and 2006 are derived from the audited financial statements of our predecessor included elsewhere in this prospectus. The summary historical financial data as of and for the three months ended March 31, 2006 and 2007 are derived from the unaudited financial statements of our predecessor included elsewhere in this prospectus.

The summary pro forma financial data as of and for the year ended December 31, 2006 and the three months ended March 31, 2007 are derived from the unaudited pro forma financial statements of SemGroup Energy Partners, L.P. included elsewhere in this prospectus. The pro forma adjustments have been prepared as if certain transactions to be effected prior to the closing of this offering had taken place on March 31, 2007, in the case of the pro forma balance sheet, or as of January 1, 2006, in the case of the pro forma statement of operations for the year ended December 31, 2006 and for the three months ended March 31, 2007. These transactions include:

- the contribution by SemGroup Holdings of the Crude Oil Business to us;
- our issuance of 473,743 general partner units and the incentive distribution rights to our general partner and 12,500,000 common units and 10,713,430 subordinated units to SemGroup Holdings;
- our borrowing of $137.5 million under our new five-year credit facility and the distribution of the proceeds to SemGroup Holdings;
- the execution of the Throughput Agreement; and
- the execution of the Omnibus Agreement.

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following table includes the non-GAAP financial measure of EBITDA. For a definition of EBITDA and a reconciliation to its most directly comparable financial measures calculated and presented in accordance with GAAP, please see Non-GAAP Financial Measures.

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	SemGroup Energy Partners, L.P. Predecessor					SemGroup Energy Partners, L.P. Pro Forma	
				Three Months Ended			Three Months Ended
	Year Ended December 31,			March 31,		Year Ended December 31,	
	2004	2005	2006	2006	2007	2006	March 31, 2007
Statement of Operations Data:	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(dollars in thousands, except per unit data)						
Service revenues[1]:							
Third-party revenue[2]	$ 15,857	$ 20,361	$ 28,839	$ 6,338	$ 8,634	$ 17,148	$ 4,739
Related party revenue						80,613	22,236
Total revenue	15,857	20,361	28,839	6,338	8,634	97,761	26,975
Expenses:							
Operating	30,996	38,467	51,608	13,327	16,117	51,608	16,117
General and administrative[3]	7,570	6,280	11,097	2,777	4,372	5,000	1,250
Total expenses	38,566	44,747	62,705	16,104	20,489	56,608	17,367
Operating income (loss)	(22,709)	(24,386)	(33,866)	(9,766)	(11,855)	41,153	9,608
Other (income) expenses:							
Interest expense[4]	1,973	2,597	1,989	511	429	9,197	2,202
Net income (loss)	$ (24,682)	$ (26,983)	$ (35,855)	$ (10,277)	$ (12,284)	$ 31,956	$ 7,406
General partner interest in pro forma net income						$ 639	$ 148
Limited partner interest in pro forma net income						$ 31,317	$ 7,258
Pro forma net income per limited partner unit:							
Common units						$ 1.35	$ 0.34
Subordinated units						$ 1.35	$ 0.28
Financial and Operating Data:							
Financial data:							
EBITDA	$ (16,356)	$ (17,832)	$ (25,269)	$ (7,863)	$ (9,655)	$ 49,750	$ 11,808
Operating data:							
Cushing terminal:							
Average crude oil barrels stored per month	721,590	1,371,281	2,695,766	2,151,945	2,770,108		
Average crude oil delivered (Bpd)	31,074	30,143	44,889	28,982	62,334		
Total storage capacity (barrels at end of period)	793,200	3,493,200	4,370,000	4,370,000	4,765,000		
Other:							
Total storage capacity (barrels at end of period)	2,329,490	2,048,890	1,952,150	1,944,450	1,952,150		
Average throughput (Bpd):							
Mid-Continent system	20,228	22,255	28,762	26,631	32,570		
Longview system	31,547	30,993	36,493	40,975	28,339		
Balance Sheet Data (at period end):							
Property, plant and equipment, net	$ 49,601	$ 64,688	$ 92,245	$ 76,946	$ 101,967	$ 92,245	$ 101,967
Total assets	57,739	72,912	104,847	86,083	114,822	103,850	113,499
Long-term debt and capital lease obligations	35,337	38,849	36,757	38,292	36,264	143,066	142,573

Total division equity/partners capital	20,198	28,799	62,146	39,755	71,465	(39,216)	(29,074)

(1) Our predecessor only recognized revenues for services provided to third parties. Pro forma service revenues give effect to the Throughput Agreement as if such agreement had been entered into on January 1, 2006. The pro forma adjustment is based on actual gathering, transportation, terminalling and storage services provided on an intercompany basis at rates specified in the Throughput Agreement, including giving effect to our Parent s minimum commitments with respect to such services where applicable.

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(2) Third-party revenues decreased on a pro forma basis because certain contracts relating to third-party storage services will be retained by our Parent and we will provide services to our Parent relating to these contracts under the Throughput Agreement. Accordingly, these amounts are reflected in pro forma related party revenues.

(3) Pro forma general and administrative expenses have been adjusted to give effect to the annual administrative fee of $5.0 million that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering. Pro forma general and administrative expenses do not include incremental expenses that we will incur as a public company, which we anticipate will be approximately $2.9 million per year. In addition, pro forma general and administrative expenses do not include discretionary incentive compensation based on pro forma EBITDA, which would have been approximately $2.0 million and $0.5 million on a pro forma basis for the year ended December 31, 2006 and the three months ended March 31, 2007, respectively.

(4) Historical interest expense reflects interest on capitalized lease obligations and debt payable to our Parent. Pro forma interest expense gives effect to the borrowing of $137.5 million under our new $250.0 million five-year credit facility as if such borrowings occurred on January 1, 2006.

Non-GAAP Financial Measures

We include in this prospectus the non-GAAP financial measure of EBITDA. We define EBITDA as net income before interest, income taxes, depreciation and amortization. EBITDA is used as a supplemental financial measure by our management and by external users of our financial statements such as investors, commercial banks and others, to assess:

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

EBITDA is not a presentation made in accordance with GAAP. EBITDA should not be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of financial performance presented in accordance with GAAP as measures of operating performance, liquidity or ability to service debt obligations. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP.

The following table provides a reconciliation of EBITDA to its most directly comparable financial measures as calculated and presented in accordance with GAAP.

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	SemGroup Energy Partners, L.P. Predecessor					SemGroup Energy Partners, L.P. Pro Forma	
	Year Ended December 31,			Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	2004	**2005**	**2006**	**2006**	**2007**	**2006**	**2007**
	(dollars in thousands)						
Reconciliation of EBITDA to net cash provided by operating activities:							
Net cash provided by (used in) operating activities	$ (17,906)	$ (18,848)	$ (25,774)	$ (10,297)	$ (12,198)		
Changes in operating working capital which provided (used) cash:							
Accounts receivable	(1,095)	741	444	778	453		
Accounts payable	(262)	(1,403)	(1,172)	2,232	2,039		
Interest expense, net	1,973	2,597	1,989	511	429		
Other, including changes in noncurrent assets and liabilities	934	(919)	(756)	(1,087)	(378)		
EBITDA	$ (16,356)	$ (17,832)	$ (25,269)	$ (7,863)	$ (9,655)		
Reconciliation of EBITDA to net income:							
Net income (loss)	$ (24,682)	$ (26,983)	$ (35,855)	$ (10,277)	$ (12,284)	$ 31,956	$ 7,406
Add:							
Interest expense, net	1,973	2,597	1,989	511	429	9,197	2,202
Depreciation and amortization expense	6,353	6,554	8,597	1,903	2,200	8,597	2,200
EBITDA	$ (16,356)	$ (17,832)	$ (25,269)	$ (7,863)	$ (9,655)	$ 49,750	$ 11,808

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.

If any of the following risks were actually to occur, our business, financial condition, or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and you could lose all or part of your investment.

Risks Related to Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

In order to make our cash distributions at our initial distribution rate of $0.3375 per common unit and subordinated unit per complete quarter, or $1.35 per unit per year, we will require available cash of approximately $8.0 million per quarter, or $32.0 million per year, based on the common units and subordinated units outstanding immediately after completion of this offering ($8.6 million or $34.6 million, respectively, if the underwriters exercise their over-allotment option in full). We may not have sufficient available cash from operating surplus each quarter to enable us to make cash distributions at the initial distribution rate under our cash distribution policy. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things, the risks described in this section.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, including:

- the level of capital expenditures we make;
- the cost of acquisitions;
- our debt service requirements and other liabilities;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions contained in our credit facility or other debt agreements; and
- the amount of cash reserves established by our general partner.

For a description of additional restrictions and factors that may affect our ability to make cash distributions, please see Our Cash Distribution Policy and Restrictions on Distributions.

On a pro forma basis, we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all units for the year ended December 31, 2006.

The amount of available cash we need to pay the minimum quarterly distribution for four quarters on the common units, the subordinated units and the general partner interest to be outstanding immediately after this offering is approximately $32.0 million. The amount of our pro forma available cash generated during the year

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ended December 31, 2006 would have been sufficient to allow us to pay the full minimum quarterly distribution on the common units, but only approximately 66% of the minimum quarterly distribution on our subordinated units during this period (64% assuming the underwriters exercise their over-allotment option in full). Our pro forma cash available for distribution for the twelve months ended March 31, 2007 would have been sufficient to allow us to pay the full minimum quarterly distribution on all of our common units and on all of our subordinated units during this period (but only 98% of the minimum quarterly distribution on our subordinated units assuming the underwriters exercise their over-allotment option in full). In addition, we expect our Parent s minimum commitments under the Throughput Agreement will be sufficient to initially pay nearly all of the minimum quarterly distribution on the common units but no distribution on our subordinated units. For a calculation of our ability to make distributions to unitholders based on our pro forma results for the year ended December 31, 2006 and the twelve months ended March 31, 2007, please see Our Cash Distribution Policy and Restrictions on Distributions.

We depend upon our Parent for a substantial majority of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

For the year ended December 31, 2006 and the three months ended March 31, 2007, our Parent accounted for approximately 82.5% and 82.4%, respectively, of our pro forma revenues. Because we will utilize a substantial majority of the operating capacity of our existing assets to provide services to our Parent pursuant to the Throughput Agreement, we do not expect to materially increase our revenues from third-party customers in the near term unless we undertake significant acquisition or construction projects. Therefore, we expect our dependence on our Parent for a substantial majority of our revenues to continue. If our Parent is unable to make to us the payments required by it under the Throughput Agreement for any reason, our revenues would decline and our ability to make distributions to our unitholders would be reduced. Therefore, we are indirectly subject to the business risks of our Parent, many of which are similar to the business risks we face. In particular, these business risks include the following:

- the inability of our Parent to generate adequate gross margins from the purchase, transportation, storage and marketing of petroleum products;
- material reductions in the supply of crude oil and petroleum products;
- a material decrease in the demand for crude oil and petroleum products in the markets served by our Parent;
- the inability of our Parent to manage its commodity price risk resulting from its ownership of crude oil and petroleum products;
- contract non-performance by our Parent s customers; and
- various operational risks to which our Parent s business is subject.

We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

Prior to the closing of this offering, we will enter into the Throughput Agreement with our Parent pursuant to which we will provide certain gathering, transportation, terminalling and storage services to our Parent for an initial term of seven years. We will also enter into the Omnibus Agreement with our Parent that will address, among other things, the provision of general and administrative and operating services to us and indemnification matters. As of March 31, 2007, Standard & Poor s Rating Services assigned our Parent a corporate family rating of Ba3 and Fitch Ratings assigned our Parent a long term issuer default rating of B, both of which are speculative ratings. These speculative ratings signify a higher risk that our Parent will default on its obligations, including its obligations to us, than does an investment grade credit rating. Any material nonperformance under the Omnibus Agreement and the Throughput Agreement by our Parent could materially and adversely impact our ability to operate and make distributions to our unitholders.

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As of March 31, 2007, after giving effect to this offering and the other formation transactions and the use of proceeds therefrom, our Parent had outstanding indebtedness of approximately $1.6 billion. Though we will have no indebtedness rated by any credit rating agency at the closing of this offering, we may have rated debt in the future. Credit rating agencies such as Moody s and Fitch Ratings may consider our Parent s debt ratings when assigning ours, because of our Parent s ownership interest in and control of us, the strong operational links between our Parent and us, and our reliance on our Parent for a substantial majority of our revenues. If one or more credit rating agencies were to downgrade the outstanding indebtedness of our Parent, we could experience an increase in our borrowing costs or difficulty accessing capital markets. Such a development could adversely affect our ability to grow our business and to make distributions to unitholders.

Our Parent s obligations under the Throughput Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

Some of the circumstances under which our Parent s obligations under the Throughput Agreement may be permanently reduced are within the exclusive control of our Parent. Any such permanent reduction would reduce our ability to make distributions to our unitholders. For example, if we and our Parent cannot agree on an upfront payment or ratable fee surcharge to cover substantial and unanticipated capital expenditures at any of our facilities in order to comply with new laws or regulations, and if we are not able to direct the affected crude oil to mutually acceptable storage or gathering and transportation assets that we own, either party will have the right to remove the affected facility from the Throughput Agreement, and our Parent s minimum monthly payment obligation will be correspondingly reduced. Our Parent s minimum monthly payment obligation may also be temporarily suspended to the extent that the occurrence of a force majeure event that is outside the control of the parties prevents us from making our services available to our Parent and the affected services under the Throughput Agreement may be terminated if the force majeure event prevents performance for more than twelve months. Please see Business Throughput Agreement.

The assumptions underlying our estimate of cash available for distribution we include in Our Cash Distribution Policy and Restrictions on Distributions are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted.

Our estimate of cash available for distribution set forth in Our Cash Distribution Policy and Restrictions on Distributions is based on assumptions that are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those estimated. If we do not achieve the estimated results, we may not be able to pay the full minimum quarterly distribution or any amount on our common units or subordinated units, in which event the market price of our common units may decline materially.

The amount of cash we have available for distribution to holders of our common units and subordinated units depends primarily on our cash flow and not solely on earnings reflected in our financial statements. Consequently, even if we are profitable, we may not be able to make cash distributions to holders of our common units and subordinated units.

You should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow and not solely on earnings reflected in our financial statements, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses for financial accounting purposes and may not make cash distributions during periods when we record net earnings for financial accounting purposes.

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A significant decrease in demand for crude oil in the areas served by our storage facilities and pipelines would reduce our ability to make distributions to our unitholders.

A sustained decrease in demand for crude oil in the areas served by our storage facilities and pipelines could significantly reduce our revenues and, therefore, reduce our ability to make or increase distributions to our unitholders. Factors that could lead to a decrease in market demand for crude oil include:

- lower demand by consumers for refined products as a result of recession or other adverse economic conditions or due to high prices caused by an increase in the market price of crude oil or higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasolines or other refined products;

- a shift by consumers to more fuel-efficient or alternative fuel vehicles or an increase in fuel economy of vehicles, whether as a result of technological advances by manufacturers, governmental or regulatory actions or otherwise; and

- fluctuations in demand for crude oil, such as those caused by refinery downtime or shutdowns, could also significantly reduce our revenues and, therefore, reduce our ability to make distributions to our unitholders.

Certain of our field and pipeline operating costs and expenses are fixed and do not vary with the volumes we gather and transport. These costs and expenses may not decrease ratably or at all should we experience a reduction in our volumes gathered by truck or transmitted by our pipelines. As a result, we may experience declines in our margin and profitability if our volumes decrease.

A material decrease in the production of crude oil from the oil fields served by our pipelines could materially reduce our ability to make distributions to our unitholders.

The throughput on our crude oil pipelines depends on the availability of attractively priced crude oil produced from the oil fields served by such pipelines, or through connections with pipelines owned by third parties. Crude oil production may decline for a number of reasons, including natural declines due to depleting wells, a material decrease in the price of crude oil, or the inability of producers to obtain necessary drilling or other permits from applicable governmental authorities. If we are unable to replace volumes lost due to a temporary or permanent material decrease in production from the oil fields served by our crude oil pipelines, our throughput could decline, reducing our revenue and cash flow and adversely affecting our ability to make distributions to our unitholders. In addition, it is difficult to attract producers to a new gathering system if the producer is already connected to an existing system. As a result, our Parent or third-party shippers on our pipeline systems may experience difficulty acquiring crude oil at the wellhead in areas where there are existing relationships between producers and other gatherers and purchasers of crude oil.

We face intense competition in our gathering, transportation, terminalling and storage activities. Competition from other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply our Parent and our other customers with those services at a lower price could reduce our ability to make distributions to our unitholders.

We are subject to competition from other crude oil gathering, transportation, terminalling and storage operations that may be able to supply our Parent and our other customers with the same or comparable services on a more competitive basis. We compete with national, regional and local gathering, storage, terminalling and pipeline companies, including the major integrated oil companies, of widely varying sizes, financial resources and experience. Some of these competitors are substantially larger than us, have greater financial resources, and control substantially greater storage capacity than we do. With respect to our gathering and transportation services, these competitors include TEPPCO Partners, L.P., Plains All American Pipeline, L.P., ConocoPhillips, Sunoco Logistics Partners L.P. and National Cooperative Refinery Association, among others. With respect to our storage and terminalling services, these competitors include BP plc, Enbridge Energy Partners, L.P. and Plains All American Pipeline, L.P. Some of these competitors have greater capital resources and control greater supplies of crude oil than our Parent. Several of our competitors conduct portions of their operations through

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publicly traded partnerships with structures similar to ours, including Plains All American Pipeline, L.P., TEPPCO Partners, L.P., Sunoco Logistics Partners L.P. and Enbridge Energy Partners, L.P.

Our ability to compete could be harmed by numerous factors, including:

- price competition;
- the perception that another company can provide better service; and
- the availability of alternative supply points, or supply points located closer to the operations of our Parent s customers.

In addition, our Parent will continue to own midstream assets upon completion of this offering and may engage in competition with us. If we are unable to compete with services offered by other midstream enterprises, including our Parent, our ability to make distributions to our unitholders may be adversely affected.

Some of our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets.

Some of our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets. Reduced throughput on these interconnecting pipelines as a result of testing, line repair, reduced operating pressures or other causes could result in reduced throughput on our pipeline systems that would adversely affect our revenue and cash flow and our ability to make distributions to our unitholders.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

A principal focus of our business strategy is to grow and expand our business through acquisitions. Our ability to grow depends, in part, on our ability to make acquisitions that result in an increase in the cash generated per unit from operations. If we are unable to make these accretive acquisitions, either because we are (1) unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them, (2) unable to obtain financing for these acquisitions on economically acceptable terms or (3) outbid by competitors, then our future growth and ability to increase distributions will be limited. Furthermore, even if we do make acquisitions that we believe will be accretive, these acquisitions may nevertheless result in a decrease in the cash generated from operations per unit.

Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about volumes, revenues and costs, including synergies;
- an inability to integrate successfully the businesses we acquire;
- an inability to hire, train or retain qualified personnel to manage and operate our business and assets;
- the assumption of unknown liabilities;

- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- the diversion of management s and employees attention from other business concerns;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Our acquisition strategy is based, in part, on our expectation of ongoing divestitures of energy assets by industry participants. A material decrease in such divestitures would limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

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Our growth strategy includes acquiring midstream entities or assets that are distinct and separate from our existing Crude Oil Business operations, which could subject us to additional business and operating risks.

We may acquire midstream assets that have operations in new and distinct lines of business from our existing Crude Oil Business. Integration of a new business is a complex, costly and time-consuming process. Failure to timely and successfully integrate acquired entities new lines of business with our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating a new business with our existing operations include, among other things:

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

In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of a new business, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial conditions and prospects. Furthermore, new lines of business will subject us to additional business and operating risks. For example, we may in the future determine to acquire businesses that are subject to significant risks due to fluctuations in commodity prices. These new business and operating risks could have a material adverse effect on our financial condition or results of operations.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

The construction of additions or modifications to our existing assets, and the construction of new assets, involves numerous regulatory, environmental, political, legal and operational uncertainties and requires the expenditure of significant amounts of capital. If we undertake these types of projects, they may not be completed on schedule or at all or at the budgeted cost. In addition, our revenues may not increase immediately upon the expenditure of funds on a particular project. Moreover, we may construct facilities to capture anticipated future growth in demand in a market in which such growth does not materialize.

We are exposed to the credit risks of our third-party customers in the ordinary course of our gathering activities. Any material nonpayment or nonperformance by our third-party customers could reduce our ability to make distributions to our unitholders.

In addition to our dependence on our Parent, we are subject to risks of loss resulting from nonpayment or nonperformance by our third-party customers. Some of our customers may be highly leveraged and subject to their own operating and regulatory risks. In addition, any material nonpayment or nonperformance by our customers could require us to pursue substitute customers for our affected assets or provide alternative services. Any such efforts may not be successful or may not provide similar fees. These events could reduce our ability to make distributions to our unitholders.

Our revenues from third-party customers are generated under contracts that must be renegotiated periodically and that allow the customer to reduce or suspend performance in some circumstances, which could cause our revenues from those contracts to decline and reduce our ability to make distributions to our unitholders.

Some of our contract-based revenues from customers other than our Parent are generated under contracts with terms which allow the customer to reduce or suspend performance under the contract in specified circumstances, such as the occurrence of a catastrophic event to our or the customer s operations. The occurrence of an event which results in a material reduction or suspension of our customer s performance could reduce our ability to make distributions to our unitholders.

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Some of our contracts with third-party customers for producer field services have terms of one year or less. As these contracts expire, they must be extended and renegotiated or replaced. We may not be able to extend, renegotiate or replace these contracts when they expire, and the terms of any renegotiated contracts may not be as favorable as the contracts they replace. In particular, our ability to extend or replace contracts could be harmed by numerous competitive factors, such as those described above under We face intense competition in our gathering, transportation, terminalling and storage activities. Competition from other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply our Parent and our other customers with those services at a lower price could reduce our ability to make distributions to our unitholders. Additionally, we may incur substantial costs if modifications to our terminals are required in order to attract substitute customers or provide alternative services. If we cannot successfully renew significant contracts or must renew them on less favorable terms, or if we incur substantial costs in modifying our terminals, our revenues from these arrangements could decline and our ability to make distributions to our unitholders could suffer.

We may incur significant costs and liabilities as a result of pipeline integrity management program testing and any necessary pipeline repair, or preventative or remedial measures, which could have a material adverse effect on our results of operations.

The United States Department of Transportation, or DOT, has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in high consequence areas , including high population areas, areas that are sources of drinking water, ecological resource areas that are unusually sensitive to environmental damage from a pipeline release and commercially navigable waterways, unless the operator effectively demonstrates by risk assessment that the pipeline could not affect the area. The regulations require operators of covered pipelines to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize threats to pipeline segments that could impact a high consequence area;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and
- implement preventive and mitigating actions.

In addition to these adopted regulations, in September 2006, the DOT proposed amendment of existing pipeline safety standards including its integrity management programs to broaden the scope of coverage to include certain rural onshore hazardous liquid and low-stress pipeline systems found near unusually sensitive areas, including non-populated areas requiring extra protection because of the presence of sole source drinking water resources, endangered species, or other ecological resources. Also, in December 2006, the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 was enacted. This act reauthorizes and amends the DOT s pipeline safety programs and includes a provision eliminating the regulatory exemption for hazardous liquid pipelines operated at low stress. Adoption of new or more stringent pipeline safety regulations affecting our gathering or low-stress pipelines could result in more rigorous and costly integrity management planning requirements being imposed on those lines, which could have a material adverse effect on our results of operations. Please read Business Regulation Pipeline Safety for more information.

We do not have any officers or employees and rely solely on officers of our general partner and employees of our Parent. Failure of such officers and employees to devote sufficient attention to the management and operation of our business may adversely affect our financial results and our ability to make distributions to our unitholders.

The officers of our general partner will be employees of our general partner and will also be employed by our Parent. We intend to enter into the Omnibus Agreement with our Parent, pursuant to which our Parent will operate our assets and perform other administrative services for us such as accounting, legal, regulatory, development, finance, land and engineering. Affiliates of our Parent conduct businesses and activities of their own in which we have no economic interest, including businesses and activities relating to our Parent. As a result, there will be material competition for the time and effort of the officers and employees who provide

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services to our general partner and our Parent. If the officers of our general partner and the employees of our Parent do not devote sufficient attention to the management and operation of our business, our financial results may suffer and our ability to make distributions to our unitholders may be reduced.

Due to our lack of geographic and business diversification, adverse developments in the geographic markets that we serve or in the supply of, or demand for, crude oil in those geographic areas could reduce our ability to make distributions to our unitholders.

We rely exclusively on the revenues generated from our crude oil gathering, transportation, terminalling and storage services. These services are performed, and the assets used in these operations are located, primarily in the Mid-Continent region of the United States. Due to our lack of diversification in asset type and location, an adverse development in these businesses or areas, including adverse developments due to catastrophic events or weather and decreases in demand for petroleum products, would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

Our operations are subject to environmental and worker safety laws and regulations that may expose us to significant costs and liabilities. Failure to comply with these laws and regulations could adversely affect our ability to make distributions to our unitholders.

Our midstream crude oil gathering, transportation, terminalling and storage operations are subject to significant federal, state and local laws and regulations relating to the protection of the environment. Various governmental authorities, including the United States Environmental Protection Agency, have the power to enforce compliance with these laws and regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Joint and several strict liability may be incurred without regard to fault or the legality of the original conduct under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act and analogous state laws for the remediation of contaminated areas. Private parties, including the owners of properties located near our storage facilities or through which our pipeline systems pass, also may have the right to pursue legal actions to enforce compliance, as well as seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. Moreover, new stricter laws, regulations or enforcement policies could be implemented that significantly increase our compliance costs and the cost of any remediation that may become necessary, some of which may be material.

In performing midstream services, we incur environmental costs and liabilities in connection with the handling of hydrocarbons and solid wastes. We currently own, operate or lease properties that for many years have been used for midstream activities, including properties in and around the Cushing Interchange. Activities by us or prior owners, lessees or users of these properties over whom we had no control may have resulted in the spill or release of hydrocarbons or solid wastes on or under them. Additionally, some sites we own or operate are located near current or former storage, terminal and pipeline operations, and there is a risk that contamination has migrated from those sites to ours. Increasingly strict environmental laws, regulations and enforcement policies as well as claims for damages and other similar developments could result in significant costs and liabilities, and our ability to make distributions to our unitholders could suffer as a result. Please see Business Regulation for more information.

In addition, the workplaces associated with the storage facilities and pipelines we operate are subject to the requirements of the federal Occupational Safety and Health Act, as amended, or OSHA, and comparable state statutes that regulate the protection of the health and safety of workers. The OSHA hazard communication standard requires that we maintain information about hazardous materials used or produced in our operations and that we provide this information to employees, state and local government authorities, and local residents. Failure to comply with OSHA requirements, including general industry standards, recordkeeping requirements and monitoring of occupational exposure to regulated substances, could subject us to fines or significant compliance costs and adversely affect our ability to make distributions to our unitholders.

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Our business involves many hazards and operational risks, including adverse weather conditions, which could cause us to incur substantial liabilities.

Our operations are subject to the many hazards inherent in the transportation and storage of crude oil, including:

- explosions, fires, accidents, including road and highway accidents involving our tanker trucks;
- extreme weather conditions, such as hurricanes which are common in the Gulf Coast and tornadoes and flooding which are common in the Midwest;
- damage to our pipelines and storage tanks and related equipment;
- leaks or releases of crude oil into the environment; and
- acts of terrorism or vandalism.

If any of these events were to occur, we could suffer substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations. In addition, mechanical malfunctions, faulty measurement or other errors may result in significant costs or lost revenues.

We are not fully insured against all risks incident to our business, and could incur substantial liabilities as a result.

We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of changing market conditions, premiums and deductibles for certain of our insurance policies may increase substantially in the future. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position and ability to make distributions to unitholders.

We share some insurance policies, including our general liability policy, with our Parent. These policies contain caps on the insurer s maximum liability under the policy, and claims made by either our Parent or us are applied against the caps and deductibles. The possibility exists that, in an event in which we wish to make a claim under a shared insurance policy, our claim could be denied or only partially satisfied due to claims made by our Parent against the policy cap. Further, where events occur that would entitle both our Parent and us to benefits under these insurance policies, the full deductible may be borne by the first claimant under the policy. In addition, claims made by our Parent could affect our premiums and our ability to obtain insurance in the future.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

Assuming we had completed the formation transactions on March 31, 2007, our pro forma indebtedness would have been $137.5 million. In addition, we anticipate having capacity to borrow up to $112.5 under our new five-year credit facility that we expect to be effective prior to the completion of this offering. Following this offering, we will continue to have the ability to incur additional debt, subject to limitations in our credit facility. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

our debt level will make us more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

our debt level may limit our flexibility in responding to changing business and economic conditions.

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Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors. Our ability to service debt under our credit facility also will depend on market interest rates, since we anticipate that the interest rates applicable to our borrowings will fluctuate with the London Interbank Offered Rate, or LIBOR, or the prime rate. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms, or at all.

Restrictions in our credit facility may prevent us from engaging in some beneficial transactions or paying distributions to our unitholders.

Our new credit facility contains covenants limiting our ability to make distributions to unitholders. In addition, our credit facility contains various covenants that limit, among other things, our ability to incur indebtedness, grant liens or enter into a merger, consolidation or sale of assets. Furthermore, our credit facility contains covenants requiring us to maintain certain financial ratios and tests. Any subsequent refinancing of our current debt may have similar or greater restrictions. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

If we borrow funds to make our minimum quarterly distributions, our ability to pursue acquisitions and other business opportunities may be limited and our operations may be materially adversely effected.

Available cash for the purpose of making distributions to unitholders includes working capital borrowings. If we borrow funds to pay one or more minimum quarterly distributions, such amounts will incur interest and must be repaid in accordance with the terms of our credit facility. In addition, any amounts borrowed for distributions to our unitholders will reduce the funds available to us for other purposes under our credit facility, including amounts available for use in connection with acquisitions and other business opportunities. If we are unable to pursue our growth strategy due to our limited ability to borrow funds, our operations may be materially adversely effected.

If our general partner fails to develop or maintain an effective system of internal controls, then we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common units.

Our general partner has sole responsibility for conducting our business and for managing our operations. Effective internal controls are necessary for our general partner, on our behalf, to provide reliable financial reports, prevent fraud and operate us successfully as a public company. Although our Parent is in the process of implementing controls to properly prepare and review our financial statements, we cannot be certain that its efforts to develop and maintain its internal controls will be successful, that it will be able to maintain adequate controls over our financial processes and reporting in the future or that it will be able to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002. In preparation of its financial statements for the quarter ended March 31, 2007, our Parent identified and corrected, through a restatement of its December 31, 2006 financial statements, a clerical error in the valuation of its derivatives. The error related to a portion of our Parent s business which will not be contributed to us and as such did not impact our financial statements. The error was deemed to constitute a material weakness in our Parent s internal control over financial reporting. Our Parent has implemented measures designed to prevent this type of clerical error in the future. In addition, the segment footnote of our predecessor s historical financial statements reflects a correction of previously reported total assets by segment, which correction was deemed to be the result of a significant deficiency in our internal control over financial reporting. Any failure to develop or maintain effective internal controls, or difficulties encountered in implementing or improving our general partner s internal controls, could harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls also could cause investors to lose confidence in our reported financial information, which likely would have a negative effect on the trading price of our common units.

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Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to our business. Continued hostilities in the Middle East or other sustained military campaigns may adversely impact our results of operations.

The long-term impact of terrorist attacks, such as the attacks that occurred on September 11, 2001, and the threat of future terrorist attacks on our industry in general, and on us in particular, is not known at this time. Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs to our business. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect our operations in unpredictable ways, including disruptions of crude oil supplies and markets for our services, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Following the offering, our Parent will own and control our general partner. Some of our general partner s directors are directors of our Parent and all of our executive officers are officers of our Parent. Therefore, conflicts of interest may arise between our Parent and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving those conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. Although the conflicts committee of our general partner s board of directors may review such conflicts of interest, our general partner s board of directors is not required to submit such matters to the conflicts committee. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our Parent to pursue a business strategy that favors us. Our Parent s directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of our Parent, which may be contrary to our interests;

- our general partner is allowed to take into account the interests of parties other than us, such as our Parent and its affiliates, in resolving conflicts of interest;

- our Parent is not limited in its ability to compete with us and is under no obligation to offer assets or business opportunities to us; please see Our Parent is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses;

- our general partner may make a determination to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights without the approval of the conflicts committee of our general partner or our unitholders; please see Provisions of Our Partnership Agreement Relating to Cash Distributions;

- our Parent may compete with us with respect to any future acquisition opportunities;

- all of the officers of our Parent who provide services to us also will devote significant time to the business of our Parent, and will be compensated by our Parent for the services rendered to it;

our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;

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- our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and reserves, each of which can affect the amount of cash that is distributed to unitholders;

- our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units;

- our general partner determines which costs incurred by it and its affiliates are reimbursable by us and our Parent will determine the allocation of shared overhead expenses;

- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

- our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;

- our general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;

- our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and

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

Please see Conflicts of Interest and Fiduciary Duties.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty laws. For example, our partnership agreement:

- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its right to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights, the exercise of its limited call right, the exercise of its rights to transfer or vote the units it owns, the exercise of its registration rights and its determination whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement;

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner acting in good faith and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith. In determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us;

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- provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

- provides that in resolving conflicts of interest, it will be presumed that in making its decision the general partner acted in good faith, and in any proceeding brought by or on behalf of any limited partner or us, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

By purchasing a common unit, a common unitholder will become bound by the provisions in the partnership agreement, including the provisions discussed above. Please see Conflicts of Interest and Fiduciary Duties Fiduciary Duties.

Our Parent is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses.

Neither our partnership agreement nor the Omnibus Agreement will prohibit our Parent from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, our Parent may acquire, construct or dispose of additional midstream or other assets in the future, without any obligation to offer us the opportunity to purchase or construct any of those assets. Our Parent is a large, established participant in the midstream energy business, and has significantly greater resources and experience than we have, which factors may make it more difficult for us to compete with our Parent with respect to commercial activities as well as for acquisition candidates. As a result, competition from our Parent could adversely impact our results of operations and cash available for distribution. Please see Conflicts of Interest and Fiduciary Duties.

Cost reimbursements due to our general partner and its affiliates for services provided, which will be determined by our general partner, may be substantial and will reduce our cash available for distribution to you.

Pursuant to our partnership agreement and the Omnibus Agreement we will enter into with our Parent, our general partner and other affiliates upon the closing of this offering, our Parent will receive reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit. Payments for these services may be substantial and will reduce the amount of cash available for distribution to unitholders. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated under our partnership agreement to reimburse or indemnify our general partner. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments would reduce the amount of cash otherwise available for distribution to our unitholders. Please see Certain Relationships and Related Party Transactions Omnibus Agreement and Conflicts of Interest and Fiduciary Duties.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders will not elect our general partner or our general partner s board of directors, and will have no right to elect our general partner or our general partner s board of directors on an annual or other continuing basis. The board of directors of our general partner will be chosen by SemGroup Holdings, a wholly owned subsidiary of our Parent. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. Amendments to our partnership agreement may be proposed

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only by or with the consent of our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent.

The unitholders will be unable initially to remove our general partner without its consent because our general partner and its affiliates will own a sufficient number of units upon completion of this offering to be able to prevent its removal. The vote of the holders of at least 66 $^{2}/3$% of all outstanding units voting together as a single class is required to remove the general partner. Following the closing of this offering, our general partner and its affiliates will own 46.2% of our aggregate outstanding common and subordinated units (prior to giving effect to any purchases by management of our general partner or our Parent in our directed unit program). Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over our subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholders dissatisfaction with our general partner s performance in managing our partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

Control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of our Parent, the owner of our general partner, from transferring all or a portion of its ownership interest in our general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of our general partner with its own choices and thereby influence the decisions made by the board of directors and officers.

We may issue additional units without your approval, which would dilute your ownership interests.

Our partnership agreement does not limit the number of additional limited partner interests (including any securities of equal or senior rank to our common units, and options, rights, warrants and appreciation rights relating to any such securities) that we may issue at any time without the approval of our unitholders. In addition, because we are a limited partnership, we will not be subject to the shareholder approval requirements relating to the issuance of securities contained in Nasdaq Marketplace Rule 4350(i). The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

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Our partnership agreement restricts the voting rights of unitholders, other than our general partner and its affiliates, including our Parent, owning 20% or more of our common units.

Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, including our Parent, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions.

Affiliates of our general partner may sell common units in the public markets, which sales could have an adverse impact on the trading price of the common units.

After the sale of the common units offered hereby, SemGroup Holdings will hold an aggregate of 10,713,430 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period and may convert earlier. The sale of these units in the public markets could have an adverse impact on the price of the common units or on any trading market that may develop.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You also may incur a tax liability upon a sale of your units. At the end of the subordination period, assuming no additional issuances of common units and no sales of subordinated units, our general partner and its affiliates will own 46.2% of the common units (prior to giving effect to any purchases by management of our general partner of our Parent in our directed unit program). For additional information about this call right, please see The Partnership Agreement Limited Call Right.

Common units held by persons who are not Eligible Holders will be subject to the possibility of redemption.

The Longview system is, and any additional interstate pipelines that we acquire or construct may be, subject to the rate regulation of the Federal Energy Regulatory Commission, or FERC. Our general partner has the right under our partnership agreement to institute procedures, by giving notice to each of our unitholders, that would require transferees of common units and, upon the request of our general partner, existing holders of our common units to certify that they are Eligible Holders. The purpose of these certification procedures would be to enable us to utilize a federal income tax expense as a component of the pipeline s cost of service upon which tariffs may be established under FERC rate-making policies applicable to entities that pass through their taxable income to their owners. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. Please read Description of the Common Units Transfer of Common Units. If these tax certification procedures are implemented, we will have the right to redeem the common units held by persons who are not Eligible Holders at the lesser of the holder s purchase price and the then-current market price of the units. The redemption price would be paid in cash or by delivery of a promissory note, as determined by our general partner.

Your liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership

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have not been clearly established in some of the other states in which we do business. You could be liable for our obligations as if you were a general partner if:

- a court or government agency determined that we were conducting business in a state but had not complied with that particular state s partnership statute; or
- your right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

Please see The Partnership Agreement Limited Liability for a discussion of the implications of the limitations of liability on a unitholder.

Unitholders may have liability to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 and 17-804 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interests and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

We will incur increased costs as a result of being a publicly traded company.

Neither we nor our Parent has any history of operating as a publicly traded company. As a publicly traded company, we will incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and The NASDAQ Global Market, have required changes in corporate governance practices of publicly traded companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make activities more time-consuming and costly. For example, as a result of becoming a publicly traded company, we are required to have at least three independent directors, create additional board committees and adopt policies regarding internal controls and disclosure controls and procedures, including the preparation of reports on internal controls over financial reporting. In addition, we will incur additional costs associated with our publicly-traded company reporting requirements. We have included $2.9 million of estimated incremental costs per year associated with being a publicly traded company for purposes of our estimate of our cash available for distribution for the twelve months ending June 30, 2008, included elsewhere in this prospectus; however, it is possible that our actual incremental costs of being a publicly traded company will be higher than we currently estimate.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, you should read Material Tax Consequences for a more complete discussion of the expected material federal income tax consequences of owning and disposing of our common units.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the IRS were to treat us as a corporation or if we were to become subject to a material amount of entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested a ruling from the IRS on this or any other tax matter affecting us.

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If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change, so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, beginning in 2008 we will be required to pay annually a Texas franchise tax at a maximum effective rate of 0.7% of our gross income apportioned to Texas with respect to the prior year. We currently estimate that our tax liability related to our 2007 gross income apportioned to Texas will be approximately $300,000. Imposition of such a tax on us by Texas and, if applicable, by any other state will reduce the cash available for distribution to you. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

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

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

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income, even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from your share of our taxable income.

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

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions to you in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

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

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

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

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and/or amortization positions that may not conform with all aspects of existing Treasury regulations and, as a result, our counsel, Baker Botts L.L.P., is unable to opine as to the validity of these positions. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please see Material Tax Consequences Uniformity of Units for a further discussion of the effect of the depreciation and amortization positions we will adopt.

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

We will be considered to have terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. Please read Material Tax Consequences Disposition of Common Units Constructive Termination for a discussion of the consequences of our termination for federal income tax purposes.

You likely will be subject to state and local taxes and return filing or withholding requirements as a result of investing in our common units.

In addition to federal income taxes, you will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You likely will be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We initially will own property and conduct business in Texas, Oklahoma, Kansas, Colorado and New Mexico. Of those states, Texas does not currently impose a state income tax on individuals. We may own property or conduct business in other states or foreign countries in the future. It is your responsibility to file all federal, state and local tax returns. Under the tax laws of some states where we will conduct business, we may be required to withhold a percentage from amounts to be distributed to a unitholder who is not a resident of that state. In particular, in the case of Oklahoma, we are required to either report detailed tax information about our non-Oklahoma resident unitholders with an income in Oklahoma in excess of $500 to the taxing authority, or withhold an amount equal to 5% of the portion of our distributions to unitholders which is deemed to be the Oklahoma share of our income. Similarly, we are required to withhold Kansas income tax at a rate of 6.45% on each non-Kansas resident unitholder s share of our taxable income that is attributable to Kansas (regardless of whether such income is distributed), unless the non-Kansas resident unitholder files a tax reporting affidavit with us which we, in turn, are required to file with the Kansas Department of Revenue. Our counsel has not rendered an opinion on the state and local tax consequences of an investment in our common units.

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USE OF PROCEEDS

We will not receive any proceeds from any common units sold by SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the net proceeds received by it from the sale of the common units to repay outstanding indebtedness of our Parent.

We will borrow $137.5 million under our new five-year credit facility prior to the closing of this offering, and distribute the proceeds to SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the proceeds distributed to it from borrowings under our credit facility to repay outstanding indebtedness of our Parent and to fund offering related expenses. Please see Certain Relationships and Related Party Transactions Distributions and Payments to Our General Partner and Its Affiliates.

If the underwriters over-allotment option is exercised in full, we expect to receive net proceeds of approximately $35.1 million, after deducting underwriting discounts and a structuring fee. We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our new five-year credit facility. Amounts borrowed under this credit facility are due in June 2012 and will bear interest at a floating rate. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Description of Credit Facility. If the underwriters exercise their over-allotment option in full, the ownership interest of the public unitholders will increase to 14,375,000 common units, representing an aggregate 56.2% limited partner interest in us, and our general partner will own 512,009 general partner units representing a 2.0% general partner interest in us. SemGroup Holdings will not receive any proceeds from any common units sold by us pursuant to the exercise of the underwriters over-allotment option.

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CAPITALIZATION

The following table shows:

- the historical capitalization of SemGroup Energy Partners, L.P. Predecessor as of March 31, 2007; and

- our pro forma capitalization as of March 31, 2007, as adjusted to reflect the transactions described under Summary Formation Transactions and Partnership Structure.

We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical and unaudited pro forma financial statements and the accompanying notes included elsewhere in this prospectus. You should also read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of March 31, 2007	
	Historical	Pro Forma
	(in thousands)	
Debt:		
Debt payable to our Parent	$ 31,191	$
Credit facility		137,500
Capital lease obligations	5,073	5,073
Total debt	36,264	142,573
Division equity/partners capital		
Predecessor business	71,465	
Common units public		250,000
Subordinated units SemGroup Holdings		(267,256)
General partner interest		(11,818)
Total division equity/partners capital	71,465	(29,074)
Total capitalization	$ 107,729	$ 113,499

This table does not reflect the issuance of up to 1,875,000 common units that may be sold to the underwriters upon exercise of their over-allotment option.

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OUR CASH DISTRIBUTION POLICY AND RESTRICTIONS ON DISTRIBUTIONS

You should read the following discussion of our cash distribution policy in conjunction with specific assumptions included in this section. For more detailed information regarding the factors and assumptions upon which our cash distribution policy is based, please see Assumptions and Considerations below. In addition, you should read Forward-Looking Statements and Risk Factors for information regarding statements that do not relate strictly to historical or current facts as well as certain risks inherent in our business. Unless otherwise stated, the information presented in this section assumes the underwriters will exercise their over-allotment option in full.

For additional information regarding our historical and pro forma operating results, you should refer to the audited historical financial statements of our predecessor for the years ended December 31, 2004, 2005 and 2006, the unaudited historical financial statements of our predecessor for the three months ended March 31, 2006 and 2007 and our unaudited pro forma financial statements for the year ended December 31, 2006 and the three months ended March 31, 2007, included elsewhere in this prospectus.

General

Rationale for Our Cash Distribution Policy. Our partnership agreement requires us to distribute all of our available cash quarterly. Our available cash is our cash on hand at the end of a quarter after the payment of our expenses and the establishment of reserves for future capital expenditures, operational needs and payment of distributions to our unitholders for any one or more of the next four quarters. We intend to fund a portion of our capital expenditures with additional borrowings or issuances of additional units. We may also borrow to make distributions to unitholders, for example, in circumstances where we believe that the distribution level is sustainable over the long term, but short-term factors have caused available cash from operations to be insufficient to pay the distribution at the current level. Our cash distribution policy reflects a basic judgment that our unitholders will be better served by us distributing our available cash, after expenses and reserves, rather than retaining it. Also, because we are not subject to an entity-level federal income tax, we have more cash to distribute to you than would be the case if we were subject to federal income tax.

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy. There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

- Our cash distribution policy is subject to restrictions on distributions under our new credit facility. Specifically, the agreement related to our credit facility will contain material financial tests and covenants that we must satisfy. These financial tests and covenants will include a requirement that our ratio of consolidated indebtedness to consolidated EBITDA be not more than 5.00 to 1.00 and a requirement that our ratio of consolidated EBITDA to consolidated interest expense be not less than 2.75 to 1.00. These financial ratios and covenants are described in this prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Our Liquidity and Capital Resources Description of Credit Facility. Should we be unable to satisfy these restrictions under our credit facility or if we are otherwise in default under our credit facility, we would be prohibited from making cash distributions to you notwithstanding our stated cash distribution policy.

- Our general partner will have the authority to establish reserves for the prudent conduct of our business and for future cash distributions to our unitholders, and the establishment of those reserves could result in a reduction in cash distributions to you from levels we currently anticipate pursuant to our stated distribution policy.

- While our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended. Although during the subordination period, with certain exceptions, our partnership

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agreement may not be amended without the approval of the public common unitholders, our partnership agreement can be amended with the approval of a majority of the outstanding common units and any Class B units issued upon the reset of incentive distribution rights, if any, voting as a class (including common units and Class B units held by our Parent and its affiliates) after the subordination period has ended. At the closing of this offering, our Parent will own our general partner and 100% of our outstanding subordinated units.

Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

Under Section 17-607 and 17-804 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. We do not expect this prohibition to limit our ability to make cash distributions for the four quarters ending June 30, 2008 at the initial quarterly distribution rate of $0.3375 per unit per quarter on all units.

We may lack sufficient cash to pay distributions to our unitholders due to a number of factors, including reduced demand for our midstream services, increases in our general and administrative expenses, principal and interest payments on our outstanding debt, tax expenses, working capital requirements and anticipated cash needs.

Our Ability to Grow is Dependent on Our Ability to Access External Expansion Capital. We expect that we will distribute all of our available cash to our unitholders. As a result, we expect that we will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, rather than cash reserves established by our general partner, to fund our acquisitions and expansion capital expenditures. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow. In addition, because we distribute all of our available cash, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level, which in turn may impact the available cash that we have to distribute on each unit. There are no limitations in our partnership agreement or our credit facility on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which in turn may impact the available cash that we have to distribute to our unitholders.

Our Initial Distribution Rate

Upon completion of this offering, the board of directors of our general partner will adopt a cash distribution policy that will require us to pay distributions at an initial distribution rate of $0.3375 per unit per complete quarter, or $1.35 per unit per year, no later than 45 days after the end of each fiscal quarter through the quarter ending June 30, 2008 to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. This equates to an aggregate cash distribution of approximately $8.0 million per quarter or $32.0 million per year, in each case based on the number of common units, subordinated units and general partner units outstanding immediately after completion of this offering. If the underwriters exercise their over-allotment option in full, the ownership interest of the public unitholders will increase to 14,375,000 common units representing an aggregate 56.2% limited partner interest in us and our aggregate cash distribution per quarter would be $8.6 million or $34.6 million per year. Our ability to make cash distributions at the initial distribution rate pursuant to this policy will

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be subject to the factors described above under the caption General Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy.

As of the date of this offering, our general partner will be entitled to 2% of all distributions that we make prior to our liquidation. In the future, the general partner s initial 2% interest in these distributions may be reduced if we issue additional units in the future (other than the issuance of common units upon exercise by the underwriters of their over-allotment option, the issuance of partnership securities issued in connection with a reset of the incentive distribution target levels relating to our general partner s incentive distribution rights or the issuance of partnership securities upon conversion of outstanding partnership securities) and our general partner does not contribute a proportionate amount of capital to us to maintain its initial 2% general partner interest. Our general partner is not obligated to contribute a proportionate amount of capital to us to maintain its current general partner interest.

The table below sets forth the assumed number of outstanding common units (assuming no exercise and full exercise of the underwriters over-allotment option), subordinated units and general partner units upon the closing of this offering and the aggregate distribution amounts payable on such units during the year following the closing of this offering at our initial distribution rate of $0.3375 per common unit per quarter ($1.35 per common unit on an annualized basis).

	No Exercise of the Underwriters Over-allotment Option			Full Exercise of the Underwriters Over-allotment Option		
	Number of	Distributions		Number of	Distributions	
	Units	One Quarter	Four Quarters	Units	One Quarter	Four Quarters
Publicly held common units	12,500,000	$ 4,218,750	$ 16,875,000	14,375,000	$ 4,851,563	$ 19,406,250
Subordinated units held by SemGroup Holdings	10,713,430	3,615,783	14,463,131	10,713,430	3,615,783	14,463,131
General partner units held by SemGroup Holdings	473,743	159,888	639,553	512,009	172,803	691,212
Total	23,687,173	$ 7,994,421	$ 31,977,684	25,600,439	$ 8,640,149	$ 34,560,593

The subordination period generally will end if we have earned and paid at least $1.35 on each outstanding unit and general partner unit for any three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2010. If we have earned and paid at least $2.025 (150% of the annualized minimum quarterly distribution) on each outstanding common unit, subordinated unit and general partner unit for any four-quarter period, the subordination period will terminate automatically and all of the subordinated units will convert into an equal number of common units. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

We do not have a legal obligation to pay distributions at our initial distribution rate or at any other rate except as provided in our partnership agreement. Our distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly. Under our partnership agreement, available cash is defined to generally mean, for each fiscal quarter, cash generated from our business in excess of expenses and the amount of reserves our general partner determines is necessary or appropriate to provide for the conduct of our business, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders for any one or more of the upcoming four quarters. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions.

If distributions on our common units are not paid with respect to any fiscal quarter at the initial distribution rate, our unitholders will not be entitled to receive such payments in the future except that, to the extent we have available cash in any future quarter during the subordination period in excess of the amount necessary to make cash distributions to holders of our common units at the initial distribution rate, we will use this excess available cash to pay these deficiencies related to prior quarters before any cash distribution is made to holders of

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subordinated units. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

Our partnership agreement provides that any determination made by our general partner in its capacity as our general partner must be made in good faith and that any such determination will not be subject to any other standard imposed by our partnership agreement, the Delaware limited partnership statute or any other law, rule or regulation or imposed at equity. Holders of our common units may pursue judicial action to enforce provisions of our partnership agreement, including these related to requirements to make cash distributions as described above; however, our partnership agreement provides that our general partner is entitled to make the determinations described above without regard to any standard other than the requirements to act in good faith. Our partnership agreement provides that, in order for a determination by our general partner to be made in good faith, our general partner must believe that the determination is in our best interests.

Our cash distribution policy, as expressed in our partnership agreement, may not be modified or repealed without amending our partnership agreement. The actual amount of our cash distributions for any quarter is subject to fluctuations based on the amount of cash we generate from our business and the amount of reserves our general partner establishes in accordance with our partnership agreement as described above.

We will pay our distributions on or about the 15th of each of February, May, August and November to holders of record on or about the 1st of each such month. If the distribution date does not fall on a business day, we will make the distribution on the business day immediately preceding the indicated distribution date. We will adjust the quarterly distribution for the period from the closing of this offering through June 30, 2007 based on the actual length of the period.

In the sections that follow, we present in detail the basis for our belief that we will be able to fully fund our initial distribution rate of $0.3375 per unit each quarter for the four quarters ending June 30, 2008. In those sections, we present two tables, consisting of:

- Unaudited Pro Forma Available Cash, in which we present the amount of cash we would have had available for distribution for the year ended December 31, 2006 and the twelve months ended March 31, 2007, based on our unaudited pro forma financial statements.

- Estimated Cash Available for Distribution, in which we present how we calculate the estimated minimum EBITDA necessary for us to have sufficient cash available for distribution to pay the full minimum quarterly distribution on all outstanding units for the four quarters ending June 30, 2008. In Assumptions and Considerations below, we also present our assumptions underlying our belief that we will generate sufficient EBITDA to pay the minimum quarterly distribution on all outstanding units for each quarter for the four quarters ending June 30, 2008.

Unaudited Pro Forma Available Cash for the Year Ended December 31, 2006 and the Twelve Months Ended March 31, 2007

If we had completed the transactions contemplated in this prospectus on January 1, 2006 and assuming the underwriters exercise their over-allotment option in full, our pro forma available cash for the year ended December 31, 2006 would have been approximately $29.4 million. This amount would have been sufficient to make a cash distribution for the year ended December 31, 2006 at the initial distribution rate of $0.3375 per unit per quarter (or $1.35 per unit on an annualized basis) on all of the common units and a cash distribution of $0.2175 per unit per quarter (or $0.8698 on an annualized basis) or 64% of the minimum quarterly distribution on all of the subordinated units. Assuming the underwriters do not exercise their over-allotment option, our pro forma available cash for the year ended December 31, 2006 would have been approximately $27.1 million. This amount would have been sufficient to make the full minimum quarterly distribution on all of the common units and a cash distribution of $0.2233 per unit per quarter (or $0.8931 per unit on an annualized basis) or 66% of the minimum quarterly distribution on all of the subordinated units.

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If we had completed the transactions contemplated in this prospectus on April 1, 2006 and assuming the underwriters exercise their over-allotment option in full, our pro forma available cash for the twelve months ended March 31, 2007 would have been approximately $34.1 million. This amount would have been sufficient to make a cash distribution for the twelve months ended March 31, 2007 at the initial distribution rate of $0.3375 per unit per quarter (or $1.35 per unit on an annualized basis) on all of the common units and a cash distribution of $0.3275 per unit per quarter (or $1.31 on an annualized basis) or 98% of the minimum quarterly distribution on all of the subordinated units. Assuming the underwriters do not exercise their over-allotment option, our pro forma available cash for the twelve months ended March 31, 2007 would have been approximately $31.8 million. This amount would have been sufficient to make the full minimum quarterly distribution on all of the common units and on all of the subordinated units.

Unaudited pro forma available cash from operating surplus includes an incremental general and administrative expense we will incur as a result of being a publicly traded limited partnership, including compensation and benefit expenses of our executive management personnel, costs associated with annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. We expect this incremental general and administrative expense initially to total approximately $2.9 million per year. These direct, incremental general and administrative expenditures are not reflected in our historical or pro forma financial statements.

We based the pro forma adjustments upon currently available information and specific estimates and assumptions. The pro forma amounts below do not purport to present our results of operations had the transactions contemplated in this prospectus actually been completed as of the dates indicated. In addition, cash available to pay distributions is primarily a cash accounting concept, while our unaudited pro forma financial statements have been prepared on an accrual basis. As a result, you should view the amount of pro forma available cash only as a general indication of the amount of cash available to pay distributions that we might have generated had we been formed in earlier periods.

The following table illustrates, on a pro forma basis, for the year ended December 31, 2006 and for the twelve months ended March 31, 2007, the amount of available cash that would have been available for distributions to our unitholders, assuming in each case that this offering had been consummated at the beginning of such period and that the underwriters exercised their over-allotment option in full. Each of the pro forma adjustments presented below is explained in the footnotes to such adjustments.

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SemGroup Energy Partners, L.P. Unaudited Pro Forma Available Cash

	Year Ended December 31, 2006	Twelve Months Ended March 31, 2007
	(dollars in thousands, except per unit data)	
Pro forma net income [1]	$ 32,209	$ 36,080
Add:		
Pro forma interest expense (including amortization of debt issuance costs)[2]	6,865	6,744
Pro forma depreciation and amortization[2]	8,597	8,894
Pro forma EBITDA[3]	47,671	51,718
Less:		
Incremental general and administrative expense of being a public company[4]	2,850	2,850
Incremental incentive compensation expense[5]	2,079	2,219
Pro forma cash interest expense[6]	7,405	7,356
Maintenance capital expenditures[7]	5,922	5,163
Expansion capital expenditures[8]	35,553	34,828
Principal payments on capital lease obligations	2,143	2,028
Add:		
Capital contribution to fund expansion capital expenditures[9]	35,553	34,828
Capital contribution to fund principal payments on capital lease obligations[10]	2,143	2,028
Pro forma cash available for distribution	$ 29,415	34,130
Distributions per unit[11]	$ 1.35	$ 1.35
Pro forma distributions for four quarters to:		
Publicly held common units[11]	$ 19,407	19,407
Subordinated units held by SemGroup Holdings[11]	14,463	14,463
General partner units held by our general partner[11]	691	691
Total minimum distributions for four quarters[11]	34,561	34,561
Surplus (shortfall)	$ (5,146)	$ (431)
Percent of minimum quarterly distributions payable to common unitholders	100%	100%
Percent of minimum quarterly distributions payable to subordinated unitholders	64%	98%
Interest coverage ratio[12]	6.9x	7.7x
Leverage ratio[12]	2.3x	2.1x

(1) Reflects our pro forma net income for the period indicated and gives effect to the Throughput Agreement, the Omnibus Agreement and the other formation transactions and assumes the underwriters exercise their over-allotment option in full. The pro forma adjustment to give effect to the Throughput Agreement is based on actual gathering, transportation, terminalling and storage services provided on an intercompany basis during the period at rates specified in such agreement. Please see our unaudited pro forma financial statements included elsewhere in this prospectus.

(2) Reflects adjustments to reconcile pro forma net income to pro forma EBITDA.

(3) EBITDA is defined as net income before interest, income taxes, depreciation and amortization. We have provided EBITDA in this prospectus because we believe it provides investors with additional information to measure our performance. EBITDA is not a

presentation made in accordance with GAAP. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Please see Summary Non-GAAP Financial Measures.

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(4) Reflects an adjustment to our pro forma EBITDA for an estimated incremental cash expense associated with being a publicly traded limited partnership, including costs associated with annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation.

(5) Our predecessor s incentive compensation has historically been paid based on EBITDA. Reflects an adjustment of discretionary incentive compensation based on pro forma EBITDA.

(6) Reflects the interest expense related to $102.4 million in net borrowings under our new five-year credit facility (after giving effect to the borrowing of $137.5 million and the repayment of $35.1 million of such amount with the net proceeds from the exercise of the underwriters over-allotment option) at an assumed annual interest rate of 6.65% and the interest expense on capital lease obligations, including capitalized interest of $1.1 million and excluding $0.6 million in amortization of debt issuance costs. If the interest rate used to calculate the interest on our credit facility borrowings were 1% higher or lower, our annual cash interest cost would increase or decrease, respectively, by approximately $1.0 million.

(7) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. Maintenance capital expenditures for the year ended December 31, 2006 and the twelve months ended March 31, 2007 include certain one-time costs incurred in connection with initial compliance with pipeline integrity rules.

(8) Expansion capital expenditures are made to acquire additional assets to grow our business, to expand and upgrade our systems and facilities and to construct or acquire similar systems or facilities. Expansion capital expenditures for the year ended December 31, 2006 and the twelve months ended March 31, 2007 consisted primarily of our Parent s acquisition of the assets of Big Tex Crude Oil Company, or Big Tex, a crude oil gathering, transportation and marketing company located in Abilene and Midland, Texas, and in Hobbs, New Mexico, for total consideration of approximately $15.5 million and expenditures for the construction of additional crude oil storage capacity primarily at our Cushing terminal. Approximately $9.8 million of the assets from the Big Tex acquisition, consisting primarily of equipment, vehicles and intangibles related to customer relationships and non-compete agreements, are included in our predecessor s financial statements and will be contributed to us.

(9) Represents cash provided by our Parent to fund expansion capital expenditures, as described in the preceding footnote.

(10) Represents cash provided by our Parent to fund capital lease obligations.

(11) The table below assumes full exercise of the underwriters over-allotment option and sets forth the assumed number of outstanding common units, subordinated units and general partner units upon the closing of this offering and the estimated per unit and aggregate distribution amounts payable on our common units, subordinated units and general partner units for four quarters at our initial distribution rate of $0.3375 per common unit per quarter ($1.35 per common unit on an annualized basis).

		Full Exercise of the Over-allotment Option	
	Number of Units	**One Quarter**	**Four Quarters**
Publicly held common units	14,375,000	$ 4,851,563	$ 19,406,250
Subordinated units held by SemGroup Holdings	10,713,430	3,615,783	14,463,131
General partner units held by SemGroup Holdings	512,009	172,803	691,212
Total	25,600,439	$ 8,640,149	$ 34,560,593

(12) We will enter into a new credit facility that we expect will contain covenants limiting our ability to make distributions, incur indebtedness, grant liens and engage in transactions with affiliates. Furthermore, we expect that our credit facility will contain covenants requiring us to maintain a ratio of consolidated funded indebtedness to consolidated adjusted EBITDA of not more than 5.00 to 1.00 and a ratio of consolidated EBITDA to consolidated interest expense of not less than 2.75 to 1.00. Any subsequent replacement of our credit facility or any new indebtedness could have similar or greater restrictions.

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Estimated Cash Available for Distribution for the Twelve Months Ending June 30, 2008

As a result of the factors described in this Estimated Cash Available for Distribution for the Twelve Months Ending June 30, 2008 and Assumptions and Considerations below, we believe we will be able to pay the minimum quarterly distribution on all of our common units, subordinated units and general partner units for each quarter in the twelve months ending June 30, 2008, based on assumptions we believe to be reasonable. Our estimated cash available for distribution is prepared on a basis consistent with the accounting principles used in the historical financial statements of our predecessor and includes revenues attributable to the Throughput Agreement. Our estimated cash available for distribution also incorporates the effect of our Parent s retention of certain crude oil gathering and transportation assets in areas in which we will operate.

In order to pay the minimum quarterly distribution on all our common units, subordinated units and general partner units of $0.3375 per unit per complete quarter for four quarters, we estimate that our EBITDA for the twelve months ending June 30, 2008 must be at least $45.0 million. EBITDA should not be considered an alternative to net income, operating income, cash flows from operating activities or any other measure of financial performance calculated in accordance with GAAP, as those items are used to measure our operating performance, liquidity or ability to service debt obligations. Please see Summary Non-GAAP Financial Measures for an explanation of EBITDA and a reconciliation of EBITDA to net income, its most directly comparable financial measure calculated in and presented in accordance with GAAP.

We also anticipate that if our EBITDA for such period is at or above our estimate, we would be permitted to make the minimum quarterly distributions on all the common units, subordinated units and general partner units under the applicable covenants contained in our new five-year credit facility.

We believe we will generate estimated EBITDA of $47.9 million for the twelve months ending June 30, 2008. You should read Assumptions and Considerations below for a discussion of the material assumptions underlying this belief, which reflect our judgment of conditions we expect to exist and the course of action we expect to take. If our estimate is not achieved, we may not be able to pay the minimum quarterly distribution on all of our units. We believe our actual results of operations and cash flows will approximate those reflected in the prospective financial information; however, we can give you no assurance that our assumptions will be realized or that we will generate the $45.0 million in EBITDA required to pay the minimum quarterly distribution on all our common units, subordinated units and general partner units. There likely will be differences between our estimates and the actual results we will achieve and those differences could be material. If we do not generate the estimated minimum EBITDA or if our maintenance capital expenditures or interest expense are higher than estimated, we may not be able to pay the minimum quarterly distribution on all units.

When considering our ability to generate our estimated EBITDA of $47.9 million, you should keep in mind the risk factors and other cautionary statements under the heading Risk Factors and elsewhere in this prospectus. Any of these factors or the other risks discussed in this prospectus could cause our results of operations and cash available for distribution to our unitholders to vary significantly from those set forth below.

Our estimated cash available for distribution assumes that the underwriters exercise their over-allotment option in full. The underwriters may or may not elect to exercise this option. We have presented our ability to make distributions assuming the issuance of an additional 1,875,000 common units and 38,266 general partner units as a result of this option. Because we will use the proceeds from the exercise of this option to reduce outstanding indebtedness, our cash available for distribution will increase by $2.3 million as a result of reduced interest expense. This increase is offset by $2.6 million of cash required to make distributions on the additional common and general partner units. If the option to purchase additional units is not exercised, our interest expense will increase and cash available for distribution will decrease by $2.3 million. Our pro forma financial statements do not assume any exercise of the underwriters over-allotment option.

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We do not as a matter of course make public projections as to future operations, earnings or other results. However, we have prepared the prospective financial information and related assumptions and conditions set forth below to present the estimated cash available for distribution for the twelve months ending June 30, 2008. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments and presents, to the best of our knowledge and belief, the expected course of action and our expected future financial performance. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus are cautioned not to place undue reliance on the prospective financial information.

The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, our management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this prospectus relates to the historical information of SemGroup Energy Partners, L.P. Predecessor. It does not extend to the prospective financial information and should not be read to do so.

We do not undertake any obligation to release publicly the results of any future revisions we may make to the financial forecast or to update this financial forecast or the assumptions used to prepare the forecast to reflect events or circumstances after the date in this prospectus. In light of the above, the statement that we believe that we will have sufficient cash available for distribution to allow us to make the full minimum quarterly distribution on all of our outstanding common units, subordinated units and general partner units for each quarter through June 30, 2008 should not be regarded as a representation by us or the underwriters or any other person that we will make such a distribution. Therefore, you are cautioned not to place undue reliance on this information.

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The following table shows how we calculate the estimated EBITDA for the twelve months ending June 30, 2008, which we believe will allow us to pay the minimum quarterly distribution on all our common units, subordinated units and general partner units for each quarter in such period. Our estimated EBITDA is based on the projected results of operations from all of our operating subsidiaries for the twelve months ending June 30, 2008. The assumptions that we have made that we believe are relevant to particular line items in the table below are explained in the corresponding footnotes set forth in Assumptions and Considerations.

SemGroup Energy Partners, L.P.

Estimated Cash Available for Distribution

		Twelve Months Ending June 30, 2008 (dollars in millions, except per unit data)
Total service revenues	$	107.3
Operating expense		61.7
General and administrative expense		7.9
Interest expense (including amortization of debt issuance costs)		7.7
Net income	$	30.0
Adjustments to reconcile net income to estimated EBITDA:		
Add:		
Depreciation and amortization expense		10.2
Interest expense, net		7.7
Estimated EBITDA[1] [2]	$	47.9
Adjustments to reconcile estimated EBITDA to estimated cash available for distribution:		
Less:		
Cash interest expense (including capital lease obligations)		7.2
Expansion capital expenditures		0.5
Maintenance capital expenditures		3.2
Principal payments on capital lease obligations		1.8
Add:		
Contributions from our Parent to fund expansion capital expenditures		0.5
Borrowings to fund principal payments on capital lease obligations		1.8
Estimated cash available for distribution	$	37.5
Per unit minimum annual distribution	$	1.35
Annual distributions to:		
Publicly held common units	$	19.4
Subordinated units held by SemGroup Holdings		14.5
General partner units held by our general partner		0.7
Total minimum annual cash distributions		34.6
Excess of cash available for distributions over minimum annual distributions	$	2.9

Calculation of minimum estimated EBITDA necessary to pay minimum annual cash distributions:		
Estimated EBITDA	$	47.9
Less:		
Excess of cash available for distributions over minimum annual distributions		2.9
Minimum estimated EBITDA necessary to pay minimum, annual cash distributions	$	45.0
Interest coverage ratio[3]		6.2x
Leverage ratio[3]		2.2x

(1) EBITDA is defined as net income before interest, income taxes, depreciation and amortization. We have provided EBITDA in this prospectus because we believe it provides investors with additional information to measure our performance. EBITDA is not a presentation made in accordance with GAAP. Because

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EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Please see Summary Non-GAAP Financial Measures.

(2) The following table sets forth, on a quarterly basis, how we calculate estimated EBITDA for each of the four quarters in the twelve-month period ending June 30, 2008. Our quarterly forecast is based on the same assumptions utilized for the preparation of the forecast for the twelve-month period ending June 30, 2008. Based on such assumptions, we believe that our results for each of the four quarters in the twelve-month period ending June 30, 2008 will be generally consistent from quarter to quarter.

	Quarter Ending			
	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008
	(dollars in millions, except per unit data)			
Total service revenues	$ 26.7	$ 26.8	$ 26.9	$ 27.0
Operating expense	15.4	15.4	15.4	15.4
General and administrative expense	2.0	2.0	2.0	2.0
Interest expense (including amortization of debt issuance cost)	2.0	2.0	2.0	2.0
Net income	7.3	7.4	7.5	7.6
Adjustments to reconcile net income to estimated EBITDA:				
Add:				
Depreciation and amortization expense	2.5	2.5	2.5	2.5
Interest expense, net	2.0	2.0	2.0	2.0
Estimated EBITDA	11.8	11.9	12.0	12.1
Adjustments to reconcile estimated EBITDA to estimated cash available for distribution:				
Less:				
Cash interest expense (including capital lease obligations)	1.8	1.8	1.8	1.8
Expansion capital expenditures	0.1	0.1	0.1	0.1
Maintenance capital expenditures	0.8	0.8	0.8	0.8
Principal payments on capital lease obligations	0.5	0.5	0.5	0.5
Add:				
Contributions from our Parent to fund expansion capital expenditures	0.1	0.1	0.1	0.1
Borrowings to fund principal payments on capital lease obligations	0.5	0.5	0.5	0.5
Estimated cash available for distribution	9.2	9.3	9.4	9.5
Per unit minimum quarterly distribution	$ 0.3375	$ 0.3375	$ 0.3375	$ 0.3375
Quarterly distributions to:				
Publicly held common units	$ 4.9	$ 4.9	$ 4.9	$ 4.9
Subordinated units held by SemGroup Holdings	3.6	3.6	3.6	3.6
General partner units held by our general partner	0.2	0.2	0.2	0.2
Total minimum quarterly cash distributions	8.7	8.7	8.7	8.7
Excess of cash available for distributions over minimum quarterly distributions	$ 0.5	$ 0.6	$ 0.7	$ 0.8
Calculation of minimum estimated EBITDA necessary to pay minimum quarterly cash distributions:				
Estimated EBITDA	$ 11.8	$ 11.9	$ 12.0	$ 12.1
Less:				

Excess of cash available for distributions over minimum quarterly distributions	$ 0.5	$ 0.6	$ 0.7	$ 0.8
Minimum estimated EBITDA necessary to pay minimum, quarterly cash distributions	$ 11.3	$ 11.3	$ 11.3	$ 11.3

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(3) We will enter into a new credit facility that we expect will contain covenants limiting our ability to make distributions, incur indebtedness, grant liens and engage in transactions with affiliates. Furthermore, we expect that our credit facility will contain covenants requiring us to maintain a ratio of consolidated funded indebtedness to consolidated adjusted EBITDA of not more than 5.00 to 1.00 and a ratio of consolidated EBITDA to consolidated interest expense of not less than 2.75 to 1.00. Any subsequent replacement of our credit facility or any new indebtedness could have similar or greater restrictions.

Assumptions and Considerations

Based on a number of specific estimates and assumptions, we believe that, following completion of this offering, we will have sufficient cash available for distribution to allow us to make the full minimum quarterly distribution on all our outstanding common units, subordinated units and general partner units for each quarter through June 30, 2008. We believe that our estimates and assumptions, which include the following, are reasonable:

General

The majority of the following assumptions are based upon terms and conditions of the Throughput Agreement, particularly the specified rates and commitments for utilization of our services, that we will enter into with our Parent prior to the closing of this offering. Approximately $89.7 million, or 83.6%, of our total forecasted revenues will be derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to this agreement as specified below. If our Parent is unable to make the minimum commitment payments to us required by it under the Throughput Agreement for any reason, or if our Parent utilizes fewer of our services than we expect with respect to services that do not have a minimum utilization commitment, our results of operations would be adversely impacted if we were not otherwise able to replace the revenues attributable to our Parent with revenues from other customers.

Our estimated revenues for the forecast period also include service revenues received from third parties that are generally consistent with our pro forma revenues for the year ended December 31, 2006. Third-party revenues for the forecast period represent 16.4% of total forecasted revenues.

Revenues and Operations

Terminalling and Storage Services Revenues

General. We estimate that our total terminalling and storage services revenues for the twelve months ending June 30, 2008 will be $33.3 million as compared to $31.4 million and $31.1 million for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. Of the total revenues forecasted for this segment, $31.3 million, or 93.8%, represents minimum revenues from our Parent under the Throughput Agreement. The balance of these estimated revenues represents forecasted usage by our Parent of services above the minimum requirements under the Throughput Agreement. Revenues are expected to increase due to the net addition of 395,000 barrels of storage capacity at our Cushing terminal that was completed in March 2007. We expect to have 6.7 million barrels of storage capacity at June 30, 2008, which is the same amount of storage capacity we had at March 31, 2007. At December 31, 2006, we had 6.3 million barrels of storage capacity.

Storage Services. We estimate that our storage revenues will be $31.4 million for the twelve months ending June 30, 2008 as compared to $29.4 million for each of the twelve months ended March 31, 2007 and the year ended December 31, 2006, on a pro forma basis. All of our estimated storage revenues are guaranteed pursuant to the Throughput Agreement. The 6.5% increase is attributable to 395,000 barrels of net increased capacity at our Cushing terminal beginning on April 1, 2007. Our forecasted storage revenues are based on our Parent utilizing 80% of our total storage capacity, including net increased capacity, which represents the minimum commitment specified under the Throughput Agreement during the period.

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Our forecasted revenues do not include storage fees charged for the remaining 20% of our storage capacity, or 1.3 million barrels as of June 30, 2008, that our Parent is not obligated to utilize. Our Parent can utilize this remaining capacity at 110% of the base rate per barrel specified in the Throughput Agreement. Third parties can also use this additional storage capacity at market prices, which may be higher or lower than the prices paid by our Parent. We have historically had third-party storage revenues; however, we cannot provide any assurance that we will provide third-party storage services in the future.

Terminalling Services. We estimate our terminalling revenues will be $2.0 million for the twelve months ending June 30, 2008. We assumed no increase in terminalling revenues as compared to the twelve months ended March 31, 2007 and a slight increase in terminalling revenues as compared to the year ended December 31, 2006, in each case on a pro forma basis, because we have not forecasted a significant change in market conditions. Pursuant to the Throughput Agreement, our Parent will pay us a terminal throughput fee per barrel but is not obligated to utilize a minimum amount of such terminalling services since terminalling volumes fluctuate based on market conditions. All forecasted terminalling revenues relate to services provided to our Parent. We have assumed no third-party revenues associated with our terminalling services.

Gathering and Transportation Services Revenues

General. We estimate that our total gathering and transportation services revenues for the twelve months ending June 30, 2008 will be $74.0 million as compared to $70.8 million and $66.6 million for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. Of the total revenues forecasted for this segment, $45.3 million, or 61.3%, represents minimum revenues pursuant to the Throughput Agreement. The balance of these estimated revenues represents forecasted usage by our Parent of services above the minimum requirements under the Throughput Agreement. On June 30, 2006, our Parent completed the acquisition of the assets of Big Tex, a crude oil gathering, transportation and marketing company located in Abilene and Midland, Texas, and in Hobbs, New Mexico, for total consideration of approximately $15.5 million. Approximately $9.8 million of the assets from the Big Tex acquisition, consisting primarily of equipment, vehicles and intangibles related to customer relationships and non-compete agreements, are included in our predecessor s financial statements and will be contributed to us. We expect revenues to increase due to an increase in the volumes of crude oil transported on our Mid-Continent system primarily due to the inclusion of a full year of the results of the Big Tex acquisition.

Gathering Services. We estimate that total revenues from gathering services will be $2.8 million for the twelve months ending June 30, 2008 compared to $2.8 million for each of the twelve months ended March 31, 2007 and the year ended December 31, 2006, on a pro forma basis. We have assumed a slight increase in average gathering volumes 309,133 barrels per month for the twelve months ending June 30, 2008 compared to 306,649 barrels per month and 307,320 barrels per month for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, due to the full year effect of the recent Big Tex acquisition. All of our forecasted gathering revenues are from minimum revenues that we will receive from our Parent based on minimum monthly throughput volumes pursuant to the Throughput Agreement. Any additional throughput capacity can be utilized by our Parent at 110% of the base rate per barrel specified in the Throughput Agreement. Because we have not historically received any third-party gathering revenues, we assume no such third-party revenues in our forecast, although we have the ability to provide such services.

Transportation Services. We estimate that total revenues from transportation services will be $19.2 million for the twelve months ending June 30, 2008 as compared to $19.5 million and $19.2 million for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. Of the total revenues forecasted for these services, $13.0 million, or 67.7%, represent services provided to our Parent pursuant to the Throughput Agreement. Such amount represents minimum revenues that we will receive based on a minimum monthly throughput volumes.

Mid-Continent System. We estimate that total revenues from pipeline transportation services attributable to our Mid-Continent system will be $13.9 million and that we will transport an

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average of 864,168 barrels per month of crude oil for the twelve months ending June 30, 2008. We assumed a 0.2% increase in volumes and revenues as compared to the twelve months ended March 31, 2007 and the year ended December 31, 2006, in each case on a pro forma basis, as we expect to provide services to our Parent on our Mid-Continent system consistent with historical levels. All revenues included in our forecast relating to crude oil transported on our Mid-Continent system are from services to be provided to our Parent pursuant to the Throughput Agreement, and nearly all of such amount represents minimum revenues that we will receive based on minimum monthly throughput volumes for the system. Any additional throughput capacity can be utilized by our Parent at 110% of the base rate per barrel specified in the Throughput Agreement. Because we have not historically received any third-party transportation revenues in our Mid-Continent system, we assume that no third-party volumes are transported on our Mid-Continent system during the forecast period, although we have the ability to provide such services.

Longview System. We estimate that total revenues from pipeline transportation services attributable to our Longview system will be $5.3 million and that we will transport an average of 1.1 million barrels per month of crude oil for the twelve months ending June 30, 2008. We assume a decrease in volume and revenues as compared to our results for the twelve months ended March 31, 2007 and the year ended December 31, 2006, in each case on a pro forma basis, due to the sale of a 35 mile pipeline located near Conroe, Texas. We also assumed that our Parent will continue to use services on our Longview system consistent with historical usage levels. Fees on this system are regulated by tariff. The volumes of crude oil transported and associated revenues from this system are not part of the Throughput Agreement and do not have associated minimum revenues.

Trucking and Producer Field Services. We estimate that our total trucking and producer field services revenues for the twelve months ending June 30, 2008 will be $52.0 million as compared to $48.5 million and $44.7 million for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. Of the total revenues forecasted for these services, $29.6 million, or 57.0%, represents minimum revenues that we will receive pursuant to the Throughput Agreement based on a minimum monthly throughput volumes.

Trucking Services. Total revenues attributable to our trucking services are estimated to be $39.8 million for the twelve months ending June 30, 2008 as compared to $36.6 million and $33.3 million for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. Volumes and revenues are expected to increase due to the full year effect of the Big Tex acquisition completed on June 30, 2006. All revenues included in our forecast relating to trucking services are from services to be provided to our Parent pursuant to the Throughput Agreement, and $29.6 million, or 74.4%, of such amount represents minimum revenues that we will receive based on minimum monthly volumes transported by truck. Any additional truck transportation capacity volumes can be utilized by our Parent at 110% of the base rate per barrel specified in the Throughput Agreement. Of our revenues forecasted for trucking services, 21.7% are based on this higher rate. Actual transportation volumes for the year ended December 31, 2006 and for the twelve months ended March 31, 2007 exceeded the minimum monthly volumes under the Throughput Agreement by 4.0 million barrels and 4.4 million barrels, respectively. In addition, pursuant to the Throughput Agreement, our Parent will pay us a truck unloading fee per barrel, but is not obligated to utilize a minimum amount of such services. We assume that no third-party volumes are transported using our trucking services during the forecast period. We have historically had third-party trucking revenues; however, we cannot provide any assurance that we will provide third-party trucking services in the future. We estimate that we will transport an average of 1.9 million barrels per month of crude oil by truck during the forecast period.

Producer Field Services. We estimate that our producer field services revenues will be $12.1 million for the twelve months ending June 30, 2008 as compared to $11.9 million and $11.4 million for the twelve months ended March 31, 2007 and for the year ended

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December 31, 2006, respectively, on a pro forma basis. We expect that these revenues, consisting of fee-for-service, hourly and day rates, will be consistent with historical results on a pro forma basis. Our producer field services are provided to customers other than our Parent and therefore are not part of the Throughput Agreement and do not have associated minimum revenues. Nearly all of our contracts relating to producer field services have terms that automatically renew unless either party terminates the contract. Historically, very few of the producer field services customers have terminated these contracts each year. Based on this historical experience, we do not expect many customers to terminate their contracts.

Costs and Expenses

Operating Expense. Our operating expenses include salary and wage expense and related taxes and depreciation and amortization expenses. We estimate that we will incur operating expense of $61.7 million for the twelve months ending June 30, 2008 as compared to $56.6 million and $53.7 million (inclusive of $2.1 million of incremental incentive compensation not reflected in our pro forma financial statements) for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. The expected increase in operating expense is driven by an anticipated increase of $4.6 million attributable to the acquisition of Big Tex on June 30, 2006 and higher expected costs for labor, supplies and equipment and an increase in depreciation and amortization expenses. We estimate that our depreciation and amortization expense will be $10.2 million for the twelve months ending June 30, 2008 as compared to $8.9 million and $8.6 million for the twelve months ended March 31, 2007 and for the year ended December 31, 2006, respectively, on a pro forma basis. The slight increase is attributable to the acquisition of Big Tex completed on June 30, 2006. Estimated depreciation and amortization expense reflects our estimates, which are based on consistent average depreciable asset lives and depreciation methodologies.

General and Administrative Expense. We estimate that our general and administrative expense will be $7.9 million for the twelve months ending June 30, 2008 as compared to $7.9 million for each of the twelve months ended March 31, 2007 and the year ended December 31, 2006 on a pro forma basis. Our estimated general and administrative expense consists of a $5.0 million annual administrative fee for providing various general and administrative services to us for three years following this offering that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement and $2.9 million (which is not included in our pro forma financial statements) of estimated incremental general and administrative expense that relates to operating as a publicly held limited partnership, including costs associated with annual and quarterly reports to unitholders, financial statement audits and reviews, tax return and Schedule K-1 preparation and distribution, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. These incremental general and administrative expenditures are not reflected in the historical financial statements of our predecessor or in our unaudited pro forma financial statements.

Capital Expenditures

We estimate that our maintenance capital expenditures will be $3.2 million for the twelve months ending June 30, 2008, of which $1.5 million relates primarily to anticipated improvements on pipelines associated with our overall pipeline integrity management program. Maintenance capital expenditures were $5.2 million for the twelve months ended March 31, 2007 and $5.9 million for the year ended December 31, 2006, in each case on a pro forma basis, and included $2.6 and $2.8 million of one-time costs related to improvements on our pipelines associated with initial compliance with the pipeline integrity rules for the twelve months ended March 31, 2007 and the year ended December 31, 2006, respectively. Excluding these one-time costs, maintenance capital expenditures would have been $2.6 million for the twelve months ended March 31, 2007 and $3.1 million for the year ended December 31, 2006 as compared to estimated maintenance capital expenditures of $3.2 million for the twelve months ending June 30, 2008.

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We have assumed expansion capital expenditures of $0.5 million for the twelve months ending June 30, 2008, as compared to $34.8 million for the twelve months ended March 31, 2007 and $35.6 million for the year ended December 31, 2006, in each case on a pro forma basis. The $0.5 million of assumed capital expenditures represent post-completion payments related to the addition of 395,000 barrels of net storage capacity at our Cushing terminal prior to the closing of this offering that will be funded by contributions from our Parent. After the closing of this offering, we expect to fund other expansion capital expenditures with funds generated from our operations, borrowings under our new credit facility, the issuance of additional partnership units and debt offerings. The expansion capital expenditures incurred during the twelve months ended March 31, 2007 and the year ended December 31, 2006 were associated with the addition of 877,000 barrels of incremental storage capacity at our Cushing terminal and the acquisition of Big Tex on June 30, 2006. These capital expenditures were funded through a capital contribution from our Parent.

Financing

Our forecast for the twelve months ending June 30, 2008 is based on the following significant financing assumptions:

We expect to have average borrowings of approximately $138.4 million under our new five-year credit facility which is comprised of $137.5 million of borrowings incurred prior to the closing of this offering and $0.9 million related to principal payments under capital lease obligations.

The borrowings under our new credit facility will bear an average variable interest rate of 6.65% through June 30, 2008. An increase or decrease of 1.0% in the interest rate will result in increased or decreased, respectively, annual interest expenses of $1.4 million. Our estimated annual interest expense also includes $0.5 million associated with existing capital lease obligations. If the underwriters exercise their over-allotment option in full, we expect our borrowings under our new credit facility to decrease to approximately $103.3 million.

We will remain in compliance with the financial and other covenants in our new credit facility.

Regulatory, Industry and Economic Factors

Our forecast for the twelve months ending June 30, 2008 is also based on the following significant assumptions related to regulatory, industry and economic factors:

There will not be any new federal, state or local regulation of portions of the energy industry in which we operate, or an interpretation of existing regulation, that will be materially adverse to our business;

There will not be any major adverse change in the portions of the midstream energy industry that we serve or in general economic conditions, including in the levels of crude oil production and demand in the geographic areas that we serve;

We will not make any acquisitions or other significant expansion capital expenditures;

There will be no default by our Parent under the Throughput Agreement or by any other customers; and

Market, insurance and overall economic conditions will not change substantially.

While we believe that our assumptions supporting our estimated EBITDA and cash available for distribution for the twelve months ending June 30, 2008 are reasonable in light of our current beliefs concerning future events, the assumptions are inherently uncertain and are subject to significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those we anticipate. If our assumptions are not realized, the actual EBITDA and cash available for distribution that we generate could be substantially less than that currently expected and could, therefore, be insufficient to permit us to make the full minimum quarterly distribution on all of our units, in which event the market price of the common units may decline materially.

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PROVISIONS OF OUR PARTNERSHIP AGREEMENT RELATING TO CASH DISTRIBUTIONS

Set forth below is a summary of the significant provisions of our partnership agreement that relate to cash distributions.

Distributions of Available Cash

General. Within 45 days after the end of each quarter, beginning with the quarter ending September 30, 2007, we distribute all of our available cash to unitholders of record on the applicable record date. We will adjust the minimum quarterly distribution for the period from the closing of the offering through June 30, 2007 based on the actual length of the period.

Definition of Available Cash. Available cash, for any quarter, consists of all cash on hand at the end of that quarter:

less the amount of cash reserves established by our general partner to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments or other agreements; or

provide funds for distributions to our unitholders for any one or more of the next four quarters;

plus all additional cash and cash equivalents on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within 12 months.

Intent to Distribute the Minimum Quarterly Distribution. We intend to distribute to the holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of $0.3375 per unit, or $1.35 per year, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement. The board of directors of our general partner will have broad discretion to establish cash reserves for the proper conduct of our business and for future distributions to our unitholders, and the establishment of those reserves could result in a reduction in cash distributions to you from levels we currently anticipate pursuant to our stated distribution policy. In addition, our cash distribution policy is subject to restrictions on distributions under our new credit facility. Specifically, the agreement related to our credit facility will contain material financial tests and covenants that we must satisfy. These financial tests and covenants will include a requirement that our ratio of consolidated funded indebtedness to consolidated adjusted EBITDA be not more than 5.00 to 1.00 and a requirement that our ratio of consolidated EBITDA to consolidated interest expense be not less than 2.75 to 1.00. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Our Liquidity and Capital Resources Description of Credit Facility for a discussion of the restrictions to be included in our credit agreement that may restrict our ability to make distributions.

General Partner Interest and Incentive Distribution Rights. Initially, our general partner will be entitled to 2% of all quarterly distributions since inception that we make prior to our liquidation. This general partner interest will be represented by 473,743 general partner units (or 512,009 general partner units if the underwriters exercise their over-allotment option in full). Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. Our general partner s

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initial 2% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute from operating surplus (as defined below) in excess of $0.3881 per unit per quarter. The maximum distribution of 50% includes distributions paid to our general partner in respect of its 2% general partner interest and assumes that our general partner maintains its general partner interest at 2%. The maximum distribution of 50% does not include any distributions that our general partner may receive on common or subordinated units that it owns. Please see General Partner Interest and Incentive Distribution Rights for additional information.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized as either operating surplus or capital surplus. Our partnership agreement requires that we distribute available cash from operating surplus differently than available cash from capital surplus.

Operating Surplus. We define operating surplus in the glossary, and for any period it generally means:

- an amount equal to two times the amount needed for any one quarter for us to pay a distribution on all of our units (including the general partner units) and the incentive distribution rights at the same per-unit amount as was distributed in the immediately preceding quarter; plus

- all of our cash receipts after the closing of this offering, excluding cash from (1) borrowings that are not working capital borrowings, (2) sales of equity and debt securities, (3) sales or other dispositions of assets outside the ordinary course of business, (4) capital contributions received or (5) corporate reorganizations or restructurings (provided that cash receipts from the termination of a commodity hedge or interest rate swap prior to its specified termination date shall be included in operating surplus in equal quarterly installments over the scheduled life of such commodity hedge or interest rate swap); plus

- working capital borrowings made after the end of a quarter but on or before the date of determination of operating surplus for the quarter; plus

- interest paid on debt incurred by us, and cash distributions paid on the equity securities issued by us, to finance all or any portion of the construction, expansion or improvement of our facilities during the period from such financing until the earlier to occur of the date the capital asset is put into service or the date that it is abandoned or disposed of; plus

- interest paid on debt incurred by us, and cash distributions paid on the equity securities issued by us, in each case, to pay the construction period interest on debt incurred, or to pay construction period distributions on equity issued, to finance the construction projects referred to above; less

- all of our operating expenditures (as defined below) after the closing of this offering; less

- the amount of cash reserves established by our general partner to provide funds for future operating expenditures; less

- all working capital borrowings not repaid within twelve months after having been incurred or repaid within such twelve-month period with the proceeds of additional working capital borrowings.

If a working capital borrowing, which increases operating surplus, is not repaid during the twelve-month period following the borrowing, it will be deemed repaid at the end of such period, thus decreasing operating surplus at such time. When such working capital is in fact repaid, it will not be treated as a reduction in operating surplus because operating surplus will have been previously reduced by the deemed repayment.

We define operating expenditures in the glossary, and it generally means all of our expenditures, including, but not limited to, taxes, reimbursements of expenses to our general partner, repayment of working capital

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borrowings, debt service payments and capital expenditures, provided that operating expenditures will not include:

- payments (including prepayments) of principal of and premium on indebtedness, other than working capital borrowings;
- capital improvement expenditures;
- payment of transaction expenses relating to interim capital transactions; or
- distributions to partners.

Where capital expenditures are made in part for acquisitions or for capital improvements and in part for other purposes, our general partner, with the concurrence of the conflicts committee, shall determine the allocation between the amounts paid for each.

Maintenance capital expenditures reduce operating surplus, from which we pay the minimum quarterly distribution, but expansion capital expenditures do not. Maintenance capital expenditures represent capital expenditures made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. Maintenance capital expenditures include expenditures required to maintain equipment reliability, storage and pipeline integrity and safety and to address environmental regulations. Expansion capital expenditures represent capital expenditures made to expand or to increase the efficiency of the existing operating capacity of our assets or to expand the operating capacity or revenues of existing or new assets, whether through construction or acquisition. Costs for repairs and minor renewals to maintain facilities in operating condition and that do not extend the useful life of existing assets will be treated as operational and maintenance expenses as we incur them. Our partnership agreement provides that our general partner determines how to allocate a capital expenditure for the acquisition or expansion of our assets between maintenance capital expenditures and expansion capital expenditures.

***Capital Surplus*.** We also define capital surplus in the glossary, and it will typically be generated only by:

- borrowings other than working capital borrowings;
- sales of our equity and debt securities;
- sales or other dispositions of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirement or replacement of assets;
- capital contributions received; and
- corporate reorganizations or restructurings.

***Characterization of Cash Distributions*.** We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since the closing of this offering equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As reflected above, operating surplus includes an amount equal to two times the amount needed for any one quarter for us to pay a distribution on all of our units (including the general partner units) and the incentive distribution rights at the same per-unit amount as was distributed in the immediately preceeding quarter. This amount, which initially equals approximately $16.0 million, does not reflect actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to this amount of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities, and long-term borrowings, that would otherwise be distributed as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

Subordination Period

General. Our partnership agreement provides that, during the subordination period (which we define below and in Appendix B), the common units will have the right to receive distributions of available cash from

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operating surplus in an amount equal to the minimum quarterly distribution of $0.3375 per common unit per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. These units are deemed subordinated because for a period of time, referred to as the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on the subordinated units. The practical effect of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

Subordination Period. The subordination period will extend until the first day of any quarter beginning after June 30, 2010 that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units, subordinated units and general partner units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

- the adjusted operating surplus (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common and subordinated units and general partner units during those periods on a fully diluted basis; and

- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Expiration of the Subordination Period. When the subordination period expires, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of such removal:

- the subordination period will end and each subordinated unit will immediately convert into one common unit;

- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

- our general partner will have the right to convert its general partner units and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Early Conversion of Subordinated Units. The subordination period will automatically terminate and all of the subordinated units will convert into common units on a one-for-one basis if each of the following occurs:

- distributions of available cash from operating surplus on each outstanding common unit and subordinated unit equaled or exceeded $2.025 (150% of the annualized minimum quarterly distribution) for any four-quarter period immediately preceding that date;

- the adjusted operating surplus (as defined below) generated during any four-quarter period immediately preceding that date equaled or exceeded the sum of a distribution of $2.025 (150% of the annualized minimum quarterly distribution) on all of the outstanding common units and subordinated units and general partner units on a fully diluted basis; and there are no arrearages in payment of the minimum quarterly distribution on the common units.

Adjusted Operating Surplus. Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods. Adjusted operating surplus consists of:

operating surplus generated with respect to that period; less

any net increase in working capital borrowings with respect to that period; less

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- any net decrease in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus
- any net decrease in working capital borrowings with respect to that period; plus
- any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Distributions of Available Cash from Operating Surplus during the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

- first, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;
- second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;
- third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and
- thereafter, in the manner described in General Partner Interest and Incentive Distribution Rights below.

The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

Distributions of Available Cash from Operating Surplus after the Subordination Period

Our partnership agreement requires that we make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

- first, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and
- thereafter, in the manner described in General Partner Interest and Incentive Distribution Rights below.

The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

When the subordination period expires, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. At the end of the subordination period, assuming no additional issuances of common units and no sales of subordinated units and assuming our general partner maintains its 2% general partner interest, our general partner and its affiliates will receive approximately $3.8 million per quarter if the distribution on our outstanding units equals our initial distribution rate of $0.3375 per unit.

General Partner Interest and Incentive Distribution Rights

Our partnership agreement provides that our general partner initially will be entitled to 2% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2% general partner interest if we issue additional units. Our general partner s 2% interest, and the percentage of our cash distributions to which it is entitled, will be proportionately reduced if we issue additional units in the future (other than the issuance of common units upon exercise by the underwriters of their over-allotment option, the issuance of partnership

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securities issued in connection with a reset of the incentive distribution target levels relating to our general partner s incentive distribution rights or the issuance of partnership securities upon conversion of outstanding partnership securities) and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 2% general partner interest. Our general partner will be entitled to make a capital contribution in order to maintain its 2% general partner interest in the form of the contribution to us of common units based on the current market value of the contributed common units.

Incentive distribution rights represent the right to receive an increasing percentage (13%, 23% and 48%) of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

The following discussion assumes that our general partner maintains its 2% general partner s interest and continues to own the incentive distribution rights.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, our partnership agreement requires that we distribute any additional available cash from operating surplus for that quarter among the unitholders and our general partner in the following manner:

- first, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder receives a total of $0.3881 per unit for that quarter (the first target distribution);

- second, 85% to all unitholders, pro rata, and 15% to the general partner, until each unitholder receives a total of $0.4219 per unit for that quarter (the second target distribution);

- third, 75% to all unitholders, pro rata, and 25% to the general partner, until each unitholder receives a total of $0.5063 per unit for that quarter (the third target distribution); and

- thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

Percentage Allocations of Available Cash from Operating Surplus

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution Per Unit, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2% general partner interest and assume our general partner has contributed any additional capital to maintain its 2% general partner interest and has not transferred its incentive distribution rights.

	Total Quarterly Distribution Per Unit Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
Minimum Quarterly Distribution	$0.3375	98%	2%
First Target Distribution	above $0.3375 up to $0.3881	98%	2%
Second Target Distribution	above $0.3881 up to $0.4219	85%	15%
Third Target Distribution	above $0.4219 up to $0.5063	75%	25%
Thereafter	above $0.5063	50%	50%

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General Partner s Right to Reset Incentive Distribution Levels

Our general partner, as the holder of our incentive distribution rights, has the right under our partnership agreement to elect to relinquish the right to receive incentive distribution payments based on the initial cash target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount and cash target distribution levels upon which the incentive distribution payments to our general partner would be set. Our general partner s right to reset the minimum quarterly distribution amount and the target distribution levels upon which the incentive distributions payable to our general partner are based may be exercised without approval of our unitholders or the conflicts committee of our general partner, at any time when there are no subordinated units outstanding and we have made cash distributions to the holders of the incentive distribution rights at the highest level of incentive distribution for each of the prior four consecutive fiscal quarters and the amount of each such distribution did not exceed adjusted operating surplus for such quarter. The reset minimum quarterly distribution amount and target distribution levels will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset such that our general partner will not receive any incentive distributions under the reset target distribution levels until cash distributions per unit following this event increase as described below. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distribution payments being made to our general partner.

In connection with the resetting of the minimum quarterly distribution amount and the target distribution levels and the corresponding relinquishment by our general partner of incentive distribution payments based on the target cash distributions prior to the reset, our general partner will be entitled to receive a number of newly issued Class B units based on a predetermined formula described below that takes into account the cash parity value of the average cash distributions related to the incentive distribution rights received by our general partner for the two quarters prior to the reset event as compared to the average cash distributions per common unit during this period.

The number of Class B units that our general partner would be entitled to receive from us in connection with a resetting of the minimum quarterly distribution amount and the target distribution levels then in effect would be equal to (x) the average amount of cash distributions received by our general partner in respect of its incentive distribution rights during the two consecutive fiscal quarters ended immediately prior to the date of such reset election divided by (y) the average of the amount of cash distributed per common unit during each of these two quarters. Each Class B unit will be convertible into one common unit at the election of the holder of the Class B unit at any time following the first anniversary of the issuance of these Class B units. We will also issue an additional amount of general partner units in order to maintain the general partner s ownership interest in us relative to the issuance of the Class B units.

Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to be correspondingly higher such that we would distribute all of our available cash from operating surplus for each quarter thereafter as follows:

- first, 98% to all unitholders, pro rata, and 2% to our general partner, until each unitholder receives an amount equal to 115% of the reset minimum quarter distribution for that quarter;

- second, 85% to all unitholders, pro rata, and 15% to our general partner, until each unitholder receives an amount per unit equal to 125% of the reset minimum quarterly distribution for that quarter;

- third, 75% to all unitholders, pro rata, and 25% to our general partner, until each unitholder receives an amount per unit equal to 150% of the reset minimum quarterly distribution for that quarter; and

- thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

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The following table illustrates the percentage allocation of available cash from operating surplus between the unitholders and our general partner at various levels of cash distribution levels pursuant to the cash distribution provision of our partnership agreement in effect at the closing of this offering as well as following a hypothetical reset of the minimum quarterly distribution and target distribution levels based on the assumption that the average quarterly cash distribution amount per common unit during the two fiscal quarters immediately preceding the reset election was $0.6000.

	Quarterly Distribution per Unit Prior to Reset	Marginal Percentage Interest in Distributions: Unitholders	General Partner	Quarterly Distribution per Unit following Hypothetical Reset
Minimum Quarterly Distribution	$0.3375	98%	2%	$0.6000
First Target Distribution	above $0.3375 up to $0.3881	98%	2%	above $0.6000 up to $0.6900(1)
Second Target Distribution	above $0.3881 up to $0.4219	85%	15%	above $0.6900(1) up to $0.7500(2)
Third Target Distribution	above $0.4219 up to $0.5063	75%	25%	above $0.7500(2) up to $0.9000
Thereafter	above $0.5063	50%	50%	above $0.9000(3)

(1) This amount is 115% of the hypothetical reset minimum quarterly distribution.
(2) This amount is 125% of the hypothetical reset minimum quarterly distribution.
(3) This amount is 150% of the hypothetical reset minimum quarterly distribution.

The following table illustrates the total amount of available cash from operating surplus that would be distributed to the unitholders and the general partner, including in respect of incentive distribution rights, based on an average of the amounts distributed for a quarter for the two quarters immediately prior to the reset. The table assumes that there are 25,088,430 common units and 512,009 general partner units outstanding and that the average distribution to each common unit is $0.6000 for the two quarters prior to the reset. The assumed number of outstanding units assumes the underwriters exercise their over-allotment option in full, the conversion of all subordinated units into common units and no additional unit issuances.

	Quarterly Distribution per Unit Prior to Reset	Common Unitholders Cash Distributions Prior to Reset	General Partner Cash Distribution Prior to Reset: Class B Units	2% General Partner Interest	Incentive Distribution Rights	Total	Total Distributions
Minimum Quarterly Distribution	$0.3375	$ 8,467,345	$	$ 172,803	$	$ 172,803	$ 8,640,148
First Target Distribution	above $0.3375 up to $0.3881	1,269,475		25,908		25,908	1,295,383
Second Target Distribution	above $0.3881 up to $0.4219	847,989		19,953	129,692	149,645	997,634
Third Target Distribution	above $0.4219 up to $0.5063	2,117,463		56,466	649,355	705,821	2,823,284
Thereafter	above $0.5063	2,350,786		94,031	2,256,755	2,350,786	4,701,572
		$ 15,053,058	$	$ 369,161	$ 3,035,802	$ 3,404,963	$ 18,458,021

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The following table illustrates the total amount of available cash from operating surplus that would be distributed to the unitholders and the general partner with respect to the quarter in which the reset occurs. The table reflects that as a result of the reset there are 25,088,430 common units, 5,059,670 Class B units and 615,268 general partner units outstanding and that the average distribution to each common unit is $0.6000. The number of Class B units was calculated by dividing (x) the $3,035,802 received by the general partner in respect of its incentive distribution rights as the average of the amounts received by the general partner in respect of its incentive distribution rights for the two quarters prior to the reset as shown in the table above by (y) the $0.6000 of available cash from operating surplus distributed to each common unit as the average distributed per common unit for the two quarters prior to the reset.

	Quarterly Distribution per Unit Prior to Reset	Common Unitholders Cash Distributions Prior to Reset	General Partner Cash Distribution Prior to Reset				Total Distributions
			Class B Units	2% General Partner Interest	Incentive Distribution Rights	Total	
Minimum Quarterly Distribution	$0.6000	$ 15,053,058	$ 3,035,802	$ 369,161	$	$ 3,404,963	$ 18,458,021
First Target Distribution(1)	above $0.6000 up to $0.6900						
Second Target Distribution(2)	above $0.6900 up to $0.7500						
Third Target Distribution(3)	above $0.7500 up to $0.9000						
Thereafter	above $0.9000						
		$ 15,053,058	$ 3,035,802	$ 369,161	$	$ 3,404,963	$ 18,458,021

(1) This amount is 115% of the hypothetical reset minimum quarterly distribution.
(2) This amount is 125% of the hypothetical reset minimum quarterly distribution.
(3) This amount is 150% of the hypothetical reset minimum quarterly distribution.

Our general partner will be entitled to cause the minimum quarterly distribution amount and the target distribution levels to be reset on more than one occasion, provided that it may not make a reset election except at a time when it has received incentive distributions for the prior four consecutive fiscal quarters based on the highest level of incentive distributions that it is entitled to receive under our partnership agreement.

Distributions from Capital Surplus

How Distributions from Capital Surplus Will Be Made. Our partnership agreement requires that we make distributions of available cash from capital surplus, if any, in the following manner:

first, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit that was issued in this offering, an amount of available cash from capital surplus equal to the initial public offering price;

second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from this initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly

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distribution, after any of these distributions are made, it may be easier for our general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels will be reduced to zero. Our partnership agreement specifies that we then make all future distributions from operating surplus, with 50% being paid to the holders of units and 50% to our general partner. The percentage interests shown for our general partner include its 2% general partner interest and assume our general partner has not transferred the incentive distribution rights. We do not anticipate that we will make any distributions from capital surplus.

Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, our partnership agreement specifies that the following items will be proportionately adjusted:

- the minimum quarterly distribution;
- target distribution levels;
- the unrecovered initial unit price; and
- the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level and each subordinated unit would be convertible into two common units. Our partnership agreement provides that we not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted by a governmental taxing authority, so that we become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels for each quarter will be reduced by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter and the denominator of which is the sum of available cash for that quarter plus our general partner s estimate of our aggregate liability for the quarter for such income taxes payable by reason of such legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

Distributions of Cash Upon Liquidation

General. If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to our unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be

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sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

Manner of Adjustments for Gain. The manner of the adjustment for gain is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

- first, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

- second, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of: (1) the unrecovered initial unit price; (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; and (3) any unpaid arrearages in payment of the minimum quarterly distribution;

- third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner until the capital account for each subordinated unit is equal to the sum of: (1) the unrecovered initial unit price; and (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

- fourth, 98% to all unitholders, pro rata, and 2% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to the general partner, for each quarter of our existence;

- fifth, 85% to all unitholders, pro rata, and 15% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence;

- sixth, 75% to all unitholders, pro rata, and 25% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to the general partner for each quarter of our existence; and

- thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

The percentage interests set forth above for our general partner include its 2% general partner interest and assume the general partner has not transferred the incentive distribution rights.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

***Manner of Adjustments for Losses*.** If our liquidation occurs before the end of the subordination period, we will generally allocate any loss to our general partner and the unitholders in the following manner:

first, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the subordinated unitholders have been reduced to zero;

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- second, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the common unitholders have been reduced to zero; and

- thereafter, 100% to the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

Adjustments to Capital Accounts. Our partnership agreement requires that we make adjustments to capital accounts upon the issuance of additional units. In this regard, our partnership agreement specifies that we allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, our partnership agreement requires that we allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in our general partners capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

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SELECTED HISTORICAL AND UNAUDITED PRO FORMA FINANCIAL AND OPERATING DATA

The following table shows selected historical financial and operating data of SemGroup Energy Partners, L.P. Predecessor, our predecessor, and pro forma financial and operating data of SemGroup Energy Partners, L.P. for the periods and as of the dates presented. Prior to the closing of this offering, our Parent will contribute its Crude Oil Business to us, which comprises a substantial majority of our Parent s crude oil gathering, transportation, terminalling and storage assets. The Crude Oil Business has historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. Accordingly, revenues reflected in our historical financial statements represent services provided to third parties and do not include any revenues for services provided to our Parent. For this reason and due to the other factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Items Impacting the Comparability of Our Financial Results, our future results of operations will not be comparable to our predecessor s historical results. The selected historical financial data as of and for the years ended December 31, 2004, 2005 and 2006 are derived from the audited financial statements of our predecessor. The selected historical financial data as of and for the years ended December 31, 2002 and 2003 are derived from the unaudited financial statements of our predecessor included elsewhere in this prospectus. The selected historical financial data as of and for the three months ended March 31, 2006 and 2007 are derived from the unaudited financial statements of our predecessor included elsewhere in this prospectus.

The summary pro forma financial data as of and for the year ended December 31, 2006 and the three months ended March 31, 2007 are derived from the unaudited pro forma financial statements of SemGroup Energy Partners, L.P. included elsewhere in this prospectus. The pro forma adjustments have been prepared as if certain transactions to be effected prior to the closing of this offering had taken place on March 31, 2007, in the case of the pro forma balance sheet, or as of January 1, 2006, in the case of the pro forma statement of operations for the year ended December 31, 2006 and for the three months ended March 31, 2007. These transactions include:

- the contribution by SemGroup Holdings of the Crude Oil Business to us;
- our issuance of 473,743 general partner units and the incentive distribution rights to our general partner and 12,500,000 common units and 10,713,430 subordinated units to SemGroup Holdings;
- our borrowing of $137.5 million under our new five-year credit facility and the distribution of the proceeds to SemGroup Holdings;
- the execution of the Throughput Agreement; and
- the execution of the Omnibus Agreement.

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following table includes the non-GAAP financial measure of EBITDA. For a definition of EBITDA and a reconciliation to its most directly comparable financial measures calculated and presented in accordance with GAAP, please see Summary Non-GAAP Financial Measures.

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	SemGroup Energy Partners, L.P. Predecessor							SemGroup Energy Partners, L.P. Pro Forma	
	Year Ended December 31,					Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	2002	2003	2004	2005	2006	2006	2007	2006	2007
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(dollars in thousands, except per unit data)								
Statement of Operations Data:									
Service revenues[1]:									
Third-party revenue[2]	$ 13,499	$ 15,694	$ 15,857	$ 20,361	$ 28,839	$ 6,338	$ 8,634	$ 17,148	$ 4,739
Related party revenue								80,613	22,236
Total revenue	13,499	15,694	15,857	20,361	28,839	6,338	8,634	97,761	26,975
Expenses:									
Operating	25,314	31,307	30,996	38,467	51,608	13,327	16,117	51,608	16,117
General and administrative[3]	5,199	7,748	7,570	6,280	11,097	2,777	4,372	5,000	1,250
Total expenses	30,513	39,055	38,566	44,747	62,705	16,104	20,489	56,608	17,367
Operating income (loss)	(17,014)	(23,361)	(22,709)	(24,386)	(33,866)	(9,766)	(11,855)	41,153	9,608
Other (income) expenses:									
Interest expense[4]	4,013	3,379	1,973	2,597	1,989	511	429	9,197	2,202
Net income (loss)	$ (21,027)	$ (26,740)	$ (24,682)	$ (26,983)	$ (35,855)	$ (10,277)	$ (12,284)	$ 31,956	$ 7,406
General partner interest in pro forma net income								$ 639	$ 148
Limited partner interest in pro forma net income								$ 31,317	$ 7,258
Pro forma net income per limited partner unit:									
Common units								$ 1.35	$ 0.34
Subordinated units								$ 1.35	$ 0.28
Financial and Operating Data:									
Financial data:									
EBITDA			$ (16,356)	$ (17,832)	$ (25,269)	$ (7,863)	$ (9,655)	$ 49,750	$ 11,808
Operating data:									
Cushing terminal:									
Average crude oil barrels stored per month	405,287	284,389	721,590	1,371,281	2,695,766	2,151,945	2,770,108		
Average crude oil delivered (Bpd)	28,165	26,258	31,074	30,143	44,889	28,982	62,334		
Total storage capacity (barrels at end of	793,200	793,200	793,200	3,493,200	4,370,000	4,370,000	4,765,000		

period)									
Other:									
Total storage capacity (barrels at end of period)	2,169,490	2,329,490	2,329,490	2,048,890	1,952,150	1,944,150	1,952,150		
Average throughput (Bpd):									
Mid-Continent system	20,785	19,939	20,228	22,255	28,762	26,631	32,570		
Longview system	35,590	32,992	31,547	30,993	36,493	40,975	28,339		
Balance Sheet Data (at period end):									
Property, plant and equipment, net	$ 49,721	$ 45,295	$ 49,601	$ 64,688	$ 92,245	$ 76,946	$ 101,967	$ 92,245	$ 101,967
Total assets	59,440	54,332	57,739	72,912	104,847	86,083	114,822	103,850	113,499
Long-term debt and capital lease obligations	34,317	34,415	35,337	38,849	36,757	38,292	36,264	143,066	142,573
Total division equity/partners capital	23,468	17,643	20,198	28,799	62,146	39,755	71,465	(39,216)	(29,074)

(1) Our predecessor only recognized revenues for services provided to third parties. Pro forma service revenues give effect to the Throughput Agreement as if such agreement had been entered into on January 1, 2006. The pro forma adjustment is based on actual gathering, transportation, terminalling and storage services provided on an intercompany basis at rates specified in the Throughput Agreement, including giving effect to our Parent s minimum commitments with respect to such services where applicable.

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(2) Third-party revenues decreased on a pro forma basis because certain contracts relating to third-party storage services will be retained by our Parent and we will provide services to our Parent relating to these contracts under the Throughput Agreement. Accordingly, these amounts are reflected in pro forma related party revenues.

(3) Pro forma general and administrative expenses have been adjusted to give effect to the annual administrative fee of $5.0 million that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering. Pro forma general and administrative expenses do not include incremental expenses that we will incur as a public company, which we anticipate will be approximately $2.9 million per year. In addition, pro forma general and administrative expenses do not include discretionary incentive compensation based on pro forma EBITDA, which would have been approximately $2.0 million and $0.5 million on a pro forma basis for the year ended December 31, 2006 and the three months ended March 31, 2007, respectively.

(4) Historical interest expense reflects interest on capitalized lease obligations and debt payable to our Parent. Pro forma interest expense gives effect to the borrowing of $137.5 million under our new $250.0 million five-year credit facility as if such borrowings occurred on January 1, 2006.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The historical financial statements included elsewhere in this prospectus reflect the assets, liabilities and operations of SemGroup Energy Partners, L.P. Predecessor, which is our predecessor. Prior to the closing of this offering, a substantial majority of the gathering, transportation, terminalling and storage assets of our predecessor will have been contributed to us by our Parent. The following discussion analyzes the historical financial condition and results of operations of our predecessor. You should read the following discussion of the historical financial condition and results of operations for our predecessor in conjunction with our predecessor s historical financial statements and notes and the unaudited pro forma financial statements for SemGroup Energy Partners, L.P. included elsewhere in this prospectus.

Overview

We are a Delaware limited partnership recently formed by our Parent to own, operate and develop a diversified portfolio of complementary midstream energy assets. Prior to the closing of this offering, our Parent will contribute to us crude oil terminalling and storage facilities with an aggregate of approximately 6.7 million barrels of storage capacity primarily located in Oklahoma, approximately 1,120 miles of crude oil gathering and transportation pipelines located in Oklahoma and Texas and approximately 200 owned or leased crude oil tanker trucks, which we collectively refer to as the Crude Oil Business. Prior to the closing of this offering, we will enter into the Throughput Agreement with our Parent pursuant to which we will provide crude oil gathering, transportation, terminalling and storage services to our Parent. We will derive a substantial majority of our revenues from services provided to our Parent under the Throughput Agreement.

Items Impacting the Comparability of Our Financial Results

Our future results of operations and cash flows may not be comparable to the historical results of operations for the periods presented below for our predecessor, for the reasons described below:

- There are differences in the way our predecessor recorded revenues and the way we will record revenues.

  - A substantial majority of our revenues will be derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. Our Parent will pay us a fee for gathering, transportation, terminalling and storage services based on volume and throughput. In rendering these services, we do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal or store and, therefore, we have minimal direct exposure to changes in crude oil prices. Please see Throughput Agreement below.

  - The Crude Oil Business has historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. As such, the revenues we expect to receive under the Throughput Agreement are not reflected in the historical financial statements of our predecessor.

  - Our predecessor recognized revenues from third parties for (1) storage services, (2) transportation services and (3) producer field services. Although a substantial majority of our revenues will be derived from services provided to our Parent, we also will recognize revenue for gathering, transportation, terminalling and storage services provided to third parties.

- There are differences in the way general and administrative expenses were allocated to our predecessor and the way we will recognize general and administrative expenses.

General and administrative expenses include office personnel and benefit expenses, costs related to our administration facilities, and insurance, accounting and legal expenses, including costs

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allocated by our Parent for centralized general and administrative services performed by our Parent. Such costs were allocated to our predecessor based on the nature of the respective expenses and its proportionate share of our Parent s head count, compensation expense, net revenues or square footage as appropriate.

Pursuant to the Omnibus Agreement, we will pay our general partner and our Parent a fixed administrative fee, initially in the amount of $5.0 million per year, for the provision by our general partner and our Parent of various general and administrative services to us for three years following this offering. For a more complete description of this agreement, see Certain Relationships and Related Party Transactions Omnibus Agreement.

Upon completion of this offering, we anticipate incurring incremental general and administrative expenses of approximately $2.9 million per year as a result of being a publicly traded limited partnership, including costs associated with annual and quarterly reports to unitholders, financial statement audit, tax return and Schedule K-1 preparation and distribution, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. These incremental general and administrative expenditures are not reflected in the historical financial statements of our predecessor.

With the exception of capital lease obligations, no working capital will be contributed to us in connection with this offering.

Our predecessor had $31.2 million in debt payable to Parent which will not be assumed by us. Prior to the closing of this offering, we will enter into a new $250.0 million five-year credit facility and borrow $137.5 million under that facility.

Throughput Agreement

Prior to the closing of this offering, we will enter into the Throughput Agreement with our Parent. A substantial majority of our revenues will be derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to this agreement. None of these revenues are reflected in the historical financial statements of our predecessor. Under this agreement, we will provide the following services to our Parent:

Gathering and Transportation Services. We will gather crude oil for our Parent for delivery to refiners, to large common carrier pipelines for ultimate delivery to refiners, to our storage facilities (including our Cushing terminal) or to storage locations owned by others. Under the Throughput Agreement, we will charge fees for the following types of pipeline gathering and transportation services:

Gathering services. Our Parent will be obligated to pay us a fee per barrel gathered on our gathering systems.

Pipeline transportation services. Our Parent will be obligated to pay us a fee per barrel transported on our Mid-Continent system.

Delivery services. Our Parent will be obligated to pay us a fee per barrel for deliveries out of our Cushing terminal.

Trucking services. We will gather crude oil for our Parent from operators at remote wellhead locations not served by pipeline gathering systems. Our trucking fleet will deliver such crude oil to our gathering systems located in Oklahoma and Texas, common carrier pipelines or our Cushing terminal. Our Parent will pay us a fee per barrel depending on the point of origin and destination for these trucking services.

The Throughput Agreement does not apply to any gathering or transportation services on our Longview system or to any producer field services.

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Terminalling and Storage Services. We will provide services relating to the receipt, storage, throughput and delivery of crude oil for our Parent into and out of the tanks located throughout our Mid-Continent system, including at our Cushing terminal, and our Longview system. Our storage services enable our Parent to purchase and store crude oil and sell it at later dates.

Minimum Throughput and Storage Requirements. Under the Throughput Agreement, the gathering services and pipeline transportation services we provide to our Parent (other than gathering and pipeline transportation services provided on the Longview system) will be subject to minimum throughput requirements each month, regardless of the amount of such services actually used by our Parent in a given month. Our Parent will also commit to utilize a minimum of 80% of our historical average volume of trucking services. In addition, our Parent will be committed to use services constituting 80% of our total storage capacity. Our Parent will be obligated, regardless of the amount of services actually used by our Parent in a given month, to pay us a fee per barrel for the first 80% of our storage capacity. If our Parent utilizes any of these services in excess of these minimum throughput, trucking or storage requirements, our Parent will pay us a fee for such services equal to at least 110% of the per barrel base charge for the applicable services. However, we are able to contract with other customers for services in excess of these minimum commitments and we are not obligated to provide any services in excess of the minimum requirements to our Parent.

Based on these minimum throughput, trucking and storage requirements, our Parent will be obligated to pay us an aggregate minimum monthly fee of $3.8 million and $2.6 million for our gathering and transportation services and our terminalling and storage services, respectively, but we expect to earn incremental revenues for providing these services. The pipeline trucking unloading services we provide to our Parent pursuant to the Throughput Agreement will not be subject to any minimum usage requirements.

In rendering these services, we do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal or store and, therefore, we have minimal direct exposure to changes in crude oil prices. The Throughput Agreement contains a Consumer Price Index adjustment that may offset a portion of any increased costs that we incur. The Throughput Agreement will have an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon one year s prior notice. Our Parent s obligations under the Throughput Agreement will not terminate if our Parent no longer owns our general partner. The Throughput Agreement may be assigned by our Parent only with our consent.

The Throughput Agreement does not apply to any services we provide to customers other than our Parent.

Factors That Will Significantly Affect Our Results

Commodity Prices. Although our current operations will have minimal direct exposure to commodity prices, the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. Petroleum product prices may be contango (future prices higher than current prices) or backwardated (future prices lower than current prices) depending on market expectations for future supply and demand. Our terminalling and storage services benefit most from an increasing price environment, when a premium is placed on storage, and our gathering and transportation services benefit most from a declining price environment when a premium is placed on prompt delivery.

Volumes. Our results of operations are dependent upon the volumes of crude oil we gather, transport, terminal and store. Although our Parent has committed to use a minimum amount of our services pursuant to the Throughput Agreement, our results of operations will be impacted by our ability to utilize our remaining pipeline and storage capacity to transport and store supplies of crude oil for third parties and for our Parent. An increase or decrease in the production of crude oil from the oil fields served by our pipelines or an increase or decrease in the demand for crude oil in the areas served by our pipelines and storage facilities will have a corresponding effect on the volumes we gather, transport, terminal and store. The production and demand for crude oil are driven by many factors, including the price for crude oil.

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Acquisition Activities. We intend to pursue both strategic and accretive acquisitions within the midstream industry both independently and jointly with our Parent. These acquisition efforts may involve assets that, if acquired, would have a material effect on our financial condition and results of operations. We can give no assurance that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms considered favorable to us.

Organic Expansion Activities. We also will pursue opportunities to expand our existing asset base and will consider constructing additional assets in strategic locations. The construction of additions or modifications to our existing assets, and the construction of new assets, involves numerous regulatory, environmental, political, legal and operational uncertainties beyond our control and may require the expenditure of significant amounts of capital.

Operating Costs. The current high levels of crude oil exploration, development and production activities is increasing competition for personnel and equipment. This increased competition is placing upward pressure on the prices we pay for labor, supplies, property, plant and equipment. To the extent we are unable to procure necessary services or assets or offset higher costs, our operating results will be negatively impacted. Under the Throughput Agreement, a Consumer Price Index adjustment may offset a portion of any increased costs that we incur.

Expected Borrowings. Prior to the closing of this offering, we will borrow $137.5 million under our new five-year credit facility and recognize associated interest expense and amortization of debt issuance costs.

Distributions to our Unitholders. Following the closing of this offering, we intend to make cash distributions to our unitholders and our general partner at an initial distribution rate of $0.3375 per common unit per quarter ($1.35 per common unit on an annualized basis). Due to our cash distribution policy, we expect that we will distribute to our unitholders most of the cash generated by our operations. As a result, we expect that we will rely upon external financing sources, including commercial bank borrowings and other debt and equity issuances, to fund our acquisition and expansion capital expenditures, as well as our working capital needs.

Recent Acquisitions

On June 30, 2006, our Parent completed the acquisition of the assets of Big Tex, a crude oil gathering, transportation and marketing company located in Abilene and Midland, Texas, and in Hobbs, New Mexico, for total consideration of approximately $15.5 million. Prior to the closing of this offering, our Parent will contribute $9.8 million of assets to us from this acquisition consisting primarily of equipment, vehicles and intangibles, including third-party customer relationships, a noncompete agreement and goodwill.

Results of Operations

The following table and discussion is a summary of our results of operations for each of the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2006 and 2007:

	Year Ended December 31,			Three Months Ended March 31,	
	2004	**2005**	**2006**	**2006**	**2007**
	(dollars in thousands)				
Service revenues	$ 15,857	$ 20,361	$ 28,839	$ 6,338	$ 8,634
Operating expenses	30,996	38,467	51,608	13,327	16,117
General and administrative expenses	7,570	6,280	11,097	2,777	4,372
Operating loss	(22,709)	(24,386)	(33,866)	(9,766)	(11,855)
Interest expense	1,973	2,597	1,989	511	429
Net loss	$ (24,682)	$ (26,983)	$ (35,855)	$ (10,277)	$ (12,284)

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Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Service revenues. Service revenues were $8.6 million for the three months ended March 31, 2007 compared to $6.3 million for the three months ended March 31, 2006, an increase of $2.3 million, or 36%. Service revenues include revenues from terminalling and storage services and gathering and transportation services. Terminalling and storage revenues increased by $1.4 million to $2.7 million for the three months ended March 31, 2007 compared to $1.3 million for the three months ended March 31, 2006, primarily due to favorable market conditions whereby crude oil was in significant contango (current market prices are less than future prices) during the first quarter of 2007 thus increasing demand for storage services. This increase in terminalling and storage revenue was further impacted by a 0.6 million barrel increase in our crude oil storage capacity during the same period. In addition, the acquisition of Big Tex on June 30, 2006 resulted in an increase in gathering and transportation revenues of $1.0 million for the three months ended March 31, 2007, which was partially offset by a decrease in other gathering and transportation revenues of $0.5 million. Our gathering and transportation services revenue also includes revenues from producer field services. Producer field service revenue increased by $0.3 million to $3.5 million for three months ended March 31, 2007 compared to $3.2 million for the three months ended March 31, 2006.

Operating expenses. Operating expenses include salary and wage expenses and related taxes and depreciation and amortization expenses. Operating expenses increased by $2.8 million, or 21%, to $16.1 million for the three months ended March 31, 2007 compared to $13.3 million for the three months ended March 31, 2006. Approximately $1.8 million of this increase in operating expenses was due to our acquisition of Big Tex on June 30, 2006. Included in operating expenses for the quarter ended March 31, 2007 is $1.1 million in costs associated with the clean up of a crude oil leak that occurred in the quarter ended March 31, 2007 in relation to a thirty-five mile pipeline located in Conroe, Texas. This gathering line was sold by our Parent on April 30, 2007, and our Parent has assumed any future obligations associated with the aforementioned leak. Excluding the impact of our acquisition of Big Tex, compensation expense decreased by $0.7 million for the three months ended March 31, 2007 compared to the three months ended March 31, 2006, primarily as a result of reduced costs in our transportation and gathering segment. Depreciation and amortization expense increased by $0.3 million to $2.2 million for the three months ended March 31, 2007 compared to $1.9 million for the three months ended March 31, 2006, primarily as a result of capital expenditures in our terminalling and storage segment and as a result of our acquisition of Big Tex. Furthermore, as a result of the growth in our property and equipment during this period, insurance premiums increased by $0.4 million.

General and administrative expenses. General and administrative expenses increased by $1.6 million, or 57%, to $4.4 million for the three months ended March 31, 2007 compared to $2.8 million for the three months ended March 31, 2006. The increase was primarily the result of growth in our business and was comprised of a $0.9 million increase in compensation expenses, a $0.2 million increase in costs allocated to us from our Parent, a $0.2 million increase in outside professional service costs, a $0.2 million increase comprised of travel expense, legal expense, insurance premiums and rent expense for our facilities and a $0.1 million increase related to our acquisition of Big Tex.

Interest expense. Interest expense represents interest on capital lease obligations and debt payable to our Parent. Interest expense was $0.4 million for the three months ended March 31, 2007 compared to $0.5 million for the three months ended March 31, 2006, a decrease of $0.1 million, or 20%. This decrease was the result of capitalized interest, which increased by $0.1 million to $0.4 million in the first three months of 2007 as a result of an increase in the amount of assets under construction.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Service revenues. Service revenues were $28.8 million for the year ended December 31, 2006 compared to $20.4 million for the year ended December 31, 2005, an increase of $8.4 million, or 41%. Service revenues include revenues from terminalling and storage services and gathering and transportation services. Terminalling and storage revenues increased by $5.1 million to $9.1 million for the year ended December 31, 2006 compared to $4.0 million for the year ended December 31, 2005, primarily due to favorable market conditions whereby

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crude oil was in significant contango (current market prices are less than future prices) during 2006 thus increasing demand for storage services. This increase in terminalling and storage revenue was further impacted by a 0.9 million barrel increase in our crude oil storage capacity during the same period. In addition, the acquisition of Big Tex on June 30, 2006 resulted in an increase in gathering and transportation revenues of $2.0 million for the year ended December 31, 2006, which was partially offset by a decrease in other gathering and transportation revenues of $0.4 million. Our gathering and transportation services revenue also includes revenues from producer field services. Producer field service revenue increased by $1.3 million to $12.1 million for the year ended December 31, 2006 compared to $10.8 million for the year ended December 31, 2005.

Operating expenses. Operating expenses increased by $13.1 million, or 34%, to $51.6 million for the year ended December 31, 2006 compared to $38.5 million for the year ended December 31, 2005. Approximately $5.9 million of this increase in operating expenses was due to our acquisition of Big Tex on June 30, 2006 and rising fuel costs associated with our transportation operations. Additionally, exclusive of the impact of the Big Tex acquisition, compensation expense increased by $2.5 million during this period. Depreciation and amortization expense increased by $2.0 million to $8.6 million for the year ended December 31, 2006 compared to $6.6 million for the year ended December 31, 2005, primarily as a result of capital expenditures in our terminalling and storage segment and as a result of our acquisition of Big Tex. Furthermore, as a result of the growth in our property and equipment during this period, repair and maintenance expense increased by $0.9 million and insurance premiums increased by $0.9 million.

General and administrative expenses. General and administrative expenses increased by $4.8 million, or 76%, to $11.1 million for the year ended December 31, 2006 compared to $6.3 million for the year ended December 31, 2005. The increase was primarily the result of the growth in our business and was comprised of a $2.2 million increase in discretionary incentive compensation, a $1.3 million increase in costs allocated to us from our Parent, and a $1.2 million increase comprised of travel expense, legal expense, insurance premiums and rent expense for our facilities.

Interest expense. Interest expense represents interest on capital lease obligations and debt payable to our Parent. Interest expense was $2.0 million for the year ended December 31, 2006 compared to $2.6 million for the year ended December 31, 2005, a decrease of $0.6 million, or 23%. This decrease was the result of capitalized interest, which increased by $0.7 million to $1.1 million in 2006 as a result of an increase in the amount of assets under construction.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Service revenues. Service revenues were $20.4 million for the year ended December 31, 2005 compared to $15.9 million for the year ended December 31, 2004, an increase of $4.5 million, or 28%. Terminalling and storage revenues increased by $1.4 million to $4.0 million for 2005 compared to $2.6 million for 2004. This increase was primarily due to favorable market conditions whereby crude oil was in significant contango during 2005 thus increasing demand for storage services. This increase in terminalling and storage revenue was further impacted by a 2.7 million barrel increase in our crude oil storage capacity during the same period. Gathering and transportation revenues increased from $13.3 million in 2004 to $16.4 million in 2005 primarily as a result of an increase in the volumes of crude oil we were able to transport for our customers due to an increase in our trucking fleet. Included in gathering and transportation revenues are producer field service revenues, which increased to $9.2 million for 2005, a $2.0 million increase over 2004, primarily as a result of an increase in salt water disposal services we provided to our customers.

Operating expenses. Operating expenses increased by $7.5 million, or 24%, to $38.5 million for the year ended December 31, 2005 compared to $31.0 million for the year ended December 31, 2004. Included in the total increase in operating expenses during this period are increases in compensation expense of $3.0 million, repair and maintenance expense of $2.2 million, fuel expense of $1.6 million and property and other taxes of $0.4 million. These increases were primarily due to the increase in volumes of crude oil stored and transported for our customers as well as the expansion of our producer field services operations.

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General and administrative expenses. General and administrative expenses decreased by $1.3 million, or 17%, to $6.3 million for the year ended December 31, 2005 compared to $7.6 million for the year ended December 31, 2004. The decrease was primarily due to acquisitions completed by our Parent in 2005 that were not part of our operations, which decreased the amount of indirect general and administrative expenses allocated to us for management, accounting and other services.

Interest expense. Interest expense was $2.6 million for the year ended December 31, 2005 compared to $2.0 million for the year ended December 31, 2004, an increase of $0.6 million, or 30%. This increase was the result of rising interest rates during the period, with $0.5 million of the total increase related to interest charges on the debt payable to our Parent.

Effects of Inflation

In recent years, inflation has been modest and has not had a material impact upon the results of our predecessor s operations.

Liquidity and Capital Resources

Our Predecessor s Liquidity and Capital Resources

Historically, our predecessor s sources of liquidity included cash generated from operations and funding from our Parent. The following table summarizes our predecessor s sources and uses of cash for the years ended December 31, 2004, 2005 and 2006 and for the three months ended March 31, 2006 and 2007.

	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(dollars in millions)				
Net cash used in operating activities	$ (17.9)	$ (18.8)	$ (25.8)	$ (10.3)	$ (12.2)
Net cash used in investing activities	(8.1)	(14.9)	(41.3)	(10.5)	(9.0)
Net cash provided by financing activities	26.0	33.8	67.1	20.8	21.2

Operating Activities. Net cash used in operating activities increased $1.9 million, or 18%, for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 primarily due to a $2.2 million increase in our net loss for the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006. The impact of the increase in our net loss for the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006 on cash used in operating activities was partially offset by a $0.3 million increase in depreciation and amortization expense. Net cash used in operating activities increased $7.0 million, or 37%, for the year ended December 31, 2006 as compared to the year ended December 31, 2005 primarily as a result of the $8.9 million increase in our net loss for the year ended December 31, 2006 compared to the year ended December 31, 2005. Net cash used in operating activities increased $0.9 million, or 5%, for the year ended December 31, 2005 as compared to the year ended December 31, 2004 primarily due to a $2.3 million increase in our net loss for the year ended December 31, 2005 compared to the year ended December 31, 2004. The impact of the increase in our net loss for the year ended December 31, 2005 compared to the year ended December 31, 2004 on cash used in operating activities was partially offset by a $0.5 million increase in the change in assets and liabilities during these same periods. Our future results of operations, including cash flow from operations, may not be comparable to the historical results of operations of our predecessor because the Crude Oil Business has historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenues associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis.

Investing Activities. Net cash used in investing activities was $9.0 million for the three months ended March 31, 2007 compared to $10.5 million for the three months ended March 31, 2006. This decrease was attributable to a reduction in capital expenditures primarily resulting from the timing of construction projects in our terminalling and storage segment. Net cash used in investing activities was $41.3 million for the year ended December 31, 2006 as compared to $14.9 million for the year ended December 31, 2005 and $8.1 million for the

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year ended December 31, 2004. Capital expenditures for the three months ended March 31, 2007 and 2006 and for the years ended December 31, 2006, 2005 and 2004 were $9.1 million, $10.6 million, $41.5 million, $15.0 million and $8.4 million, respectively, consisting of both our acquisition of Big Tex on June 30, 2006 and expenditures for the construction of additional crude oil storage capacity during these periods. We added 0.4 million additional barrels of crude oil storage capacity in the quarter ended March 31, 2007, and 2.3 million and 1.2 million additional barrels of crude oil storage capacity in the years ended December 31, 2006 and 2005, respectively.

Financing Activities. Net cash provided by financing activities is primarily comprised of capital contributions of $21.6 million, $21.2 million, $69.2 million, $35.6 million and $27.4 million received by us from our Parent during the three months ended March 31, 2007 and 2006 and the years ended December 31, 2006, 2005 and 2004, respectively. The capital contributions served to fund our working capital needs and both maintenance and expansion capital expenditure projects that are reflected in net cash used in investing activities.

Our Liquidity and Capital Resources

We expect our future sources of liquidity to include cash generated from operations, borrowings under our credit facility, issuance of additional partnership units and debt offerings. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements, long-term capital expenditure requirements and quarterly cash distributions.

Capital Requirements. Our Crude Oil Business is capital intensive, requiring significant investment to maintain and upgrade existing operations. Our predecessor s capital requirements have consisted primarily of, and we anticipate that our capital requirements will continue to consist of, the following:

- maintenance capital expenditures, which are capital expenditures made to maintain the existing operating capacity of our assets and related cash flows further extending the useful lives of the assets; and

- expansion capital expenditures, which are capital expenditures made to expand or to replace partially or fully depreciated assets or to expand the operating capacity or revenue of existing or new assets, whether through construction, acquisition or modification.

As more completely discussed in Our Cash Distribution Policy and Restrictions on Distributions Assumptions and Considerations, for the twelve months ending June 30, 2008, we estimate that maintenance capital expenditures will be approximately $3.2 million. Given our objective of growth through acquisitions, expansions of existing assets and other growth projects, we anticipate that we will invest significant amounts of capital to grow and acquire assets. After the completion of this offering, expansion capital expenditures may vary significantly based on investment opportunities.

We expect to fund future capital expenditures with funds generated from our operations, borrowings under our new credit facility, the issuance of additional partnership units and debt offerings.

Our Ability to Grow Depends on Our Ability to Access External Expansion Capital. We will distribute all of our available cash to our unitholders. Available cash is reduced by cash reserves established by our general partner to provide for the proper conduct of our business (including for future capital expenditures). However, we expect that we will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, rather than cash reserves established by our general partner, to fund our acquisitions and expansion capital expenditures. To the extent we are unable to finance growth externally and we are unwilling to establish cash reserves to fund future acquisitions, our cash distribution policy will significantly impair our ability to grow. In addition, because we distribute all of our available cash, we may not grow as quickly as businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per

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unit distribution level, which in turn may impact the available cash that we have to distribute on each unit. There are no limitations in our partnership agreement or in the anticipated terms of our new credit facility on our ability to issue additional units, including units ranking senior to the common units.

Description of Credit Facility. Prior to the closing of this offering, we will have entered into a new $250.0 five- year credit facility with a syndicate of financial institutions.

The credit facility will be available for general partnership purposes, including working capital, capital expenditures, distributions and repayment of indebtedness that is assumed in connection with acquisitions. We will borrow $137.5 million under our credit facility prior to the closing of this offering and, as a result, we will have approximately $112.5 million of remaining borrowing capacity under the credit facility immediately after the closing. Please see Use of Proceeds.

Our obligations under the credit facility will be secured at all times by substantially all of our assets and all of the assets of our restricted subsidiaries. We may prepay all advances at any time without penalty, subject to the reimbursement of lender breakage costs in the case of prepayment of LIBOR borrowings. Indebtedness under the credit facility will bear interest, at our option, at either (1) the higher of Wachovia Bank s prime rate or the federal funds rate plus 0.5%, plus an applicable margin that ranges from 0.25% to 1.25%, depending on our total leverage ratio, or (2) LIBOR plus an applicable margin that ranges from 1.25% to 2.25%, depending upon our total leverage ratio.

The credit agreement will prohibit us from making distributions of available cash to unitholders if any default or event of default (as defined in the credit agreement) exists. The credit agreement will require us to maintain a leverage ratio (the ratio of our consolidated funded indebtedness to our consolidated adjusted EBITDA, in each case as will be defined in the credit agreement) of not more than 5.00 to 1.00 and, on a temporary basis, from the date of the consummation of certain acquisitions until the last day of the third consecutive fiscal quarter following such acquisitions, not more than 5.50 to 1.00; provided, that after the issuance of senior unsecured notes, the leverage ratio limitation will be modified by a requirement that we maintain a senior secured leverage ratio of not more than 4.00 to 1.00 and a total leverage ratio of not more than 5.50 to 1.00, subject to temporary increases of the senior secured leverage ratio to not more than 4.50 to 1.00 and the total leverage ratio of not more than 6.00 to 1.00 following the consummation of certain acquisitions as described above. The credit agreement will also require us to maintain an interest coverage ratio (the ratio of our consolidated EBITDA to our consolidated interest expense, in each case as will be defined in the credit agreement) of not less than 2.75 to 1.00 determined as of the last day of each quarter for the four-quarter period ending on the date of determination.

In addition, the credit agreement will contain various covenants that may limit, among other things, our ability to:

- grant liens;
- incur additional indebtedness;
- engage in a merger, consolidation or dissolution;
- enter into transactions with affiliates;
- sell or otherwise dispose of our assets, businesses and operations;
- materially alter the character of our business; and

- make acquisitions, investments and capital expenditures.

If an event of default exists under the credit agreement, the lenders will be able to accelerate the maturity of the credit agreement and exercise other rights and remedies. Each of the following could be an event of default under the credit agreement:

- failure to pay any principal when due or any interest or fees within five business days of the due date;

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- failure to perform or otherwise comply with the covenants in the credit agreement;
- failure of any representation or warranty to be true and correct in any material respect;
- failure to pay debt;
- a change of control; and
- other customary defaults, including specified bankruptcy or insolvency events, the Employee Retirement Income Security Act of 1974, or ERISA, violations, and material judgment defaults.

Contractual Obligations. In addition to the credit facility described above, we will enter into the Omnibus Agreement with our Parent prior to the closing of this offering pursuant to which our Parent will provide all employees and support services necessary to run our business. The services may include, without limitation, operations, marketing, maintenance and repair, legal, accounting, treasury, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, internal audit, taxes and engineering.

Contractual obligations. A summary of our contractual cash obligations over the next several fiscal years, as of March 31, 2007, is as follows:

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
	(dollars in millions)				
Debt obligations(1)	$ 31.2	$	$ 31.2	$	$
Interest on debt obligations(2)	9.6	2.7	6.8		
Capital lease obligations	5.8	2.2	3.3	0.3	
Operating lease obligations	11.0	2.6	7.3	1.1	

(1) Represents required future principal repayments of debt obligations allocated from our Parent.
(2) Represents interest expense on debt obligations allocated from our Parent, based on interest rates as of March 31, 2007. We used an average annual rate of 8.75% to estimate our interest on variable rate debt obligations.

Quantitative and Qualitative Disclosures About Market Risks

We will be exposed to market risk due to variable interest rates under the credit facility that we will enter into prior to the closing of this offering. Prior to the closing of this offering, we will enter into a $250.0 million five-year credit facility and borrow $137.5 million under that facility. All such borrowings will bear interest at floating rates. Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and reducing our funds available for capital investment, operations or distributions to our unitholders. Additionally, if domestic interest rates continue to increase, the interest rates on any of our future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly.

Critical Accounting Policies and Estimates

Our predecessor s discussion and analysis of its financial condition and results of operation is based upon its consolidated financial statements. Our predecessor prepared these financial statements in conformity with United States GAAP. As such, our predecessor is required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Our predecessor based its estimates on historical experience, available information and various other assumptions our predecessor believes to be reasonable under the circumstances. On an on-going basis, our predecessor evaluates its estimates; however, actual results may differ from these estimates under different assumptions or conditions. The accounting policies that our

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predecessor believes require management s most difficult, subjective or complex judgments and are the most critical to its reporting of results of operations and financial position are as follows:

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosure of contingencies. We make significant estimates including: (1) allowance for doubtful accounts receivable; (2) estimated useful lives of assets, which impacts depreciation; (3) estimated cash flows and fair values inherent in impairment tests under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142); (4) estimated fair value of assets and liabilities acquired and identification of associated intangible assets; (5) accruals related to revenues and expenses; and (6) liability and contingency accruals. Although our management believes these estimates are reasonable, actual results could differ from these estimates.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs that do not add capacity or extend the useful life of an asset are expensed as incurred. The carrying value of the assets is based on estimates, assumptions and judgments relative to useful lives and salvage values. As assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in other income in the statements of operations.

We calculate depreciation using the straight-line method, based on estimated useful lives of our assets. These estimates are based on various factors including age (in the case of acquired assets), manufacturing specifications, technological advances and historical data concerning useful lives of similar assets. Uncertainties that impact these estimates include changes in laws and regulations relating to restoration and abandonment requirements, economic conditions and supply and demand in the area. When assets are put into service, we make estimates with respect to useful lives and salvage values that we believe to be reasonable. However, subsequent events could cause us to change our estimates, thus impacting the future calculation of depreciation and amortization. The estimated useful lives of our asset groups are as follows:

Asset Group	Estimated Useful Lives (Years)
Pipelines and facilities	15-25
Storage and terminal facilities	10-25
Transportation equipment, injection stations	5-10
Office property and equipment and other	3-10

We capitalize certain costs directly related to the construction of assets, including internal labor costs, interest and engineering costs. Upon disposition or retirement of property, plant and equipment, any gain or loss is charged to operations.

We currently have no legal or contractual asset retirement obligations associated with our property and equipment or our pipeline right of ways. Any such obligations would be recognized in the period incurred if reasonably estimable under the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations.

Impairment of Long-lived Assets. Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written-down to estimated fair value in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets, as amended. Under SFAS No. 144, assets are tested for impairment when events or circumstances indicate that their carrying values may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment loss equal to the amount the carrying value exceeds the fair value of the asset is recognized. Fair value is generally determined from estimated discounted future net cash flows.

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Fair Value of Assets and Liabilities Acquired and Identification of Associated Goodwill and Intangible Assets. In conjunction with each acquisition, our predecessor must allocate the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. As additional information becomes available, our predecessor may adjust the original estimates within a short time subsequent to the acquisition. Our predecessor is also required to recognize intangible assets separately from goodwill. Goodwill and intangible assets with indefinite lives are not amortized but instead are periodically assessed for impairment. The impairment testing entails estimating future net cash flows relating to the asset based on management s estimate of market conditions including pricing, demand, competition, operating costs and other factors. Intangible assets with finite lives are amortized over the estimated useful life determined by management. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items as customer relationships and contracts with suppliers, involves professional judgment and is ultimately based on acquisition models and management s assessment of the value of the assets acquired and, to the extent available, third-party assessments. Uncertainties associated with these estimates include changes in production by producers and refiners, economic obsolescence factors in the area and potential future sources of cash flow. Although the resolution of these uncertainties has not historically had a material impact on our results of operations or financial condition, we cannot provide assurance that actual amounts will not vary significantly from estimated amounts.

Allocation Methodologies Used to Derive Our Predecessor s Financial Statements on a Carve-out Basis. Our predecessor employed various allocation methodologies to separate certain general and administrative expenses incurred by our Parent and recorded in its financial statements presented herein. Our Parent provides to our predecessor centralized corporate functions such as legal, accounting, treasury, insurance administration risk management, health, safety and environmental, information technology, human resources, credit, payroll, taxes and other corporate services and the use of facilities that support these functions. The allocation methodologies vary based on the nature of the charge and include, among other things, employee headcount, compensation expense, net revenues and square footage. Our predecessor s management believes that the allocation methodologies used to allocate indirect costs to it are reasonable. If certain general and administrative expenses were allocated using different methodologies, our predecessor s results of operations could have significantly differed from those presented herein.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115 (SFAS 159). SFAS 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value in situations in which they are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item s fair value in subsequent reporting periods must be recognized in current earnings. The provisions of SFAS 159 will be effective for fiscal years beginning after November 15, 2007. We are evaluating the impact of adoption of SFAS 159 but do not currently expect the adoption to have a material impact on our financial position, results of operations or cash flows.

In December 2006, the FASB issued FASB Staff Position EITF 00-19-2: Accounting for Registration Payment Arrangements (the FSP). The FSP specifies that the contingent obligation to make future payments under a registration payment arrangement should be separately recognized and measured in accordance with FASB Statement No. 5 Accounting for Contingencies . The FSP was effective immediately for registration payment arrangements and the financial instruments subject to those arrangements entered into or modified subsequent to December 21, 2006. For registration payment arrangements and for the financial instruments subject to those arrangements that were entered into prior to December 21, 2006, the FSP is effective for fiscal years beginning after December 15, 2006. At March 31, 2007, we did not have any material contingent obligations under registration payment arrangements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures regarding

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fair value measurements. SFAS 157 does not add any new fair value measurements, but it does change current practice and is intended to increase consistency and comparability in such measurement. The provisions of SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The impact, if any, from the adoption of SFAS 157 in 2008 will depend on our assets and liabilities that are required to be measured at fair value at that time.

In July 2006, the FASB issued FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) for that fiscal year. The provisions of FIN 48 were effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on our financial position, results of operations or cash flows.

In June 2006, the EITF issued issue No. 06-3 (EITF 06-3), How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net presentation). EITF 06-3 is effective for all periods beginning after December 15, 2006 and its scope includes any tax that is assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer. The EITF stated that it is an entity s accounting policy decision whether to present the taxes on a gross basis (within revenues and costs) or on a net basis (excluded from revenues) but that the accounting policy should be disclosed. If presented on a gross basis, an entity is required to report the amount of such taxes for each period for which an income statement is presented, if those amounts are significant. Our accounting policy is to present such taxes on a net basis.

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BUSINESS

Overview

We are a Delaware limited partnership recently formed by our Parent, a provider of midstream energy services, to own, operate and develop a diversified portfolio of complementary midstream energy assets. We currently provide crude oil gathering, transportation, terminalling and storage services primarily in our core operating areas in Oklahoma, Kansas and Texas. Prior to the closing of this offering, we will enter into the Throughput Agreement pursuant to which we will provide crude oil gathering, transportation, terminalling and storage services to our Parent. Our Parent will pay us a fee based on the number of barrels of crude oil we gather, transport, terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum revenues of $6.4 million per month. We intend to acquire and construct a significant amount of additional midstream energy assets, including acquisitions from our Parent and jointly with our Parent. At March 31, 2007, our Parent had total net book value of property, plant and equipment of $1.1 billion, with the crude oil gathering, transportation, terminalling and storage assets to be contributed to us prior to the closing of this offering representing approximately $102.0 million of this amount.

Our network of assets provides our customers the flexibility to access multiple points for the receipt and delivery of crude oil. We do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal and store. As a result, our operations have minimal direct exposure to changes in crude oil prices, but the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. We generate revenues by charging a fee for services provided at each transportation stage as crude oil is shipped from its origin at the wellhead to destination points such as the Cushing Interchange, to refineries in Oklahoma, Kansas and Texas or to pipelines, as described below:

Terminalling and storage assets and services. We provide crude oil terminalling and storage services at our facilities located in Oklahoma, Kansas and Texas. We currently own and operate an aggregate of approximately 6.7 million barrels of storage capacity. Of this storage capacity, approximately 4.8 million barrels are located at our terminal in Cushing, Oklahoma. We also own approximately 26 acres of additional land within the Cushing Interchange where we can develop additional storage capacity.

Our Cushing terminal is strategically located within the Cushing Interchange, the largest crude oil marketing hub in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts. Our Cushing terminal has a capacity to receive and/or deliver approximately 8.6 million barrels of crude oil per month. Our crude oil terminals derive most of their revenues from terminalling fees by customers. Normally, we charge a fee for transferring crude oil products from our terminals to trucks or pipelines. Our terminals have a combined capacity to receive or deliver approximately 10.0 million barrels of crude oil per month.

For the year ended December 31, 2006 and the three months ended March 31, 2007, our terminalling and storage services generated pro forma revenues of $31.1 million and $7.9 million, respectively, representing 32% and 29%, respectively, of our total business.

Gathering and transportation assets and services. We own and operate two pipeline systems, the Mid-Continent system and the Longview system, collectively consisting of approximately 1,120 miles of pipelines that gather crude oil for our Parent and other third-party customers and transport it to refiners, to common carrier pipelines for ultimate delivery to refiners or to terminalling and storage facilities owned by us and others. Our Mid-Continent system, located in Oklahoma and the Texas Panhandle, consists of a gathering and transportation pipeline system with a combined length of approximately 820 miles. Our Longview system, located in East Texas, consists of approximately 300 miles of tariff regulated crude oil gathering pipeline. In addition to our pipelines, we use our approximately 200 owned or leased tanker trucks to gather crude oil in Kansas, Oklahoma, Texas, New Mexico and Colorado for our Parent and other third-party customers at remote wellhead locations generally not connected to pipeline and gathering systems and transport the crude oil to aggregation points and storage facilities located along pipeline gathering and transportation systems. In connection

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with our gathering services, we also provide a number of producer field services, ranging from gathering condensates for natural gas producers to hauling production waste water to disposal wells.

For the year ended December 31, 2006 and the three months ended March 31, 2007, our gathering and transportation services generated pro forma revenues of $66.6 million and $19.1 million, respectively, representing 68% and 71%, respectively, of our total business.

We derive a substantial majority of our revenues from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. For the year ended December 31, 2006 and the three months ended March 31, 2007, our Parent represented approximately 82.5% and 82.4%, respectively, of our pro forma revenues and third parties accounted for the remainder. Our Parent s crude oil purchasing, marketing and distribution operations are substantially dependent on our services and assets. The Throughput Agreement has an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon prior notice. Our Parent will pay us a fee based on the number of barrels we gather, transport, terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum revenues of $6.4 million per month, which we expect to be sufficient to initially pay nearly all of the minimum quarterly distribution on our common units but no distribution on our subordinated units. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent.

Competitive Strengths

We believe we are well positioned to successfully achieve our primary business objectives and execute our business strategies based on the following competitive strengths:

Stable, fee-based, contracted cash flows. We believe our fee structure enhances our ability to generate stable and predictable cash flows. Pursuant to the Throughput Agreement, our Parent will commit to services at a level that will provide us with minimum revenues of $6.4 million per month. Our operations have minimal direct exposure to commodity price fluctuations because we do not own or take title to any of the crude oil that we gather, transport, terminal or store in these operations, but the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices.

Significance and versatility of our Cushing terminal. Our primary terminalling and storage facilities are located within the Cushing Interchange, the largest crude oil marketing hub in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts. We believe that the Cushing Interchange will continue to serve as the largest crude oil marketing hub in the United States. Given this belief and the supply-demand imbalance in the Midwest region of the United States, we expect that our Cushing terminal and its network of complementary assets will continue to provide our Parent and our other customers the ability to effectively manage their crude oil inventories and the flexibility to service their businesses efficiently and to increase their profitability. In addition, we have identified opportunities, should market conditions warrant, to expand our storage capacity and operations at our Cushing terminal to capture incremental crude oil throughput within the Cushing Interchange. We own approximately 26 acres of additional land within the Cushing Interchange where we can develop additional storage capacity.

Strategically located pipeline and transportation assets. We have over 1,120 miles of strategically positioned gathering and transportation pipelines in Oklahoma and Texas. Our Mid-Continent system provides the ability to gather wellhead crude oil from approximately 11,000 wells and transport crude oil directly to our Cushing terminal and other storage facilities, refineries or common carrier pipelines. Our Longview system is a tariff-regulated crude oil pipeline that delivers crude oil to terminalling, refinery and storage facilities at various delivery points in East Texas. We believe that the ability of our systems to transport crude oil to multiple end points, particularly the Cushing Interchange, creates increased demand for our systems, which will in turn result in increased volumes through our systems by allowing our customers, including our Parent, the flexibility to more effectively manage their marketing of crude oil and thereby increase their profitability. In addition, we provide two types of trucking services, crude oil transportation services and producer field services, that complement our pipeline infrastructure.

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Relationship with our Parent. We expect that our relationship with our Parent will provide us with significant business opportunities. Our Parent will own a significant economic interest in us, including indirect ownership of a 45.2% limited partner interest, a 2% general partner interest and incentive distribution rights. Our Parent has indicated that it intends to use us as a growth vehicle to pursue the acquisition and expansion of midstream energy businesses and assets. Following this offering, our Parent will continue to own a diversified portfolio of midstream energy assets in the United States, Canada, Mexico and the United Kingdom. Although we expect to have the opportunity to make acquisitions directly from, or jointly with, our Parent in the future, we cannot say with any certainty which, if any, acquisition opportunities may be made available to us or if we will choose to pursue any such opportunity.

Well maintained and efficient properties and facilities. Our gathering, transportation, terminalling and storage systems have been well maintained, resulting in reliable and efficient operations. In December 2000, the United States Congress passed a new pipeline safety act implementing new regulations to ensure the safety and integrity of pipeline systems. These regulations require pipeline companies to regularly evaluate the risk of failure of their pipelines and to conduct physical inspections and implement repairs to affected pipeline systems at a minimum of every five years to ensure they operate in a manner that is safe to the public and the environment. We utilize this continuous pipeline integrity process to evaluate risks to our system through in-line inspection and hydrostatic testing to ensure that we operate in compliance with these regulations, which we believe results in lower costs, minimal downtime and safer operations.

Financial flexibility to pursue expansion and acquisition opportunities. Prior to the closing of this offering, we will enter into a new $250.0 million five-year credit facility pursuant to which we will have approximately $112.5 million of borrowing capacity available for general partnership purposes. We believe the available capacity under this new facility combined with our ability to access the capital markets should provide us with a flexible financial structure that will facilitate our organic expansion and acquisition strategy.

Experienced management team. Our Parent has an experienced and knowledgeable executive management team with an average of more than 20 years experience in the energy industry who collectively owns an approximate 30.5% interest in our Parent. We expect to directly benefit from this management team s strengths. The management team has significant experience in the implementation of acquisition, operating and growth strategies in many facets of the energy industry, specifically including crude oil marketing, gathering, transportation, terminalling and storage and other midstream businesses. In addition, the management team has established strong relationships throughout the energy industry with producers, marketers and refiners of crude oil in the United States, which we believe will be beneficial to us in pursuing our own acquisition and organic expansion opportunities.

Business Strategies

Our primary business objectives are to maintain stable cash flows and to increase distributable cash flow per unit over time by becoming a leading provider of midstream services to the energy industry. We intend to accomplish these objectives by executing the following strategies:

Leveraging our relationship with our Parent. Our relationship with our Parent provides us access to its extensive pool of operational and commercial expertise. We intend to pursue acquisition opportunities as well as organic growth opportunities with our Parent. For example, as is frequently the case in the energy industry, potential acquisition opportunities may have an element of commodity price risk inherent in their pre-acquisition operations. We expect to be able to pursue such acquisitions jointly with our Parent in a manner that minimizes the direct commodity price exposure to us. In these circumstances, our Parent or one of its affiliates may retain the portion of the acquired business that has direct commodity price exposure and thereby assume most or all of the direct commodity price exposure inherent in the acquired business and incorporate these risks into its overall distribution and marketing operations. We could retain assets and the other portions of the acquired business that do not have direct commodity price exposure. As a result of our affiliation with our Parent, we believe we will be able to

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aggressively pursue acquisitions that otherwise would not be attractive to us or other midstream service providers because of the commodity price risk inherent in the acquired business operations. We may also acquire additional assets or businesses directly from our Parent, including assets constructed by our Parent, which will provide us access to a broad array of growth opportunities. Our Parent is not, however, obligated to offer any such acquisition opportunities to us and we are not obligated to purchase any assets or businesses that our Parent might offer to us.

Pursuing both strategic and accretive acquisitions. We intend to pursue both strategic and accretive acquisitions within the midstream energy industry, both independently and jointly with our Parent, that will enable us to grow our distributable cash flow per unit and enhance our service capabilities to our Parent and our other customers. We will seek acquisition opportunities in our existing areas of operation that have the potential for operational efficiencies, including higher capacity utilization as well as expansion of those assets. We also may examine midstream energy acquisition opportunities outside our existing area of operations and in new geographic regions.

Pursuing organic expansion opportunities. We will continually evaluate opportunities to expand our existing asset base and we will consider constructing additional assets in strategic locations that will allow us to leverage our existing market position and our core competitiveness in the crude oil gathering, transportation, terminalling and storage businesses. When necessary to meet increases in demand for crude oil, we will consider increasing storage capacity at our existing facilities. We will also evaluate adding new gathering and transportation assets to meet increasing demand and to improve integration with our terminalling and storage facilities. We have the ability to expand capacity at our Cushing terminal either individually or through joint development opportunities with our Parent. Over the last five years, our Parent has added approximately 3.6 million barrels of new crude oil storage capacity to our Cushing terminal. The combination of our undeveloped acreage and connectivity within the Cushing Interchange provides us with a competitive advantage to develop new terminalling and storage assets at this location to meet additional demand.

Increasing the profitability of our existing assets. We expect to improve our operating efficiency and to reduce our costs by monitoring and controlling our cost structure. We intend to make investments to improve the efficiency of our operations and pursue cost saving initiatives. Currently, we are evaluating opportunities to increase profitability of our existing operations by utilizing excess pipeline and storage capacity to transport and store new supplies of crude oil at minimal incremental cost and by adding third-party volumes to our system directly or through our Parent.

Our Relationship with our Parent

A substantial majority of our revenues are generated by providing services to our Parent s crude oil purchasing, marketing and distribution operations. Our Parent is a privately owned company that provides gathering, transportation, storage, distribution, marketing and other midstream services primarily to independent natural gas and crude oil producers, as well as refiners located along the North American energy corridor from the Gulf Coast to Central Canada and the West Coast of the United Kingdom. Our Parent has a significant asset base consisting primarily of pipelines, gathering systems, processing plants, storage facilities, terminals and other distribution facilities located between North American production and supply areas including the Gulf Coast and Mid-Continent regions of the United States and the province of Alberta, Canada and high demand regions such as the Midwest.

Since our Parent s inception in April 2000 through March 31, 2007, our Parent has completed 47 acquisitions at an aggregate purchase price of approximately $978 million, excluding amounts paid for working capital. Our Parent has indicated that it intends to use us as a growth vehicle to pursue the acquisition and expansion of midstream energy businesses and assets. Our Parent believes that by contributing crude oil gathering, transportation, terminalling and storage operations to a publicly traded partnership, these operations will have a greater value and a lower cost of capital than could be obtained by operating the assets in a separate business segment of our Parent. As a publicly traded limited partnership, we will have greater liquidity, which we believe will enhance our valuation. In addition, as a publicly traded partnership, we will have the ability not only to access the public capital markets (which we believe will enable us to have lower overall capital cost than available in

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private markets resulting in a lower cost of capital and funding costs) but also to use our units as consideration for potential future acquisitions. However, as a result of being a publicly traded partnership, we will incur increased legal, accounting and other expenses associated with additional regulatory and compliance matters.

While our relationship with our Parent may benefit us, it is also a source of potential conflicts. For example, our Parent is not restricted from competing with us. Our Parent has retained substantial midstream assets and may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets. Please see Conflicts of Interest and Fiduciary Duties.

Our Parent will retain a significant indirect interest in our partnership through its ownership of a 45.2% limited partner interest, a 2% general partner interest and incentive distribution rights in us. We will enter into the Omnibus Agreement and the Throughput Agreement with our Parent that will govern our relationship with our Parent. Please see Certain Relationships and Related Party Transactions Omnibus Agreement and Throughput Agreement. In addition, to carry out operations, as of March 31, 2007 affiliates of our general partner, which are indirectly owned by our Parent, employed approximately 1,900 people, some of whom will provide (or will be available to provide) direct support to our operations. Approximately 300 of our Parent s employees will be dedicated to supporting our operations following the formation transactions. We will not have any employees. Please see Employees.

Throughput Agreement

Prior to the closing of this offering, we will enter into the Throughput Agreement with our Parent. A substantial majority of our revenues will be derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to this agreement. None of these revenues are reflected in the historical financial statements of our predecessor. Under this agreement, we will provide the following services to our Parent:

Gathering and Transportation Services. We will gather crude oil for our Parent for delivery to refiners, to large common carrier pipelines for ultimate delivery to refiners, to our storage facilities (including our Cushing terminal) or to storage locations owned by others. Under the Throughput Agreement, we will charge fees for the following types of pipeline gathering and transportation services:

Gathering services. Our Parent will be obligated to pay us a fee per barrel gathered on our gathering systems.

Pipeline transportation services. Our Parent will be obligated to pay us a fee per barrel transported on our Mid-Continent system.

Delivery services. Our Parent will be obligated to pay us a fee per barrel for deliveries out of our Cushing terminal.

Trucking services. We will gather crude oil for our Parent from operators at remote wellhead locations not served by pipeline gathering systems. Our trucking fleet will deliver such crude oil to our gathering systems located in Oklahoma and Texas, common carrier pipelines or our Cushing terminal. Our Parent will pay us a fee per barrel depending on the point of origin and destination for these trucking services.

The Throughput Agreement does not apply to any gathering or transportation services on our Longview system or to any producer field services.

Terminalling and Storage Services. We will provide services relating to the receipt, storage, throughput and delivery of crude oil for our Parent into and out of the tanks located throughout our Mid-Continent system, including at our Cushing terminal, and our Longview system. Our storage services enable our Parent to purchase and store crude oil and sell it at later dates.

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Minimum Throughput and Storage Requirements. Under the Throughput Agreement, the gathering services and pipeline transportation services we provide to our Parent (other than gathering and pipeline transportation services provided on the Longview system) will be subject to minimum throughput requirements each month, regardless of the amount of such services actually used by our Parent in a given month. Our Parent will also commit to utilize a minimum of 80% of our historical average volume of trucking services. In addition, our Parent will be committed to use services constituting 80% of our total storage capacity. Our Parent will be obligated, regardless of the amount of services actually used by our Parent in a given month, to pay us a fee per barrel for the first 80% of our storage capacity. If our Parent utilizes any of these services in excess of these minimum throughput, trucking or storage requirements, our Parent will pay us a fee for such services equal to at least 110% of the per barrel base charge for the applicable services. However, we are able to contract with other customers for services in excess of these minimum commitments and we are not obligated to provide any services in excess of the minimum requirements to our Parent.

Based on these minimum throughput, trucking and storage requirements, our Parent will be obligated to pay us an aggregate minimum monthly fee of $3.8 million and $2.6 million for our gathering and transportation services and our terminalling and storage services, respectively, but we expect to earn incremental revenues for providing these services. The pipeline trucking unloading services we provide to our Parent pursuant to the Throughput Agreement will not be subject to any minimum usage requirements.
The Throughput Agreement contains a Consumer Price Index adjustment that may offset a portion of any increased costs that we incur. If new laws or regulations that affect these services generally are enacted that require us to make substantial and unanticipated capital expenditures, we will have the right to negotiate an upfront payment or monthly surcharge to be paid by our Parent for the use of our services to cover our Parent s pro rata portion of the cost of complying with these laws or regulations, after we have made efforts to mitigate their effect. We and our Parent are obligated to negotiate in good faith to agree on the level of the monthly surcharge. The surcharge will not apply in respect of routine capital expenditures.

Our Parent s obligations may be temporarily suspended during the occurrence of a force majeure event that renders performance of services impossible with respect to an asset for at least 30 consecutive days. If a force majeure event results in a diminution in the services we are able to provide to our Parent pursuant to the Throughput Agreement, our Parent s minimum service usage commitment would be reduced proportionately for the duration of the force majeure event. If such a force majeure event continues for twelve consecutive months or more, we and our Parent will each have the right to terminate our rights and obligations with respect to the affected services under the Throughput Agreement.

The Throughput Agreement will have an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon one year s prior notice. Our Parent s obligations under the Throughput Agreement will not terminate if our Parent no longer owns our general partner. The Throughput Agreement may be assigned by our Parent only with our consent.

The Throughput Agreement does not apply to any services we provide to customers other than our Parent.

Our Parent s Operations

Our Parent conducts its business through the following seven operating divisions:

- *SemCrude* SemCrude markets crude oil purchased from producers and other suppliers to refiners and other customers. SemCrude s purchasing, marketing and distribution operations include the purchase of crude oil at the wellhead and the bulk purchase of crude oil at pipeline and terminal facilities. After utilizing our pipelines, terminals and trucks or similar services offered by other providers, SemCrude subsequently resells or exchanges the crude oil at various delivery points.

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Although SemCrude will continue to market crude oil following this offering, a substantial majority of the physical assets of SemCrude s business, including the assets and services that comprise the Crude Oil Business, will be transferred to us prior to the closing of this offering. SemCrude will retain gathering and transportation pipeline systems in Kansas and Oklahoma with a combined length of approximately 620 miles. SemCrude will also retain approximately 150 acres within the Cushing Interchange that will be available for expansion and currently is in the planning stage of constructing additional storage capacity. Pursuant to the Throughput Agreement, we will continue to support SemCrude s crude oil marketing operations.

On February 9, 2007, our Parent announced that White Cliffs Pipeline, L.L.C., a majority owned subsidiary of SemCrude, will build an approximate 550 mile crude oil pipeline extending from Colorado s DJ Basin, an area well known for its oil and natural gas reserves, to our Cushing terminal. The pipeline will be owned and operated by SemCrude and is expected to be operational by January 2009. We will not receive any transportation revenues from shipments on this pipeline.

SemFuel SemFuel purchases, ships, stores, markets and distributes gasoline and distillates. SemFuel purchases inventory and utilizes its preferred shipper status on key third-party pipelines, including Magellan, Valero/Kaneb, Explorer, TEPPCO and West Shore, and owned and leased terminals and storage facilities to supply its customers. As of March 31, 2007, SemFuel s assets included four owned terminals and one leased terminal, five bulk distribution facilities in the Midwest, strategically located storage tanks totaling more than 3.2 million barrels of owned and leased storage capacity (including approximately 0.8 million barrels of storage capacity at the Tulsa/Glenpool, Oklahoma hub and another 0.2 million barrels of storage capacity currently under construction in El Dorado, Kansas) and delivery capacity at numerous rack terminals in 15 states, primarily in the Midwest.

SemCanada SemCanada is the largest licensed sour gas processor by capacity in the province of Alberta, Canada. SemCanada owns majority interests in three sour gas processing plants with an aggregate licensed capacity of 1.5 Bcf/d; a 68% working interest in over 600 miles of inter-connected sweet and sour gas gathering systems; sales gas connections to the TransCanada West (Nova) Gathering System and Alliance Pipeline; additional dehydration and compression facilities and one sweet gas processing plant. Sour gas plants are specially equipped to remove hydrogen sulfide from sour gas, which constitutes approximately 30% of total natural gas production in Canada. For the three months ended March 31, 2007, SemCanada s processing facilities had natural gas throughput of approximately 483,000 Mcf/d. SemCanada s natural gas and crude oil marketing activities consist of wholesale aggregation and retail marketing activities. During the three months ended March 31, 2007, SemCanada marketed more than 431,000 Mcf/d of natural gas and transported and marketed more than 65,000 Bpd of crude oil. SemCanada also owns and operates two blending facilities that marketed and exchanged approximately 14,350 Bpd of crude oil during the three months ended March 31, 2007.

SemMaterials SemMaterials supplies asphalt products primarily used in road paving and repair to over 2,000 customers in the United States and Mexico, including federal, state and local governmental agencies and national, regional and local contractors. SemMaterials purchases asphalt from refineries, where asphalt is typically a by-product, and supplies both basic asphalt cement and value-added asphalt cutbacks and emulsions to customers. As of March 31, 2007, SemMaterials assets included 59 owned or leased asphalt terminals in 23 states in the United States and 14 terminals in Mexico, comprising an aggregate of approximately 7.7 million barrels of owned storage capacity, six regional technical centers, 69 trailers and more than 1,000 leased railcars to transport material and more than 25 patents.

SemStream SemStream purchases, ships, stores, terminals and markets natural gas liquids, or NGLs, with a principal focus on propane. SemStream s assets include ten propane terminals located in the Southern, Midwest and Pacific Northwest regions of the United States, and owned and leased storage capacity of approximately 8.0 million barrels, a majority of which is located at

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Conway, Kansas, one of the largest NGL hubs in the United States. For the year ended March 31, 2007, SemStream terminalled and marketed more than 129,000 Bpd of NGLs.

SemGas SemGas was established in November 2004 to develop natural gas storage to meet a growing need for peak-day natural gas deliverability and swing gas capability at local distribution companies and gas-fired electric power producers. To date, its activities have consisted primarily of acquiring and developing natural gas storage assets and related natural gas gathering, transportation and processing assets, including the Wyckoff depleted natural gas reservoirs in Steuben County, New York; the Cohocton salt caverns located in the same area; and a natural gas processing plant and 647 miles of natural gas gathering pipelines in Kansas and Oklahoma. In addition, in October 2006 SemGas completed the acquisition of substantially all of the assets of Dornick Hills Midstream Ltd., including a natural gas processing plant and approximately 160 miles of a natural gas gathering system in Cooke and Grayson counties in North Central Texas.

SemEuro SemEuro owns more than 9.2 million barrels of storage capacity for crude oil, gasoline blendstocks and jet fuel that it leases to third parties for a fee. Located on the West Coast of the United Kingdom at a deep water port capable of handling tankers carrying up to 1.0 million barrels of product, the facility is located near key United Kingdom refineries with pipeline connectivity. Our Parent has established a marketing office in Geneva, Switzerland that is primarily responsible for sourcing foreign crude oil and refined products, storing the product in Europe and delivering the product to East Coast and Gulf Coast markets in the United States.

Industry Overview

We provide gathering, transportation, storage and terminalling services to our Parent, independent producers, marketers and refiners of crude oil products. The market we serve, which begins at the source of production and extends to the point of distribution to the end user customer, is commonly referred to as the midstream market. We operate primarily in Oklahoma, Kansas and Texas where there are extensive crude oil production operations in place and our assets extend from gathering systems and trucking networks in and around these producing fields to transportation pipelines carrying crude oil to logistics hubs, such as the Cushing Interchange, where we have substantial terminalling and storage facilities that aid our Parent and our other customers in managing the delivery of their crude oil. The following graphic depicts the entirety of the industry, from production through the refining stage, and highlights the areas in which we operate within the midstream portion of the industry.

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Gathering and transportation. Pipeline transportation is generally considered the lowest cost method for shipping crude oil and refined petroleum products to other locations. Crude oil and refined products pipelines transport about two-thirds of the petroleum shipped in the United States. Crude oil pipelines transport oil from the wellhead to logistics hubs and/or refineries. Logistics hubs like the Cushing Interchange provide storage and connections to other pipeline systems and modes of transportation, such as tankers, railroads, and trucks. Barges and railroads provide additional transportation capabilities for shipping crude oil between gathering storage systems, pipelines, terminals and storage centers and end-users. Barge transportation is typically a cost-efficient mode of transportation that allows for the ability to transport large volumes of crude oil over long distances.

Trucking complements pipeline gathering systems by gathering crude oil from operators at remote wellhead locations not served by pipeline gathering systems. These trucks can also be used to transport crude oil to aggregation points and storage facilities, which are generally located along pipeline gathering and transportation systems. Trucking is generally limited to low volume, short haul movements where other alternatives to pipeline transportation are often unavailable. Trucking costs escalate sharply with distance, making trucking the most expensive mode of crude oil transportation. Despite being small in terms of both volume per shipment and distance, trucking is an essential component to the completeness of the oil distribution system.

Terminalling and storage. Terminalling and storage facilities complement the crude oil pipeline gathering and transportation systems. Terminals are facilities where crude oil is transferred to or from a storage facility or transportation system, such as a gathering pipeline, to another transportation system, such as trucks or another pipeline. Terminals play a key role in moving crude oil to end-users such as refineries by providing the following services:

- storage and inventory management;
- distribution; and
- blending to achieve specified grades of crude oil.

Storage and terminalling assets generate revenues through a combination of storage and throughput charges to third parties. Storage fees are generated when tank capacity is provided to third parties. Terminalling fees, also referred to as throughput fees, are generated when a terminal receives crude oil from a shipper and redelivers it to another shipper. Both storage and terminalling fees are earned from refiners and gatherers that need segregated storage or custom blended crude oils for refining feedstocks, pipeline operators, refiners or traders that need segregated storage for foreign cargoes, traders who make or take delivery under NYMEX contracts and producers and marketers that seek to increase their marketing alternatives.

Overview of the U.S. market. Refined petroleum products, such as jet fuel, gasoline and distillate fuel oil, are all sources of energy derived from crude oil. According to data compiled by the Energy Information Administration, or EIA, petroleum currently accounts for about 41% of the nation s total annual energy consumption of 100 quadrillion Btu. Growth in petroleum consumption is expected to keep pace with growth in overall energy consumption over the next 20 to 25 years. The EIA expects petroleum consumption to grow annually at 1.0% between 2005 and 2030.

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Overview of the Cushing Interchange. The Cushing Interchange is the largest crude oil marketing hub in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts. As the NYMEX delivery point and a cash market hub, the Cushing Interchange serves as the primary source of refinery feedstock for Midwest refiners and plays an integral role in establishing and maintaining markets for many varieties of foreign and domestic crude oil. The following table lists substantially all of the incoming pipelines connected to the Cushing Interchange, the proprietary terminals within the complex and all outgoing pipelines from the Cushing Interchange for delivery throughout the United States:

Incoming Pipelines to Cushing Interchange	Cushing Interchange Proprietary Terminals	Outgoing Pipelines from Cushing Interchange
SemGroup Energy Partners, L.P.	SemGroup Energy Partners, L.P.	BP p.l.c.
SemGroup, L.P. (our Parent)	BP p.l.c.	Cush-Po, Inc.
BP p.l.c.	TEPPCO Partners, L.P.	ConocoPhillips
TEPPCO Partners, L.P.	Basin Pipeline	Sunoco Logistics Partners, L.P.
Basin Pipeline	Enbridge Energy Partners, L.P.	Enbridge Energy Partners, L.P.
Sunoco Logistics Partners, L.P.	Plains All American Pipeline, L.P.	Osage Pipeline Company, LLC
Plains All American Pipeline, L.P.	ConocoPhillips	Ozark Pipeline
Seaway Crude Pipeline Company	Seaway Crude Pipeline Company	Plains All American Pipeline, L.P.
ConocoPhillips		
Enbridge Energy Partners, L.P.		

Due to our pipeline and terminalling infrastructure, we have the ability to receive and/or deliver, directly or indirectly, to all pipelines and terminals within the Cushing Interchange.

Our Assets and Services

Terminalling and Storage Services

With approximately 6.7 million barrels of above-ground crude oil terminalling facilities and storage tanks, we are able to provide our Parent and other customers the ability to effectively manage their crude oil inventories and significant flexibility in their marketing and operating activities. Our terminalling and storage assets are located throughout our core operating areas with the majority of our terminalling and storage strategically located at the Cushing Interchange.

Our crude oil terminals and storage assets receive crude oil products from pipelines, including those owned by us, and distribute these products to interstate common carrier pipelines and regional independent refiners, among other third parties.

Our crude oil terminals derive most of their revenues from terminalling fees charged to customers. Our Parent is our primary customer and, pursuant to the Throughput Agreement, our Parent will pay us a fee based on the number of barrels we gather, transport, terminal or store and will commit to utilize our services at certain levels. See Throughput Agreement. For the year ended December 31, 2006 and the three months ended March 31, 2007, on a pro forma basis, our Parent accounted for all of our terminalling and storage services revenues.

The table below sets forth the total average barrels stored at and delivered out of our Cushing terminal in each of the periods presented and the total storage capacity at our Cushing terminal and at our other terminals at the end of such periods:

	Year Ended December 31,				Three Months Ended March 31,
	2003	2004	2005	2006	2007
Average crude oil barrels stored per month at our Cushing terminal	284,389	721,590	1,371,281	2,695,766	2,770,108
Average crude oil delivered (Bpd) to our Cushing terminal[(1)]	26,258	31,074	30,143	44,889	62,334
Total storage capacity at our Cushing terminal (barrels at end of period)	793,200	793,200	3,493,200	4,370,000	4,765,000
Total other storage capacity (barrels at end of period)	2,329,490	2,329,490	2,048,890	1,952,150	1,952,150

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(1) Petroleum product prices may be contango (future prices higher than current prices) or backwardated (future prices lower than current prices) depending on market expectations for future supply and demand. Our terminalling and storage services benefit most from an increasing price environment, when a premium is placed on storage, and our gathering and transportation services benefit most from a declining price environment when a premium is placed on prompt delivery.

The following table outlines the location of our crude oil terminals and their storage capacities and number of tanks as of March 31, 2007:

Location	Storage Capacity (barrels)	Number of Tanks
Cushing, Oklahoma	4,765,000	29
Longview, Texas	430,000	7
Other[1]	1,522,150	66
Total	6,717,150	102

(1) Consists of miscellaneous storage tanks located at various points along our pipelines.

Cushing Terminal. One of our principal assets is our Cushing terminal, which is located within the Cushing Interchange in Cushing, Oklahoma. Currently, we own and operate 29 crude oil storage tanks with approximately 4.8 million barrels of storage capacity at this location. We believe that we are the fourth largest operator within the Cushing Interchange with an estimated 15% of the total storage capacity, including the additional 395,000 barrels of net storage capacity discussed below.

We completed construction of three new storage tanks with approximately 450,000 barrels of additional capacity at our Cushing terminal in March 2007. We also decommissioned 55,000 barrels of storage capacity at this location in March 2007. We also own 26 additional acres of land within the Cushing Interchange that is available for future expansion. This acreage is capable of housing an additional 1.5 million barrels of storage in four to six above ground tanks. Our Parent also owns approximately 150 acres that are available for expansion within the Cushing Interchange and currently is in the planning stage of constructing additional storage capacity.

Our predecessor purchased the Cushing terminal in 2000 at which time the facility had approximately 790,000 barrels of storage capacity. The storage capacity of our Cushing terminal was substantially expanded in a series of phases beginning in 2002. The most recent storage expansion project was completed in 2006 and consisted of ten additional storage tanks with a total of 2.2 million barrels of capacity. Our Parent uses the Cushing terminal and our other storage assets to conduct its crude oil business and has been the primary driver of the increased volumes terminalled and stored each year since our predecessor purchased the assets.

Our Cushing terminal was constructed over the last 50 years and it has an expected remaining life of at least 20 years. Over 85% of our total storage capacity in our Cushing terminal has been built since 2002. We estimate that all of our tanks have a weighted average age of seven years. The relatively young age of our tanks helps reduce required maintenance capital at our Cushing terminal.

The design and construction specifications of our storage tanks meet or exceed the minimums established by the American Petroleum Institute, or API. Our storage tanks also undergo regular maintenance inspection programs that are more stringent than established governmental guidelines. We believe that these design specifications and inspection programs will result in lower future maintenance capital costs to us.

A key attribute of our Cushing terminal is that through our pipeline and gathering system interface, we have access and connectivity to all the terminals located within the Cushing Interchange. This connectivity is a key attribute of our Cushing terminal because it provides us the ability to deliver to virtually any customer within the Cushing Interchange.

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Our Cushing terminal can receive crude oil from our Mid-Continent system as well as from pipelines owned by our Parent, BP Amoco, TEPPCO, Basin, Sunoco Logistics Partners, Plains All American, Seaway, ConocoPhillips, Enbridge Energy Partners and two truck racks. Our Cushing terminal s pipeline connections to major markets in the Mid-Continent region provide our customers with marketing flexibility. Our Cushing terminal can deliver crude oil via pipeline and, in the aggregate, is capable of receiving and/or delivering 282,000 Bpd of crude oil.

Longview Terminal. We own and operate the Longview terminal, located in Longview, Texas, consisting of seven tanks with a total storage capacity of 430,000 barrels. We use our Longview terminal in connection with our Longview system. The Longview terminal can receive and ship crude oil in both directions at the same time. A number of other potential customers have access to the Longview terminal. Our predecessor acquired the Longview terminal in 2000. Since 2000, our predecessor has conducted several expansion projects to increase the capacity and connectivity of our Longview terminal. The Longview terminal was constructed beginning in the 1940s and we believe it has a remaining life of at least 20 years.

For the year ended December 31, 2006 and the three months ended March 31, 2007, on a pro forma basis our terminalling and storage services generated revenues of $31.1 million and $7.9 million, respectively, representing 32% and 29%, respectively, of our total revenues.

Gathering and Transportation Services

Pipeline Gathering and Transportation Services. We own and operate a crude oil gathering and transportation system in the Mid-Continent region of the United States with a combined length of approximately 820 miles and a 300 mile tariff regulated crude oil gathering and transportation pipeline in the Longview, Texas area.

System	Asset Type	Length (miles)	Average Throughput for Year Ended December 31, 2006 (Bpd)	Average Throughout for Three Months Ended March 31, 2007 (Bpd)	Pipe Diameter Range
Mid-Continent	Gathering and transportation pipelines	820	28,762	32,570	4 to 20
Longview	Gathering and transportation pipelines	300	36,493	28,339	6 to 8

Mid-Continent System. Our Mid-Continent gathering and transportation system consists of approximately 820 miles of gathering pipelines that, in aggregate, gather wellhead crude oil from approximately 11,000 wells for transport to our primary transportation systems that provide access to our Cushing terminal and other storage facilities. The Oklahoma portion of our Mid-Continent system consists of approximately 790 miles of various sized pipeline. Crude oil gathered into the Oklahoma portion of our Mid-Continent system is transported to our Cushing terminal or delivered to local area refiners. The Mid-Continent system also includes a small, 34-mile gathering and transportation system in the Texas Panhandle near Dumas, Texas. Crude oil collected through the Texas Panhandle portion of our Mid-Continent system is transported by pipeline and delivered to a ConocoPhillips refinery near Borger, Texas. For the year ended December 31, 2006 and the three months ended March 31, 2007, this system gathered an average of approximately 28,762 Bpd and 32,570 Bpd of crude oil, respectively. Our Parent historically has been the sole shipper on our Mid-Continent system. The Mid-Continent system was constructed in various stages beginning in the 1940s and we believe it has a remaining life of at least 20 years.

Longview System. Our Longview system consists of approximately 300 miles of tariff regulated crude oil gathering pipeline. The East Texas portion of this system delivers to crude oil terminalling, refinery and storage facilities at various delivery points in the East Texas region. Our Longview system also includes a small pipeline gathering system (Thompson-to-Webster) located near Houston, Texas. The Thompson-to-Webster gathering system, located south of Houston, consists of 42 miles of 6 and 8 pipeline. Deliveries made from this gathering

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system are transported to refineries in the Baytown/Texas City area. Shippers on the Longview system include our Parent, ExxonMobil, Plains All American L.P., Delek, Eastex, Sunoco Logistics Partners L.P. and Wapiti. The Longview system was constructed in various stages beginning in the 1940s and we believe it has a remaining life of at least 20 years.

Trucking Services. We provide two types of trucking services: crude oil transportation services and producer field services.

Crude Oil Transportation Services. To complement our pipeline gathering and transportation business, we use our approximately 200 owned or leased tanker trucks, which have an average tank size of approximately 200 barrels. Our tanker trucks moved an average of 53,490 Bpd and 63,910 Bpd, respectively, for the year ended December 31, 2006 and the three months ended March 31, 2007 from wellhead locations not served by pipeline gathering systems to aggregation points and storage facilities. Several of our trucking services operating areas, such as West Texas, are not currently served by our gathering and transportation pipeline systems. In these areas, our trucking operations extend our ability to gather and aggregate crude oil on our systems. This ability allows the crude oil marketing customers we serve, particularly our Parent, to increase the level of service they are able to provide to their customers and facilitates the transportation of incremental volumes on our system. The following table outlines the distribution of our trucking assets among our operating areas as of March 31, 2007:

State	Number of Trucks
Oklahoma	46
Kansas	32
Dumas, Texas	59
West Texas/New Mexico	67
Colorado	9
Total	213

Normally we assign trucks to a specific area but, when needed, we can temporarily relocate them to meet demand. We dispatch our drivers with advanced computer technology out of central locations in Oklahoma City, Oklahoma, Abilene, Texas and Dumas, Texas. The drivers are provided with hand-held computers and after loading, the drivers provide the customers with a printed computer generated ticket with the information needed for payment. The hand-held computer can transmit as well as receive needed information to accomplish daily workloads. The drivers are also provided mobile communications to enhance safety and security.

Producer Field Services. We provide a number of producer field services for companies such as Duke Energy, ONEOK and ConocoPhillips. These services include gathering condensates by way of bobtail trucks for natural gas companies to hauling produced water to disposal wells, providing hot and cold fresh water, chemical and down hole well treating, wet oil clean up and building and maintaining separation facilities. We provide these services at contractual hourly rates. Our producer service fleet consists of 106 trucks in a number of different sizes. Currently, we operate 17 different producer service facilities and have the ability to tailor our services to fit the needs of our customers.

For the year ended December 31, 2006 and the three months ended March 31, 2007, on a pro forma basis our gathering and transportation services generated revenues of $66.6 million and $19.1 million, respectively, representing 68% and 71%, respectively, of our total business.

Competition

As a result of our contractual relationship with our Parent pursuant to the Throughput Agreement, we believe that we will not face significant competition for our Parent s crude oil volumes that we gather, transport, terminal and store in our operating area, including our facilities in Cushing, Oklahoma during the term of our

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Throughput Agreement with our Parent. However, we are still subject to competition from other crude oil gathering, transportation, terminalling and storage operations that may be able to supply our other customers (and our Parent to the extent not covered by the Throughput Agreement) with the same or comparable services on a more competitive basis. We compete with national, regional and local gathering, storage and pipeline companies, including the major integrated oil companies, of widely varying sizes, financial resources and experience. With respect to our gathering and transportation services, these competitors include TEPPCO Partners, L.P., Plains All American Pipeline, L.P., ConocoPhillips, Sunoco Logistics Partners L.P. and National Cooperative Refinery Association, among others. With respect to our storage and terminalling services, these competitors include BP plc, Enbridge Energy Partners, L.P. and Plains All American Pipeline, L.P. Several of our competitors conduct portions of their operations through publicly traded partnerships with structures similar to ours, including Plains All American Pipeline, L.P., TEPPCO Partners, L.P. and Sunoco Logistics Partners L.P. In particular, our ability to compete could be harmed by factors we cannot control, including:

- price competition from gathering, transportation, terminalling and storage companies, some of which are substantially larger than us and have greater financial resources, and control substantially greater storage capacity, than we do;

- the perception that another company can provide better service;

- the availability of crude oil alternative supply points, or crude oil supply points located closer to the operations of our Parent or Parent s customers; and

- a decision by our Parent to acquire or construct crude oil midstream assets and provide gathering, transportation, terminalling or storage services in geographic areas, or to customers, served by our assets and services.

If we are unable to compete with services offered by other midstream enterprises, our ability to make distributions to our unitholders may be adversely affected. Additionally, we also compete with national, regional and local terminal and pipeline companies, including potentially our Parent, for asset acquisitions and expansion opportunities. Some of these competitors are substantially larger than us and have greater financial resources and lower costs of capital than we do.

Regulation

Longview System. The FERC pursuant to the Interstate Commerce Act of 1887, or ICA, as amended, the Energy Policy Act of 1992 (Energy Policy Act), and rules and orders promulgated thereunder, regulates the tariff rates for our Longview system. The FERC requires that interstate oil pipelines file tariffs that contain rules and regulations governing the rates and charges for services performed. These tariffs apply to the interstate movement of crude and liquid petroleum products. Pursuant to the ICA, the rates, terms and conditions for providing service on ICA-regulated pipelines must be just and reasonable, and the service must be provided on a non-discriminatory basis. The ICA permits interested persons to challenge proposed new or changed rates and authorizes the FERC to suspend the effectiveness of such rates for a period of up to seven months and to investigate such rates. If, upon completion of an investigation, the FERC finds that the new or changed rate is unlawful, it is authorized to require the carrier to refund the revenues in excess of the prior tariff during the term of the investigation. The FERC may also investigate, upon complaint or on its own motion, rates that are already in effect and may order a carrier to change its rates prospectively. Upon an appropriate showing, a shipper may obtain reparations for damages sustained for a period of up to two years prior to the filing of a complaint.

All of our FERC regulated rates are deemed just and reasonable, or grandfathered, under the Energy Policy Act. The Energy Policy Act limits the circumstances under which a complaint can be made against such grandfathered rates. In order to challenge grandfathered rates, a party would have to show that it was previously contractually barred from challenging the rates, or that the economic circumstances of the liquids pipeline that were a basis for the rate or the nature of the service underlying the rate had substantially changed or that the rate was unduly discriminatory or preferential.

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We cannot predict what rates we will be allowed to charge in the future for service on our Longview system. Furthermore, because rates charged for transportation services must be competitive with those charged by other transporters, the rates set forth in our tariffs will be determined based on competitive factors in addition to regulatory considerations.

Gathering and Intrastate Pipeline Regulation. In the states in which we operate, regulation of crude gathering facilities and intrastate crude pipeline facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements and complaint-based rate regulation. For example, our intrastate crude pipeline facilities in Texas must have a tariff on file and charge just and reasonable rates for service, which much be provided on a non-discriminatory basis. Although state regulation is typically less onerous than at FERC, proposed and existing rates subject to state regulation and the provision of non-discriminatory service are subject to challenge by complaint.

Pipeline Safety. The laws and regulations in the states in which we operate are subject to change, resulting in potentially more stringent requirements and increased costs. For instance, in Texas, the Texas Railroad Commission, or RRC, incorporates into its own rules those federal safety standards for hazardous liquids pipelines contained in Title 40, Part 195 of the Federal Code of Regulations. In September 2006, the DOT proposed an amendment of Part 195 by broadening the scope of coverage to include certain rural onshore hazardous liquid and low-stress pipeline systems found near unusually sensitive areas, including non-populated areas requiring extra protection because of the presence of sole source drinking water resources, endangered species, or other ecological resources. Also, on December 6, 2006, the Congress passed, and on December 29, 2006, President Bush signed into law the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006, or the 2006 Pipeline Safety Act, which reauthorizes and amends the DOT s pipeline safety programs. Included in the 2006 Pipeline Safety Act is a provision eliminating the regulatory exemption contained in Part 195 for hazardous liquid pipelines operated at low stress. Owing to the RRC s incorporation by reference of the safety standards contained in Part 195, the issuance of any new gathering and low-stress pipeline safety regulations, including requirements for integrity management of those pipelines, are likely to increase the operating costs of our pipelines subject to such new requirements, and we currently cannot provide any assurances that such future costs will not be material.

Trucking Regulation. We operate a fleet of trucks to transport crude oil and oilfield materials as a private, contract and common carrier. We are licensed to perform both intrastate and interstate motor carrier services. As a motor carrier, we are subject to certain safety regulations issued by the DOT. The trucking regulations cover, among other things, driver operations, maintaining log books, truck manifest preparations, the placement of safety placards on the trucks and trailer vehicles, drug and alcohol testing, safety of operation and equipment, and many other aspects of truck operations. We are also subject to OSHA requirements with respect to our trucking operations.

Environmental, Health and Safety Risks

General. Our midstream crude oil gathering, transportation, terminalling and storage operations are subject to stringent federal, state, and local laws and regulations relating to the discharge of materials into the environment or otherwise relating to protection of the environment. As with the industry generally, compliance with current and anticipated environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain and upgrade equipment and facilities. Failure to comply with these laws and regulations may result in the assessment of significant administrative, civil and criminal penalties, the imposition of investigatory and remedial liabilities, and even the issuance of injunctions that may restrict or prohibit some or all of our operations. We believe that our operations are in substantial compliance with applicable laws and regulations. However, environmental laws and regulations are subject to change, resulting in potentially more stringent requirements, and we cannot provide any assurance that the cost of compliance with current and future laws and regulations will not have a material affect on our results of operations or earnings.

There are also risks of accidental releases into the environment inherent in the nature of our operations, such as leaks or spills of petroleum products or hazardous materials from our pipelines, trucks and storage facilities. A

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discharge of hazardous materials into the environment could, to the extent such event is not covered by insurance, subject us to substantial expense, including costs related to environmental clean-up or restoration, compliance with applicable laws and regulations, and any personal injury, natural resource or property damage claims made by neighboring landowners and other third parties.

Water. The federal Clean Water Act and analogous state and local laws impose restrictions and strict controls regarding the discharge of pollutants into navigable waters of the United States and state waters. Permits must be obtained to discharge pollutants into these waters. The Clean Water Act and analogous laws provide significant penalties for unauthorized discharges and impose substantial potential liabilities for cleaning up spills and leaks into water. In addition, the Clean Water Act and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. Some states also maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions. We believe that we are in substantial compliance with any such applicable state requirements. Although we can give no assurances, we believe that compliance with existing permits and foreseeable new permit requirements will not have a material adverse effect on our financial condition or results of operations.

The federal Oil Pollution Act, as amended, or OPA, was enacted in 1990 and amends provisions of the Federal Water Pollution Control Act of 1972, the Clean Water Act, and other statutes as they pertain to prevention and response to oil spills. The OPA, and analogous state and local laws, subject owners of facilities used for storing, handling or transporting oil, including trucks and pipelines, to strict, joint and potentially unlimited liability for containment and removal costs, natural resource damages and certain other consequences of an oil spill, where such spill is into navigable waters, along shorelines or in the exclusive economic zone of the United States. The OPA and other analogous laws also impose certain spill prevention, control and countermeasure requirements, such as the preparation of detailed oil spill emergency response plans and the construction of dikes and other containment structures to prevent contamination of navigable or other waters in the event of an oil overflow, rupture or leak. We believe that we are in substantial compliance with applicable OPA and analogous state and local requirements.

Air Emissions. Our operations are subject to the federal Clean Air Act, as amended, as well as to comparable state and local laws. We believe that our operations are in substantial compliance with these laws in those areas in which we operate. Amendments to the federal Clean Air Act enacted in 1990 imposed a federal operating permit requirement for major sources of air emissions. Our Cushing terminal holds such a permit, which is referred to as a Title V permit. We may be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with obtaining or maintaining permits and approvals addressing air emission related issues. Although we can provide no assurance, we believe future compliance with the federal Clean Air Act, as amended, will not have a material adverse effect on our financial condition or results of operations.

Further, recent scientific studies have suggested that emissions of certain gases, including carbon dioxide and methane, commonly referred to as greenhouse gases, may be contributing to warming of the Earth s atmosphere. In response to such studies, the U.S. Congress is actively considering legislation to reduce emissions of greenhouse gases. In addition, several states have already passed laws, adopted regulations or undertaken regulatory initiatives to reduce the emission of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Also, as a result of the U.S. Supreme Court s decision on April 2, 2007 in *Massachusetts v. EPA*, the U.S. Environmental Protection Agency or EPA may be required to regulate greenhouse gas emissions from mobile sources (*e.g.*, cars and trucks) even if Congress does not adopt new legislation specifically addressing emissions of greenhouse gases. The Court s holding in *Massachusetts* that greenhouse gases fall under the federal Clean Air Act s definition of air pollutant may also result in future regulation of greenhouse gas emissions from stationary sources under certain Clean Air Act programs. Although the consequences of the *Massachusetts* decision cannot be predicted with certainty, such regulation could take the form of new federal standards that affect facilities with greenhouse gas emissions, as well as possible consideration of greenhouse gases during air permitting of facilities. Passage of

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climate control legislation by Congress or various states of the U.S. or the adoption of regulations by the EPA and analogous state agencies that restrict or otherwise regulate emissions of greenhouse gases in areas in which we conduct business could have an adverse affect on our operations and demand for our services.

Solid Waste Disposal and Environmental Remediation.

The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as Superfund, as well as comparable state and local laws, impose liability without regard to fault or the legality of the original act, on certain classes of persons associated with the release of a hazardous substance into the environment. These persons include the owner or operator of the site or sites where the release occurred and companies that disposed of, or arranged for the disposal of, the hazardous substances found at the site. Under CERCLA, such persons may be subject to strict joint and several liability for cleanup costs, for damages to natural resources, and for the costs of certain health studies. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by releases of hazardous substances or other pollutants. We generate materials in the course of our operations that are regulated as hazardous substances. Beyond the federal statute, many states have enacted environmental response statutes that are analogous to CERCLA.

We generate wastes, including hazardous wastes, that are subject to the requirements of the Federal Resource Conservation and Recovery Act, or RCRA, as well as to comparable state and local laws. While normal costs of complying with RCRA would not be expected to have a material adverse effect on our financial conditions, we could incur substantial expense in the future if the RCRA exclusion for oil and gas waste were eliminated. Should our oil and gas wastes become subject to RCRA, we, along with our competitors, would become subject to more rigorous and costly disposal requirements, resulting in additional capital expenditures or operating expenses for us and the industry in general.

We currently own or lease properties where hazardous substances are being handled or have been handled for many years. Although we believe that operating and disposal practices that were standard in the industry at the time were utilized at properties leased or owned by us, hazardous substances or associated generated wastes have already had historical releases on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated in the past by third parties whose treatment and disposal or release of hazardous substances or associated generated wastes were not under our control. These properties and the materials disposed on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously spilled hazardous materials or associated generated wastes (including wastes disposed of or released by prior owners or operators), or to clean up contaminated property (including contaminated groundwater).

Contamination resulting from the release of hazardous substances or associated generated wastes is not unusual within our industry. We have received contractual protections in the form of environmental indemnifications from several predecessor operators for some properties acquired by us that may be contaminated as a result of historical operations. These contractual indemnifications typically are subject to specific monetary and term limits that must be satisfied before indemnification will apply. In addition, we have insured certain of our properties against certain remediation costs that might be incurred from contamination unknown to us at the time of conveyance to us. There can be no guarantee, however, that the actual remediation costs or associated liabilities will not exceed the amounts subject to indemnity or covered by insurance or be excluded from insurance coverage altogether.

Other assets we have acquired or will acquire in the future may have environmental remediation liabilities for which we are not indemnified. In the future, we likely will experience releases of hazardous materials, including petroleum products, into the environment from our pipeline and storage operations, or discover releases that were previously unidentified. Although we maintain a program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to environmental releases from our assets may substantially affect our business.

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OSHA. We are subject to the requirements of OSHA, as well as to comparable state and local laws that regulate the protection of worker health and safety. In addition, the OSHA hazard communication standard requires that certain information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with OSHA requirements, including general industry standards, record keeping requirements and monitoring of occupational exposure to regulated substances.

Operational Hazards and Insurance

Pipelines, terminals, storage tanks, and similar facilities may experience damage as a result of an accident or natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. We have maintained insurance of various types and varying levels of coverage that we consider adequate under the circumstances to cover our operations and properties, including coverage for pollution related events. However, such insurance does not cover every potential risk associated with operating pipelines, terminals and other facilities. Notwithstanding what we believe is a favorable claims history, the overall cost of the insurance program as well as the deductibles and overall retention levels that we maintain have increased. Through the utilization of deductibles and retentions we self insure the working layer of loss activity to create a more efficient and cost effective program. The working layer consists of high frequency/low severity losses that are best retained and managed in-house. As we continue to grow, we will continue to monitor our retentions as they relate to the overall cost and scope of our insurance program.

Title to Properties

Substantially all of our pipelines are constructed on rights-of-way granted by the apparent record owners of the property. Lands over which pipeline rights-of-way have been obtained may be subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained, where necessary, easement agreements from public authorities and railroad companies to cross over or under, or to lay facilities in or along, watercourses county roads, municipal streets, railroad properties and state highways, as applicable. In some cases, property on which our pipelines were built was purchased in fee. Our terminals are on real property owned or leased by us.

We believe that we have satisfactory title to all of our assets. Although title to such properties is subject to encumbrances in certain cases, such as customary interests generally retained in connection with acquisition of real property, liens related to environmental liabilities associated with historical operations, liens for current taxes and other burdens and minor easements, restrictions and other encumbrances to which the underlying properties were subject at the time of acquisition by our predecessor or us, we believe that none of these burdens will materially detract from the value of such properties or from our interest therein or will materially interfere with their use in the operation of our business.

Employees

We do not have any employees. The officers of our general partner will be employees of our general partner and will also be employees of our Parent. As of March 31, 2007, our Parent and its affiliates employed a total of approximately 1,900 persons, approximately 300 of whom will be dedicated to supporting our operations. We reimburse our Parent for the cost of those employees. Our Parent considers its employee relations to be good.

Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We do not believe we are a party to any legal proceedings which, if determined adversely to us, individually or in the aggregate, would have a material adverse effect on our financial position, results of operations or cash flows.

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MANAGEMENT

Management of SemGroup Energy Partners, L.P.

Under our partnership agreement, our general partner has full power and authority to do all things, other than those items that require unitholder approval or with respect to which our general partner has sought conflicts committee approval, on such terms as it determines to be necessary or appropriate to conduct our business. Our partnership agreement provides that our general partner must act in good faith when making decisions on our behalf, and our partnership agreement further provides that in order for a determination by our general partner to be made in good faith, our general partner must believe that the determination is in our best interests. Please see The Partnership Agreement Voting Rights for information regarding matters that require unitholder approval.

SemGroup Energy Partners G.P., L.L.C., our general partner, will manage our operations and activities. Our general partner is not elected by our unitholders and will not be subject to re-election on a regular basis in the future. The directors of our general partner oversee our operations. Unitholders will not be entitled to elect the directors of our general partner or directly or indirectly participate in our management or operation. Our general partner owes a fiduciary duty to our unitholders. Our general partner will be liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically nonrecourse to it. Our general partner, therefore, may cause us to incur indebtedness or other obligations that are nonrecourse to it.

Upon the closing of this offering, our general partner will have directors, of whom (W. Anderson Bishop) will be independent as defined under the independence standards established by the NASDAQ Marketplace Rules. In compliance with the NASDAQ Marketplace Rules, additional independent directors will be appointed to the board of directors of our general partner within twelve months of listing. The NASDAQ Marketplace Rules do not require a listed limited partnership like us to have a majority of independent directors on the board of directors of our general partner or to establish a nominating committee.

Pursuant to the terms of the limited liability company agreement of our Parent s general partner and the limited liability company agreement of SemGroup Energy Partners G.P., L.L.C., our general partner will not be permitted to cause us, without the prior written approval of our Parent, to:

- sell all or substantially all of our assets;
- merge or consolidate;
- dissolve or liquidate;
- make or consent to a general assignment for the benefit of creditors;
- file or consent to the filing of any bankruptcy, insolvency or reorganization petition for relief under the United States Bankruptcy Code or otherwise seek such relief from debtors or protection from creditors; or
- take various actions similar to the foregoing.

In addition, pursuant to the terms of the limited liability company agreement of our Parent s general partner, our general partner will not be permitted to cause us, without the consent of our Parent, to dispose of assets, business, operations or securities having a value in excess of $100,000, incur indebtedness in excess of $10.0 million, acquire assets or equity interests of a third party with a fair market value in excess of $5.0 million, modify our organizational documents or the organizational documents of any of our subsidiaries, or effect any transaction outside the ordinary course of business having a value in excess of $100,000.

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At least two independent members of the board of directors of our general partner will serve on a conflicts committee to review specific matters that the board believes may involve conflicts of interest. Mr. Bishop will serve as the initial member of the conflicts committee. The conflicts committee will determine if the resolution of the conflict of interest is fair and reasonable to us (in light of the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us). The members of the conflicts committee may not be officers or employees of our general partner or directors, officers, or employees of its affiliates, including our Parent, and must meet the independence and experience standards established by the NASDAQ Marketplace Rules and the Securities Exchange Act of 1934, as amended, or the Exchange Act, to serve on an audit committee of a board of directors, and certain other requirements. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our general partner of any duties it may owe us or our unitholders. The members of the board of directors who serve on the conflicts committee will also serve on the compensation committee, which oversees compensation decisions for the officers of our general partner as well as the compensation plans described below.

In addition, our general partner will have an audit committee of at least three directors who meet the independence and experience standards established by the NASDAQ Marketplace Rules and the Exchange Act. Mr. Bishop will serve as the initial independent member of the audit committee. The audit committee will assist the board of directors in its oversight of the integrity of our financial statements and our compliance with legal and regulatory requirements and partnership policies and controls. The audit committee will have the sole authority to retain and terminate our independent registered public accounting firm, approve all auditing services and related fees and the terms thereof, and pre-approve any non-audit services to be rendered by our independent registered public accounting firm. The audit committee will also be responsible for confirming the independence and objectivity of our independent registered public accounting firm. Our independent registered public accounting firm will be given unrestricted access to the audit committee.

All of the executive officers of our general partner listed below will be employed by both our general partner and our Parent and will allocate their time between managing our business and affairs and the business and affairs of our Parent. The executive officers of our general partner may face a conflict regarding the allocation of their time between our business and the other business interests of our Parent. The board of directors of our general partner intends to cause the executive officers of our general partner to devote as much time to the management of our business and affairs as is necessary for the proper conduct of our business and affairs. We will also utilize a significant number of other employees of our Parent to operate our business and provide us with general and administrative services. We will reimburse our Parent for allocated expenses of operational personnel who perform services for our benefit, allocated general and administrative expenses and certain direct expenses.

Our general partner will not receive any management fee or other compensation for its management of our partnership under the Omnibus Agreement with our Parent or otherwise. Under the terms of the Omnibus Agreement, we will pay our general partner and our Parent an aggregate fixed administrative fee of $5.0 million per year for the provision of various general and administrative services for our benefit, subject to increases in the Consumer Price Index or as a result of an expansion of our operations. This fixed administrative fee will expire , 2010. Our obligation under the Omnibus Agreement to reimburse our Parent for operational expenses and certain direct expenses, including insurance coverage expense, is not included in this fixed administrative fee. After , 2010, our general partner will determine the general and administrative expenses that are allocable to us in accordance with our partnership agreement. Please see Certain Relationships and Related Party Transactions Omnibus Agreement.

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Directors and Executive Officers

The following table shows information regarding the current directors and executive officers of SemGroup Energy Partners G.P., L.L.C. Directors are elected for one-year terms.

Name	Age	Position with SemGroup Energy Partners G.P., L.L.C.
Kevin L. Foxx	51	President, Chief Executive Officer and Director
Peter L. Schwiering	63	Executive Vice President Crude Operations
Michael J. Brochetti	40	Chief Financial Officer and Director
Alex G. Stallings	40	Chief Accounting Officer
Thomas L. Kivisto	55	Director
Gregory C. Wallace	51	Director
W. Anderson Bishop	54	Director Nominee

Our directors hold office until the earlier of their death, resignation, removal or disqualification or until their successors have been elected and qualified. Officers serve at the discretion of the board of directors. There are no family relationships among any of our directors or executive officers.

Kevin L. Foxx has more than 24 years of experience in the crude oil gathering, transportation, terminalling and storage industry. Mr. Foxx has served as President, Chief Executive Officer and a director of our general partner since February 2007. Mr. Foxx has also served as our Parent s Chief Operating Officer and Executive Vice President and as a member of our Parent s Management Committee since co-founding our Parent in 2000. Mr. Foxx founded and served as President of Foxx Transports, L.L.C., a domestic oil gathering and trading company based in Houston, Texas. Foxx Transports, L.L.C. was founded in 1995 and became part of our Parent in 2000. Prior to founding Foxx Transports, L.L.C., Mr. Foxx formed the transportation division of Elleron Oil Company in 1987 and later sold that division to Plains Marketing in 1992, where he served as Vice President.

Peter L. Schwiering has served as Executive Vice President Crude Operations of our general partner since February 2007 and Vice President of Operations of SemCrude, L.P. since 2000. Prior to joining our Parent, Mr. Schwiering worked for Dynegy Pipeline as manager of pipeline and commercial business. He also served with Sun Company for 37 years in various positions. He began with Sun in its New Jersey operations as a marketing representative for petroleum products. When he left Sun in 1995, Mr. Schwiering was the company s manager of business development Western Region, and he was based in Oklahoma.

Michael J. Brochetti has served as Chief Financial Officer and a director of our general partner since February 2007 and our Parent s Senior Vice President Finance since October 2005. Prior to joining our Parent, Mr. Brochetti was employed by Bank of America, N.A. in Boston, Massachusetts, since 1992, serving in various capacities, most recently as Director Specialized Industries where he helped lead the financial institution s relationships with key clients in the energy industry. Prior to joining Bank of America, Mr. Brochetti was employed with Barclays Bank, PLC, in the lending group s corporate banking division.

Alex G. Stallings has served as Chief Accounting Officer of our general partner since February 2007 and our Parent s Chief Accounting Officer since September 2002. Prior to joining our Parent, Mr. Stallings served as Chief Accounting Officer for Staffmark, Inc., a temporary staffing company where he was responsible for the public reporting and integration of numerous acquisitions during his tenure. Mr. Stallings also previously was an audit manager for the public accounting firm of Coopers & Lybrand, working in its Tulsa, Oklahoma office.

Thomas L. Kivisto has served as a director of our general partner since May 2007 and as our Parent s Chief Executive Officer and President since co-founding our Parent in 2000. Mr. Kivisto has over 28 years of crude oil marketing expertise. From 1993 until founding our Parent, Mr. Kivisto founded and served as President and Chief Executive Officer of Eaglwing Trading, a crude oil marketing company. Prior to Eaglwing, Mr. Kivisto was Executive Vice President of Crude Oil Marketing for Koch Industries where he oversaw the collection, purchasing and marketing of over 440,000 bpd of crude oil.

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Gregory C. Wallace has served as a director of our general partner since May 2007 and as Chief Financial Officer, Vice President and Secretary of our Parent since 2000. Mr. Wallace has over 21 years of financial and energy industry experience. Prior to joining our Parent, Mr. Wallace spent five years as Chief Financial Officer of Anchor Drillings Fluids. Prior to joining Anchor, Mr. Wallace worked as Chief Financial Officer for Integrated Drilling & Exploration and as International Administrative Manager for Parker Drilling Company.

W. Anderson Bishop, CPA, will serve as a director of our general partner upon the pricing of this offering. Mr. Bishop is the Executive Vice-President and principal of the SEC Institute, Inc., a private company helping public companies in the United States and abroad learn the filing requirements of the U. S. Securities and Exchange Commission. Mr. Bishop has presented training programs to over 15,000 people over the last 15 years. Prior to joining the SEC Institute, he was the Chief Financial Officer and a board member of Hallador Petroleum Company for three years. Prior to Hallador, Mr. Bishop spent 14 years with Price Waterhouse LLP (a predecessor to PricewaterhouseCoopers LLP) in their Oklahoma City and Denver offices.

Executive Compensation

Compensation Discussion and Analysis

We do not directly employ any of the persons responsible for managing our business. Instead, SemGroup Energy Partners G.P., L.L.C., our general partner, will manage our operations and activities, and its board of directors and officers will make decisions on our behalf. Each of the executive officers of our general partner, including Kevin L. Foxx, Peter L. Schwiering, Michael J. Brochetti and Alex G. Stallings (collectively, the named executive officers), will enter into an employment agreement with our general partner. Our general partner expects to have only four executive officers with total compensation over $100,000 for 2007. Each of the named executive officers will also be employed by and provide services to our Parent. The compensation for the named executive officers for services rendered to us will be determined by the compensation committee of our general partner. All of the expenses associated with the compensation of our named executive officers will be allocated to us by our general partner as general and administrative expenses and will be included in the aggregate annual administrative fee of $5.0 million that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering. Please see Certain Relationships and Related Party Transactions Omnibus Agreement. We estimate that executive compensation expenses will be approximately 25.5% of this $5.0 million aggregate administrative fee for the year ended December 31, 2007.

Compensation Methodology. Our general partner seeks to improve our financial and operating performance and provide a desirable return on investment to holders of our common units, while maintaining financial strength and flexibility. The compensation committee of our general partner will seek to provide a total compensation package designed to drive performance and reward contributions in support of this business strategy and to attract, motivate and retain high quality talent with the skills and competencies required by us. As part of its review, the compensation committee will examine the compensation practices of our peer companies, which consist of other publicly traded master limited partnerships having a business mix comparable to ours. Currently, these peer companies include Enbridge Energy Partners, L.P., Magellan Midstream Partners, L.P., Plains All American Pipeline, L.P., Sunoco Logistics Partners L.P. and TEPPCO Partners, L.P. Changes may occur from time to time in the composition of this peer group to reflect mergers, acquisitions, initial public offerings and similar events. The compensation committee will also review compensation data from the general midstream energy industry as it believes that the competition for executive talent is broader than just the peer companies. In addition, the compensation committee may review and, in certain cases, participate in, various relevant compensation surveys and consult with compensation consultants with respect to determining compensation for the named executive officers.

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Elements of Compensation. The primary elements of our general partner s compensation program are a combination of annual cash and long-term equity-based compensation. For 2007, the principal elements of compensation for the named executive officers are expected to be the following:

- base salary;
- discretionary bonus awards;
- long-term incentive plan awards; and
- other benefits.

Base Salary. Our general partner s compensation committee will establish base salaries for the named executive officers based on various factors including the amounts it considers necessary to attract and retain the highest quality executives, the responsibilities of the named executive officers and market data including publicly available market data for the peer companies listed above as reported in their filings with the SEC. The compensation committee will review the base salaries on an annual basis. As part of its review, the compensation committee may review the compensation of executives in similar positions with similar responsibility in the peer companies listed above and in companies in the midstream energy industry with which we believe we generally compete for executives. As discussed above, the base salaries of the named executive officers will be allocated to us by our general partner as general and administrative expenses and will be included in the annual administrative fee that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering.

As indicated above, each of the named executive officers will enter into employment agreements with our general partner. The employment agreements provide for an initial annual base salary of $450,000, $250,000, $300,000 and $275,000 for Mr. Foxx, Mr. Schwiering, Mr. Brochetti and Mr. Stallings, respectively. These initial base salary amounts were determined based upon the scope of each executive s responsibilities that are commensurate with such executive s position as chief executive officer, executive vice president, chief financial officer or chief accounting officer, respectively, as well as the added responsibilities the executives will have following this offering that are typical of executives in publicly traded partnerships, taking into account competitive market compensation paid by similar companies for comparable positions. Because our general partner does not expect to award any discretionary bonus awards during 2007, these initial base salary amounts were determined, in part, by analyzing the total base salary and bonus compensation paid to the chief executive officer, chief financial officer, and vice presidents or the executive vice presidents, respectively, of our peer companies, including Enbridge Energy Partners, L.P., Magellan Midstream Partners, L.P., Plains All American Pipeline, L.P., Sunoco Logistics Partners L.P. and TEPPCO Partners, L.P., as reported in their filings with the SEC.

Discretionary Bonus Awards. Our general partner s compensation committee may also award discretionary bonus awards to the named executive officers. Our general partner intends to use discretionary bonus awards for achieving financial and operational goals and for achieving individual performance objectives. We do not expect to award any discretionary bonus awards during 2007. As discussed above, any discretionary bonus awards granted to the named executive officers will be allocated to us by our general partner as general and administrative expenses and will be included in the annual administrative fee that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering.

Long-Term Incentive Plan Awards. Our general partner intends to adopt a long-term incentive plan for employees, consultants and directors of our general partner and its affiliates, including our Parent, who perform services for us. Each of the named executive officers will be eligible to participate in this plan. The long-term incentive plan provides for the grant of unit awards, restricted units, phantom units, unit options, unit appreciation rights, distribution equivalent rights and substitute awards. For a more detailed description of this plan, please see Long-Term Incentive Plan.

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In connection with our initial public offering, our general partner will grant an aggregate of 475,000 phantom units to our directors, our executive officers and other employees of our Parent under our Long-Term Incentive Plan, including 85,000 phantom units to Mr. Foxx, 30,000 phantom units to Mr. Schwiering, 40,000 phantom units to Mr. Brochetti, 30,000 phantom units to Mr. Stallings, 85,000 phantom units to Mr. Kivisto and 85,000 phantom units to Mr. Wallace. The phantom units will vest in one-quarter increments over a four year period, subject to earlier vesting on a change of control or upon a termination without cause or due to death or disability. Each grantee will receive one common unit upon vesting of the phantom unit. In addition, the phantom units will have distribution equivalent rights for each fiscal quarter in which our EBITDA less interest expense less maintenance capital expenditures equals or exceeds $9.0 million ($9.6 million if the underwriters exercise their over-allotment option in full). If such test is met for any consecutive four-quarter period, then the phantom units will have distribution equivalent rights until the phantom units vest or are forfeited. See Long-Term Incentive Plan.

Other Benefits. The employment agreements to be entered into by each of the named executive officers with our general partner provide that the named executive officer is eligible to participate in any employee benefit plans maintained by our general partner. Currently, our general partner does not maintain any benefit plans other than the long-term incentive plan described above. In addition, the employment agreements will provide that each named executive officer is entitled to reimbursement for out-of-pocket expenses incurred while performing his duties under the employment agreement. As discussed above, the compensation expense for any benefits granted to the named executive officers will be allocated to us by our general partner as general and administrative expenses and will be included in the annual administrative fee that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering.

Compensation Mix. Our general partner s compensation committee will determine the mix of compensation, both among short and long-term compensation and cash and non-cash compensation, to establish structures that it believes are appropriate for each of the named executive officers. We believe that the mix of base salary, bonus awards, awards under the long-term incentive plan and the other benefits that will be available to the named executive officers under their employment agreements fit the overall compensation objectives of our general partner and us. We believe this mix of compensation provides competitive compensation opportunities to align and drive employee performance in support of our business strategies and to attract, motivate and retain high quality talent with the skills and competencies required by us.

Role of Executive Officers in Executive Compensation. Our general partner s compensation committee will determine the compensation of the named executive officers. We expect that our chief executive officer, Mr. Foxx, will provide periodic recommendations to the compensation committee regarding the compensation of other named executive officers. In addition, the employment agreements to be entered into by the named executive officers must be approved by the management committee of our Parent s general partner pursuant to its limited liability company agreement. Mr. Foxx serves on this management committee, but does not participate in the approval of his employment agreement.

Employment Agreements. As indicated above, each of the named executive officers will enter into an employment agreement with our general partner. All of these agreements are substantially similar except for the amounts of compensation paid to the respective named executive officer. Each of the employment agreements has a term of two years that will automatically be extended for one year periods unless either party gives 90 days advance notice.

The employment agreements will provide for the initial annual base salaries described above. In addition, each of the named executive officers will be eligible for discretionary bonus awards and long-term incentives which may be made from time to time in the sole discretion of the board of directors of our general partner. The employment agreements also provide that the named executive officers are eligible to participate in any employee benefit plans maintained by our general partner and are entitled to reimbursement for certain out-of-pocket expenses.

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Pursuant to the employment agreements, each of the named executive officers will agree not to disclose any confidential information obtained by him while employed under the agreement. In addition, each employment agreement will contain payment obligations that may be triggered by a termination after a Change of Control.

Potential Payments Upon Change of Control or Termination.

Employment Agreements. Under the employment agreements that will be entered into with our named executive officers, our general partner may be required to pay certain amounts upon a Change of Control of us or our general partner or upon the termination of the executive officer in certain circumstances. These termination payments were set by comparing similar payments made by the peer companies listed above and other companies in the midstream energy industry with which we believe we generally compete for executives. Except in the event of termination for Cause, termination by the named executive officer other than for Good Reason, or termination after the expiration of the term of the employment agreement, the employment agreements will provide for payment of any unpaid base salary and vested benefits under any incentive plans, a lump sum payment equal to twelve months of base salary and continued participation in our general partners welfare benefit programs for the longer of the remainder of the term of the employment agreement or one year after termination. Upon such an event, Mr. Foxx, Mr. Schwiering, Mr. Brochetti and Mr. Stallings would be entitled to lump sum payments of $450,000, $250,000, $300,000 and $275,000, respectively, in addition to continued participation in our general partner s welfare benefit programs and the amounts of unpaid base salary and benefits under any incentive plans.

If within one year after a Change of Control occurs the named executive officer is terminated by our general partner without Cause or the named executive officer terminates the agreement for Good Reason, he will be entitled to payment of any unpaid base salary and vested benefits under any incentive plans, a lump sum payment equal to 24 months of base salary and continued participation in our general partner s welfare benefit programs for the longer of the remainder of the term of the employment agreement or one year after termination. Upon such an event, Mr. Foxx, Mr. Schwiering, Mr. Brochetti and Mr. Stallings would be entitled to lump sum payments of $900,000, $500,000, $600,000 and $550,000, respectively, in addition to continued participation in our general partner s welfare benefit programs and the amounts of unpaid base salary and benefits under any incentive plans.

For purposes of each named executive officer s employment agreement:

Cause means (i) conviction of the named executive officer by a court of competent jurisdiction of any felony or a crime involving moral turpitude; (ii) the named executive officer s willful and intentional failure or willful intentional refusal to follow reasonable and lawful instructions of the board of directors of our general partner; (iii) the named executive officer s material breach or default in the performance of his obligations under the employment agreement; or (iv) the named executive officer s act of misappropriation, embezzlement, intentional fraud or similar conduct involving our general partner.

Good Reason means (i) a material reduction in the named executive officer s base salary; (ii) a material diminution of the named executive officer s duties, authority or responsibilities as in effect immediately prior to such diminution; or (iii) the relocation of the named executive officer s principal work location to a location more than 50 miles from its current location.

Change of Control means any of the following events: (i) any person or group other than our Parent and its affiliates, shall become the beneficial owner, by way of merger, consolidation, recapitalization, reorganization or otherwise, of 50% or more of the combined voting power of the equity interests in the us or our general partner; (ii) our limited partners approve, in one or a series of transactions, a plan of complete liquidation of us; (iii) the sale or other disposition by either our general partner or us of all or substantially all of the assets of our general partner or us in one or more transactions to any person other than our general partner and its affiliates; or (iv) a transaction resulting in a person other than our general partner or an affiliate of our general partner being the general partner of the partnership.

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Long-Term Incentive Plan

General. Our general partner intends to adopt a Long-Term Incentive Plan, or the Plan, for employees, consultants and directors of our general partner and its affiliates, including our Parent, who perform services for us. The summary of the Plan contained herein does not purport to be complete and is qualified in its entirety by reference to the Plan. The Plan provides for the grant of unit awards, restricted units, phantom units, unit options, unit appreciation rights, distribution equivalent rights and substitute awards. Subject to adjustment for certain events, an aggregate of 1,250,000 common units may be delivered pursuant to awards under the Plan. Units that are cancelled, forfeited or are withheld to satisfy our general partner s tax withholding obligations are available for delivery pursuant to other awards. The Plan will be administered by the compensation committee of our general partner s board of directors. The Plan has been designed to furnish additional compensation to employees, consultants and directors and to align their economic interests with those of common unitholders.

Unit Awards. The compensation committee may grant unit awards to eligible individuals under the Plan. A unit award is an award of common units that are fully vested upon grant and not subject to forfeiture.

Restricted Units and Phantom Units. A restricted unit is a common unit that is subject to forfeiture. Upon vesting, the forfeiture restrictions lapse and the recipient holds a common unit that is not subject to forfeiture. A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or, in the discretion of the compensation committee, cash equal to the fair market value of a common unit. The compensation committee may make grants of restricted units and phantom units under the Plan to eligible individuals containing such terms, consistent with the Plan, as the compensation committee may determine, including the period over which restricted units and phantom units granted will vest. The compensation committee may, in its discretion, base vesting on the grantee s completion of a period of service or upon the achievement of specified financial objectives or other criteria. In addition, the restricted and phantom units will vest automatically upon a change of control (as defined in the Plan) of us or our general partner, subject to any contrary provisions in the award agreement.

If a grantee s employment, consulting or membership on the board of directors terminates for any reason, the grantee s restricted units and phantom units will be automatically forfeited unless, and to the extent, the award agreement or the compensation committee provides otherwise.

Distributions made by us with respect to awards of restricted units may, in the compensation committee s discretion, be subject to the same vesting requirements as the restricted units. The compensation committee, in its discretion, may also grant tandem distribution equivalent rights with respect to phantom units.

We intend for restricted units and phantom units granted under the Plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, participants will not pay any consideration for the common units they receive with respect to these types of awards, and neither we nor our general partner will receive remuneration for the units delivered with respect to these awards.

Unit Options and Unit Appreciation Rights. The Plan also permits the grant of options covering common units and unit appreciation rights. Unit options represent the right to purchase a number of common units at a specified exercise price. Unit appreciation rights represent the right to receive the appreciation in the value of a number of common units over a specified exercise price, either in cash or in common units as determined by the compensation committee. Unit options and unit appreciation rights may be granted to such eligible individuals and with such terms as the compensation committee may determine, consistent with the Plan; however, a unit option or unit appreciation right must have an exercise price equal to the fair market value of a common unit on the date of grant.

Distribution Equivalent Rights. Distribution equivalent rights are rights to receive all or a portion of the distributions otherwise payable on units during a specified time. Distribution equivalent rights may be granted alone or in combination with another award.

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By giving participants the benefit of distributions paid to unitholders generally, grants of distribution equivalent rights provide an incentive for participants to operate our business in a manner that allows our partnership to provide increasing partnership distributions. Typically, distribution equivalent rights will be granted in tandem with a phantom unit, so that the amount of the participant s compensation is tied to both the market value of our units and the distributions that unitholders receive while the award is outstanding. We believe this aligns the participant s incentives directly to the measures that drive returns for our unitholders.

Substitute Awards. The compensation committee, in its discretion, may grant substitute or replacement awards to eligible individuals who, in connection with an acquisition made by us, our general partner or an affiliate, have forfeited an equity-based award in their former employer. A substitute award that is an option may have an exercise price less than the value of a common unit on the date of grant of the award.

Source of Common Units; Cost. Common units to be delivered with respect to awards may be common units acquired by our general partner on the open market, common units already owned by our general partner, common units acquired by our general partner directly from us or any other person or any combination of the foregoing. Our general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units. With respect to unit options, our general partner will be entitled to reimbursement by us for the difference between the cost incurred by our general partner in acquiring these common units and the proceeds received from an optionee at the time of exercise. Thus, we will bear the cost of the unit options. If we issue new common units with respect to these awards, the total number of common units outstanding will increase, and our general partner will remit the proceeds it receives from a participant, if any, upon exercise of an award to us. With respect to any awards settled in cash, our general partner will be entitled to reimbursement by us for the amount of the cash settlement.

Amendment or Termination of Long-Term Incentive Plan. Our general partner s board of directors, in its discretion, may terminate the Plan at any time with respect to the common units for which a grant has not theretofore been made. The Plan will automatically terminate on the earlier of the 10th anniversary of the date it was initially approved by our unitholders or when common units are no longer available for delivery pursuant to awards under the Plan. Our general partner s board of directors will also have the right to alter or amend the Plan or any part of it from time to time and the compensation committee may amend any award; provided, however, that no change in any outstanding award may be made that would materially impair the rights of the participant without the consent of the affected participant.

Compensation of Directors

Officers or employees of our Parent or our general partner or its affiliates who also serve as directors of our general partner will not receive additional compensation for their service as a director of our general partner. Our general partner anticipates that directors who are not officers or employees of our Parent, our general partner or their affiliates will receive compensation for attending meetings of the board of directors and committees thereof. We expect that such directors will receive (a) $50,000 per year as an annual retainer fee; (b) $5,000 per year for each committee of the board of directors on which such director serves, except that the chairperson of the audit committee will receive $10,000 per year; (c) $1,500 for each meeting of the board of directors that such director attends; (d) 5,000 restricted common units upon becoming a director, vesting in one-third increments over a three-year period; (e) 1,000 restricted common units on each anniversary of becoming a director, vesting in one-third increments over a three-year period; (f) reimbursement for out-of-pocket expenses associated with attending meetings of the board of directors or committees; and (g) director and officer liability insurance coverage. Each director will be fully indemnified by us for actions associated with being a director to the fullest extent permitted under Delaware law.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND THE SELLING UNITHOLDER

The following table sets forth the beneficial ownership of our units that will be issued upon the consummation of this offering and the related transactions and held by:

- each person who then will beneficially own 5% or more of the then outstanding units;
- all of the directors and director nominees of our general partner;
- each named executive officer of our general partner;
- all directors and officers of our general partner as a group; and
- the selling unitholder.

	Beneficial Ownership Prior to the Offering						Beneficial Ownership After the Offering				
Name of Beneficial Owner[1]	**Common Units**	**Percentage of Common Units**	**Subordinated Units**	**Percentage of Subordinated Units**	**Percentage of Total Common and Subordinated Units**	**Common Units Offered**	**Common Units**	**Percentage of Common Units**	**Subordinated Units**	**Percentage of Subordinated Units**	**Percentage of Total Common and Subordinated Units**
SemGroup Holdings, L.P.[2][3]	12,500,000	100%	10,713,430	100%	100%	12,500,000			10,713,430	100%	39.5%
Kevin L. Foxx											
Peter L. Schwiering											
Michael J. Brochetti											
Alex G. Stallings											
Thomas L. Kivisto[3]											
Gregory C. Wallace											
W. Anderson Bishop											
All named executive officers and directors as a group (7 persons)											

(1) Unless otherwise indicated, the address for all beneficial owners in this table is Two Warren Place, 6120 South Yale Avenue, Suite 700, Tulsa, Oklahoma 74136.

(2)

SemGroup, L.P. is the ultimate parent company of SemGroup Holdings, L.P. and may, therefore, be deemed to beneficially own the units held by SemGroup Holdings, L.P. Ritchie and Carlyle/Riverstone have 25.2% and 29.3% ownership interests, respectively, in SemGroup, L.P. Ritchie Opportunistic Trading, Ltd. may be deemed to beneficially own the units held by SemGroup, L.P. as a result of the 25.2% interest in SemGroup, L.P. held by its subsidiaries, SGLP Holdings, Ltd., SGLP US Holdings, L.L.C. and Ritchie SG Holdings, L.L.C. Each of Ritchie Capital Management, Ltd. and Ritchie Capital Management, L.L.C., as the investment manager and sub-adviser, respectively, to Ritchie Opportunistic Trading, Ltd., has voting power and investment control over these securities. A.R. Thane Ritchie controls Ritchie Capital Management, Ltd. and Ritchie Capital Management, L.L.C. Each of Ritchie Capital Management, Ltd., Ritchie Capital Management, L.L.C. and Mr. Ritchie disclaims beneficial ownership of the securities in SemGroup, L.P. held by SGLP Holdings, Ltd., SGLP US Holdings, L.L.C. and Ritchie SG Holdings, L.L.C. Each of Ritchie Opportunistic Trading, Ltd., Ritchie Capital Management, Ltd., Ritchie Capital Management, L.L.C. and Mr. Ritchie disclaims beneficial ownership of the securities in SemGroup Energy Partners, L.P. held by SemGroup, L.P. The address of Ritchie Opportunistic Trading, Ltd. is c/o Ritchie Capital Management, L.L.C., 2100 Enterprise Avenue, Geneva, Illinois 60134. Carlyle/Riverstone s interest in SemGroup, L.P. is owned by C/R SemGroup Investment Partnership, L.P. and C/R Energy Coinvestment II, L.P. Entities owning the equity interests of C/R SemGroup Investment Partnership, L.P. and C/R Energy Coinvestment II, L.P. include investment partnerships affiliated with Carlyle/Riverstone Global Energy and Power Fund II, L.P. (Carlyle/Riverstone). The Carlyle/Riverstone partnerships are associated with Riverstone Holdings, LLC (Riverstone) and The Carlyle Group (Carlyle). Riverstone is based in New York, New York and was organized in May 2000 specifically for the purpose of originating private equity investments in the energy and power industry. Carlyle is a global private equity firm, based in Washington, D.C., that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and build-ups, and growth capital financings. The address of C/R SemGroup Investment Partnership, L.P., C/R Energy Coinvestment II, L.P. and Riverstone is 712 Fifth Avenue, 51st Floor, New York, NY 10019. Each of C/R SemGroup Investment Partnership, L.P., C/R Energy Coinvestment II, L.P., Riverstone, Carlyle and their controlling affiliates disclaim beneficial ownership of the securities owned by SemGroup, L.P.

(3) Mr. Kivisto owns a 3.07% ownership interest in SemGroup, L.P. In addition, Eaglwing, LLC and the Thomas L. Kivisto Trust dated June 5, 1996 have 3.84% and 13.24% ownership interests, respectively, in SemGroup, L.P. Thomas L. Kivisto, SemGroup L.P. s President and Chief Executive Officer, owns a portion of the membership interests in Eaglwing, LLC and is the trustee of the Thomas L. Kivisto Trust dated June 5, 1996. Mr. Kivisto disclaims beneficial ownership of the securities owned by SemGroup, L.P.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

After this offering, SemGroup Holdings will own 10,713,430 subordinated units representing an aggregate 45.2% limited partner interest in us. In addition, our general partner will own a 2% general partner interest in us and the incentive distribution rights.

Distributions and Payments to Our General Partner and Its Affiliates

The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with the formation, ongoing operation and liquidation of SemGroup Energy Partners, L.P. These distributions and payments were determined by and among affiliated entities and, consequently, are not the result of arm s-length negotiations.

Formation Stage

The consideration received by our Parent and its subsidiaries for the contribution of the assets and liabilities to us	12,500,000 common units;
	10,713,430 subordinated units;
	473,743 general partner units (512,009 general partner units if the underwriters exercise their over-allotment option in full);
	the incentive distribution rights; and
	$137.5 million cash payment from the proceeds of borrowings under our new $250.0 million five-year credit facility.

Operational Stage

Distributions of available cash to our general partner and its affiliates	We will generally make cash distributions 98% to our unitholders pro rata, including our general partner and its affiliates, as the holders of 10,713,430 subordinated units, and 2% to our general partner. In addition, if distributions exceed the minimum quarterly distribution and other higher target distribution levels, our general partner will be entitled to increasing percentages of the distributions, up to 50% of the distributions above the highest target distribution level.
	Assuming we have sufficient available cash to pay the full minimum quarterly distribution on all of our outstanding units for four quarters, our general partner and its affiliates would receive an annual distribution of approximately $0.6 million on their general partner units and $14.5 million on their subordinated units.
Payments to our general partner and its affiliates	

We will reimburse our general partner and our Parent for the payment of certain operating expenses and for the provision of various general and administrative services for our benefit. We have agreed to pay our general partner and our Parent a fixed administrative fee of $5.0 million per year for certain general and administrative expenses for

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	the first three years following completion of this offering. For further information regarding the reimbursement of these expenses, please see Omnibus Agreement Reimbursement of General and Administrative Expenses.
Withdrawal or removal of our general partner	If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests. Please see The Partnership Agreement Withdrawal or Removal of the General Partner.
	Liquidation Stage
Liquidation	Upon our liquidation, the partners, including our general partner, will be entitled to receive liquidating distributions according to their respective capital account balances.

Agreements Governing the Transactions

We and other parties have entered into or will enter into the various documents and agreements that will effect the offering transactions, including the vesting of assets in, and the assumption of liabilities by, us and our subsidiaries. These agreements will not be the result of arm s-length negotiations, and they, or any of the transactions that they provide for, may not be effected on terms at least as favorable to the parties to these agreements as they could have been obtained from unaffiliated third parties. All of the transaction expenses incurred in connection with these transactions, including the expenses associated with transferring assets into our subsidiaries, will be paid from the proceeds of this offering.

Omnibus Agreement

Prior to the closing of this offering, we will enter into the Omnibus Agreement with our Parent and our general partner that will address the reimbursement of our general partner for costs incurred on our behalf and indemnification matters. Any or all of the provisions of the Omnibus Agreement, other than the indemnification provisions described below, will be terminable by our Parent at its option if our general partner is removed without cause and units held by our general partner and its affiliates are not voted in favor of that removal. The Omnibus Agreement will also terminate in the event of a change of control of us or our general partner.

Reimbursement of General and Administrative Expenses

Under the Omnibus Agreement, we will reimburse our Parent for the payment of certain operating expenses and for the provision of various general and administrative services for our benefit with respect to the assets contributed to us prior to the closing of this offering. Our Parent will perform centralized corporate functions for us, such as legal, accounting, treasury, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, internal audit, taxes, engineering and marketing. We will pay our general partner and our Parent a fixed administrative fee for providing general and administrative services to us, which is initially fixed at $5.0 million per year through , 2010, subject to annual increases based on increases in the Consumer Price Index and subject to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses with the concurrence of our conflicts committee. After , 2010, our general partner will determine the general and administrative expenses to be allocated to us in accordance with our partnership agreement.

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In addition, we anticipate that we will incur approximately $2.9 million of expenses each year relating to operating as a publicly held company, including costs relating to annual and quarterly reports, tax returns, audit services, Schedule K-1 preparation, investor relations, transfer agent and registrar fees and independent director compensation.

We will also be obligated to reimburse our Parent for operating expenses, which are not included in the $5.0 million annual fixed administrative fee, to the extent incurred by our Parent on our behalf. Such operating expenses primarily include compensation of operational personnel performing services for our benefit and the cost of their employee benefits and insurance coverage expenses our Parent incurs with respect to our business and operations.

Competition

Our Parent will not be restricted, under either our partnership agreement or the Omnibus Agreement, from competing with us. Our Parent may acquire, construct or dispose of additional midstream energy or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets.

Indemnification

Under the Omnibus Agreement, our Parent will indemnify us for five years after the closing of this offering against certain potential environmental claims, losses and expenses associated with the operation of the Crude Oil Business occurring before the closing date of this offering. Our Parent s maximum liability for this indemnification obligation will not exceed $7.5 million and our Parent will not have any obligation under this indemnification until our aggregate losses exceed $250,000. We have agreed to indemnify our Parent against environmental liabilities relating to the Crude Oil Business arising or occurring after the closing date of this offering.

Additionally, our Parent will indemnify us for losses attributable to rights-of-way, certain consents or governmental permits and income taxes attributable to pre-closing operations. We will indemnify our Parent for all losses attributable to the post-closing operations of the Crude Oil Business. Our Parent s obligations under this additional indemnification will survive for five years after the closing of this offering, except that the indemnification obligation with respect to income tax liabilities will terminate upon the expiration of the applicable statute of limitations.

Throughput Agreement

Prior to the closing of this offering, we will enter into the Throughput Agreement with our Parent. A substantial majority of our revenues will be derived from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to this agreement. Please see Business Throughput Agreement for a discussion of the Throughput Agreement.

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CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates (including our Parent) on the one hand, and us and our limited partners, on the other hand. The directors and officers of SemGroup Energy Partners G.P., L.L.C. have fiduciary duties to manage our Parent and our general partner in a manner beneficial to its owners. At the same time, our general partner has a fiduciary duty to manage our partnership in a manner beneficial to us and our unitholders.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us or any other partner, on the other hand, our general partner will resolve that conflict. Our partnership agreement contains provisions that modify and limit our general partner s fiduciary duties to our unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions taken that, without those limitations, might constitute breaches of fiduciary duty.

Our general partner will not be in breach of its obligations under the partnership agreement or its duties to us or our unitholders if the resolution of the conflict is:

- approved by the conflicts committee, which approval may be granted in advance of a known conflict, if such approval is contingent upon compliance with pre-approved, documented guidelines and procedures, although our general partner is not obligated to seek such approval;

- approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner or any of its affiliates;

- on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

- fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

Our general partner may, but is not required to, seek the approval of such resolution from the conflicts committee of its board of directors. If our general partner does not seek approval from the conflicts committee and its board of directors determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the third and fourth bullet points above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. Unless the resolution of a conflict is specifically provided for in our partnership agreement, our general partner or the conflicts committee may consider any factors it determines in good faith to consider when resolving a conflict. When our partnership agreement provides that someone act in good faith, it requires that person to reasonably believe he or she is acting in the best interests of the partnership.

Conflicts of interest could arise in the situations described below, among others:

Our Parent is not limited in its ability to compete with us, which could cause conflicts of interest and limit our ability to acquire additional assets or businesses which, in turn, could adversely affect our results of operations and cash available for distribution to our unitholders.

Neither our partnership agreement nor the Omnibus Agreement between us and our Parent will prohibit our Parent from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, our Parent may acquire, construct or dispose of additional midstream or other assets in the future, without any obligation to offer us the opportunity to purchase or construct any of those assets. Our Parent is a large,

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established participant in the midstream energy business, and has significantly greater resources and experience than we have, which factors may make it more difficult for us to compete with these entities with respect to commercial activities as well as for acquisition candidates. As a result, competition from these entities could adversely impact our results of operations and cash available for distribution.

Neither our partnership agreement nor any other agreement requires our Parent to pursue a business strategy that favors us or utilizes our assets or dictates what markets to pursue or grow. Our Parent s directors have a fiduciary duty to make these decisions in the best interests of the owners of our Parent, which may be contrary to our interests.

Because the officers and certain of the directors of our general partner are also directors and/or officers of our Parent, such directors and officers have fiduciary duties to our Parent that may cause them to pursue business strategies that disproportionately benefit our Parent or which otherwise are not in our best interests.

Our general partner is allowed to take into account the interests of parties other than us, such as our Parent, in resolving conflicts of interest.

Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its right to make a determination to receive Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights, its limited call right, its voting rights with respect to the units it owns, its registration rights and its determination whether or not to consent to any merger or consolidation of the partnership.

We will have no employees and will rely on the employees of our general partner and its affiliates.

All of our executive management personnel will be employees of our general partner and our Parent and will allocate their time between managing our business and affairs and the business and affairs of our Parent. We will also utilize a significant number of employees of our Parent to operate our business and provide us with general and administrative services for which we will reimburse our Parent for allocated expenses of operational personnel who perform services for our benefit and we will reimburse our Parent for allocated general and administrative expenses. Affiliates of our general partner and our Parent will also conduct businesses and activities of their own in which we will have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition for the time and effort of the officers and employees who provide services to our Parent.

Our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty.

In addition to the provisions described above, our partnership agreement contains provisions that restrict the remedies available to our unitholders for actions that might otherwise constitute breaches of fiduciary duty. For example, our partnership agreement:

- provides that the general partner shall not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed that the decision was in the best interests of our partnership;

- generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available

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from unrelated third parties or be fair and reasonable to us, as determined by the general partner in good faith, and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us;

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner acting in good faith and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us.

Except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval.

Under our partnership agreement, our general partner has full power and authority to do all things, other than those items that require unitholder approval or with respect to which our general partner has sought conflicts committee approval, on such terms as it determines to be necessary or appropriate to conduct our business including, but not limited to, the following:

the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into our securities, and the incurring of any other obligations;

the purchase, sale or other acquisition or disposition of our securities, or the issuance of additional options, rights, warrants and appreciation rights relating to our securities;

the mortgage, pledge, encumbrance, hypothecation or exchange of any or all of our assets;

the negotiation, execution and performance of any contracts, conveyances or other instruments;

the distribution of our cash;

the selection and dismissal of employees and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

the maintenance of insurance for our benefit and the benefit of our partners;

the formation of, or acquisition of an interest in, the contribution of property to, and the making of loans to, any limited or general partnerships, joint ventures, corporations, limited liability companies or other relationships;

the control of any matters affecting our rights and obligations, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expense and the settlement of claims and litigation;

the indemnification of any person against liabilities and contingencies to the extent permitted by law;

the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over our business or assets; and

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the entering into of agreements with any of its affiliates to render services to us or to itself in the discharge of its duties as our general partner.

Our partnership agreement provides that our general partner must act in good faith when making decisions on our behalf, and our partnership agreement further provides that in order for a determination by our general partner to be made in good faith, our general partner must believe that the determination is in our best interests. Please see The Partnership Agreement Voting Rights for information regarding matters that require unitholder approval.

Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional partnership securities and the creation, reduction or increase of reserves, each of which can affect the amount of cash that is distributed to our unitholders.

The amount of cash that is available for distribution to unitholders is affected by decisions of our general partner regarding such matters as:

the manner in which our business is operated;

the amount of our borrowings;

the amount, nature and timing of our capital expenditures;

our issuance of additional units;

asset purchases, transfers and sales and other acquisitions and dispositions; and

the amount of cash reserves necessary or appropriate to satisfy general, administrative and other expenses and debt service requirements, and otherwise provide for the proper conduct of our business.

In addition, our general partner may use an amount equal to two times the amount needed to pay the minimum quarterly distribution on our units which would not otherwise constitute available cash from operating surplus, in order to permit the payment of cash distributions on its units and incentive distribution rights. All of these actions may affect the amount of cash distributed to our unitholders and the general partner and may facilitate the conversion of subordinated units into common units. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions.

In addition, borrowings by us and our affiliates do not constitute a breach of any duty owed by the general partner to our unitholders, including borrowings that have the purpose or effect of:

enabling our general partner or its affiliates to receive distributions on any subordinated units held by them or the incentive distribution rights; or

hastening the expiration of the subordination period.

For example, in the event we have not generated sufficient cash from our operations to pay the minimum quarterly distribution on our common units and our subordinated units, our partnership agreement permits us to borrow funds, which would enable us to make this distribution on all outstanding units. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

Our partnership agreement provides that we and our subsidiaries may borrow funds from our general partner and its affiliates. Our general partner and its affiliates may not borrow funds from us, our operating company, or its operating subsidiaries.

Our general partner determines which costs incurred by our Parent are reimbursable by us.

We will reimburse our general partner and its affiliates for costs incurred in managing and operating us, including costs incurred in rendering corporate staff and support services to us. We will pay our general partner and our Parent a fixed administrative fee for providing general and administrative services to us, which is

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initially fixed at $5.0 million per year through , 2010, subject to annual increases based on increases in the Consumer Price Index and subject to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses with the concurrence of our conflicts committee. Our partnership agreement provides that our general partner will determine the expenses that are allocable to us in good faith.

Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.

Our partnership agreement allows our general partner to determine, in good faith, any amounts to pay itself or its affiliates for any services rendered to us. Our general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. Neither our partnership agreement nor any of the other agreements, contracts or arrangements between us, on the one hand, and our general partner and its affiliates, on the other hand, that will be in effect as of the closing of this offering will be the result of arm s-length negotiations. Similarly, agreements, contracts or arrangements between us and our general partner and its affiliates that are entered into following the closing of this offering will not be required to be negotiated on an arm s-length basis, although, in some circumstances, our general partner may determine that the conflicts committee of our general partner may make a determination on our behalf with respect to one or more of these types of situations.

Our general partner will determine, in good faith, the terms of any of these transactions entered into after the sale of the common units offered in this offering.

Our general partner and its affiliates will have no obligation to permit us to use any facilities or assets of our general partner or its affiliates, except as may be provided in contracts entered into specifically dealing with that use. There is no obligation of our general partner or its affiliates to enter into any contracts of this kind.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the other party has recourse only to our assets and not against our general partner or its assets. The partnership agreement provides that any action taken by our general partner to limit its liability is not a breach of our general partner s fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

Our general partner may exercise its right to call and purchase common units if it and its affiliates own more than 80% of the common units.

Our general partner may exercise its right to call and purchase common units as provided in the partnership agreement or assign this right to one of its affiliates or to us. Our general partner is not bound by fiduciary duty restrictions in determining whether to exercise this right. As a result, a common unitholder may have his common units purchased from him at an undesirable time or price. Please see The Partnership Agreement Limited Call Right.

Common unitholders will have no right to enforce obligations of our general partner and its affiliates under the agreements with us.

Any agreements between us, on the one hand, and our general partner and its affiliates, on the other, will not grant to the unitholders, separate and apart from us, the right to enforce the obligations of our general partner and its affiliates in our favor.

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

The attorneys, independent accountants, and others who have performed services for us regarding this offering have been retained by our general partner. Attorneys, independent accountants, and others who perform services for

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us are selected by our general partner or the conflicts committee and may perform services for our general partner and its affiliates. We may retain separate counsel for ourselves or the holders of common units in the event of a conflict of interest between our general partner and its affiliates, on the one hand, and us or the holders of common units, on the other, depending on the nature of the conflict. We do not intend to do so in most cases.

Our general partner may elect to cause us to issue Class B units to it in connection with a resetting of the target distribution levels related to our general partner s incentive distribution rights without the approval of the conflicts committee of our general partner or our unitholders. This ability may result in lower distributions to our common unitholders in certain situations.

Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution amount. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; however, it is possible that our general partner could exercise this reset election at a time when we are experiencing declines in our aggregate cash distributions or at a time when our general partner expects that we will experience declines in our aggregate cash distributions in the foreseeable future. In such situations, our general partner may be experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our Class B units, which are entitled to specified priorities with respect to our distributions and which therefore may be more advantageous for the general partner to own in lieu of the right to receive incentive distribution payments based on target distribution levels that are less certain to be achieved in the then current business environment. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued new Class B units to our general partner in connection with resetting the target distribution levels related to our general partner s incentive distribution rights. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner Interest and Incentive Distribution Rights.

Fiduciary Duties

Our general partner is accountable to us and our unitholders as a fiduciary. Fiduciary duties owed to unitholders by our general partner are prescribed by law and the partnership agreement. The Delaware Revised Uniform Limited Partnership Act, which we refer to in this prospectus as the Delaware Act, provides that Delaware limited partnerships may, in their partnership agreements, modify, restrict or expand the fiduciary duties otherwise owed by a general partner to limited partners and the partnership.

Our partnership agreement contains various provisions modifying and restricting the fiduciary duties that might otherwise be owed by our general partner. We have adopted these restrictions to allow our general partner or its affiliates to engage in transactions with us that would otherwise be prohibited by state-law fiduciary duty standards and to take into account the interests of other parties in addition to our interests when resolving conflicts of interest. We believe this is appropriate and necessary because our general partner s board of directors has fiduciary duties to manage our general partner in a manner beneficial to its owners, as well as to you. Without these modifications, the general partner s ability to make decisions involving conflicts of interest would be restricted. The modifications to the fiduciary standards enable the general partner to take into consideration all parties involved in the proposed action, so long as the resolution is fair and reasonable to us. These modifications also enable our general partner to attract and retain experienced and capable directors. These modifications are

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detrimental to our common unitholders because they restrict the remedies available to unitholders for actions that, without those limitations, might constitute breaches of fiduciary duty, as described below, and permit our general partner to take into account the interests of third parties in addition to our interests when resolving conflicts of interest.

The following is a summary of the material restrictions of the fiduciary duties owed by our general partner to the limited partners:

State-law fiduciary duty standards	Fiduciary duties are generally considered to include an obligation to act in good faith and with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present.

The Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners.

Partnership agreement modified standards	Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its capacity as our general partner, as opposed to in its individual capacity, it must act in good faith and will not be subject to any other standard under applicable law. In addition, when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligation to us or the unitholders whatsoever. These standards reduce the obligations to which our general partner would otherwise be held.

In addition to the other more specific provisions limiting the obligations of our general partner, our partnership agreement further provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct.

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Special provisions regarding affiliated transactions. Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a vote of unitholders and that are not approved by the conflicts committee of the board of directors of our general partner must be:

- on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

- fair and reasonable to us, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to us).

If our general partner does not seek approval from the conflicts committee and the board of directors of our general partner determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the bullet points above, then it will be presumed that, in making its decision, the board of directors, which may include board members affected by the conflict of interest, acted in good faith and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. These standards reduce the obligations to which our general partner would otherwise be held.

By purchasing our common units, each common unitholder automatically agrees to be bound by the provisions in the partnership agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner or assignee to sign a partnership agreement does not render the partnership agreement unenforceable against that person.

We must indemnify our general partner and its officers, directors, managers and certain other specified persons, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by our general partner or these other persons. We must provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We must also provide this indemnification for criminal proceedings unless our general partner or these other persons acted with knowledge that their conduct was unlawful. Thus, our general partner could be indemnified for its negligent acts if it meets the requirements set forth above. To the extent these provisions purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the SEC, such indemnification is contrary to public policy and, therefore, unenforceable. Please see The Partnership Agreement Indemnification.

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DESCRIPTION OF THE COMMON UNITS

The Units

The common units and the subordinated units are separate classes of limited partner interests in us. The holders of units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units and subordinated units in and to partnership distributions, please read this section and Our Cash Distribution Policy and Restrictions on Distributions. For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please see The Partnership Agreement.

Transfer Agent and Registrar

Duties. American Stock Transfer & Trust Company will serve as registrar and transfer agent for the common units. We will pay all fees charged by the transfer agent for transfers of common units, except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;
- special charges for services requested by a common unitholder; and
- other similar fees or charges.

There will be no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal. The transfer agent may resign by notice to us or may be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and
- gives the consents and approvals contained in our partnership agreement, such as the approval of all transactions and agreements that we are entering into in connection with our formation and this offering.

A transferee will become a substituted limited partner of our partnership for the transferred common units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfers of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a substituted limited partner in our partnership for the transferred common units.

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Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

The Longview system is, and any additional interstate pipelines that we acquire or construct may be, subject to rate regulation by FERC. Our general partner has the right under our partnership agreement to institute procedures, by giving notice to each of our unitholders, that would require transferees of common units and, upon the request of our general partner, existing holders of our common units to certify that they are Eligible Holders. The purpose of these certification procedures would be to enable us to utilize a federal income tax expense as a component of the pipeline s cost of service upon which tariffs may be established under FERC rate making policies applicable to entities that pass-through their taxable income to their owners. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. If these tax certification procedures are implemented, transferees of common units will be required to certify, and our general partner, acting on our behalf, may at any time require each unitholder to re-certify:

- that the transferee or unitholder is an individual or an entity subject to United States federal income taxation on the income generated by us; or

- that, if the transferee unitholder is an entity not subject to United States federal income taxation on the income generated by us, as in the case, for example, of a mutual fund taxed as a regulated investment company or a partnership, all the entity s owners are subject to United States federal income taxation on the income generated by us.

In the event that this notice is given by our general partner, which we refer to as a FERC Notice, transfers of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a properly completed tax certification.

Following a FERC Notice, a transferee s broker, agent or nominee may, but is not obligated to, complete, execute and deliver a tax certification. We are entitled to treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Following a FERC Notice, in addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a limited partner in our partnership for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a properly completed tax certification obtains only:

- the right to assign the common unit to a purchaser or other transferee; and

- the right to transfer the right to seek admission as a limited partner in our partnership for the transferred common units.

As a result, following a FERC Notice, a purchaser or transferee of common units who does not execute and deliver a properly completed transfer application:

- will not receive cash distributions;

- will not be allocated any of our income, gain, deduction, losses or credits for federal income tax or other tax purposes;

- may not receive some federal income tax information or reports furnished to record holders of common units; and will have no voting rights;

unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a tax certification as to itself and any beneficial holders.

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THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. The form of our partnership agreement is included in this prospectus as Appendix A. We will provide prospective investors with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please see Provisions of Our Partnership Agreement Relating to Cash Distributions;

- with regard to the fiduciary duties of our general partner, please see Conflicts of Interest and Fiduciary Duties;

- with regard to the transfer of common units, please see Description of the Common Units Transfer of Common Units; and

- with regard to allocations of taxable income and taxable loss, please see Material Tax Consequences.

Organization and Duration

Our partnership was organized on February 22, 2007 and will have a perpetual existence unless terminated pursuant to the terms of our partnership agreement.

Purpose

Our purpose under the partnership agreement is to engage in any business activities that are approved by our general partner. Our general partner, however, may not cause us to engage in any business activities that the general partner determines would cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes.

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the midstream energy business, our general partner has no current plans to do so and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. Our general partner is authorized in general to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

Power of Attorney

Each limited partner, and each person who acquires a unit from a unitholder, by accepting the common unit, automatically grants to our general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for our qualification, continuance, or dissolution. The power of attorney also grants our general partner the authority to amend, and to grant consents and waivers on behalf of the limited partners under, our partnership agreement.

Cash Distributions

Our partnership agreement specifies the manner in which we will make cash distributions to holders of our common units and other partnership securities as well as to our general partner in respect of its general partner interest and its incentive distribution rights. For a description of these cash distribution provisions, please see Provisions of Our Partnership Agreement Relating to Cash Distributions.

Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described below under Limited Liability.

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Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2% general partner interest if we issue additional units. Our general partner s 2% interest, and the percentage of our cash distributions to which it is entitled, will be proportionately reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest. Our general partner will be entitled to make a capital contribution in order to maintain its 2% general partner interest in the form of the contribution to us of common units based on the current market value of the contributed common units.

Voting Rights

The following is a summary of the unitholder vote required for the matters specified below. Matters requiring the approval of a unit majority require:

during the subordination period, the approval of a majority of the common units, excluding those common units held by our general partner and its affiliates, and a majority of the subordinated units, voting as separate classes; and

after the subordination period, the approval of a majority of the common units and Class B units, if any, voting as a class.

In voting their common, Class B and subordinated units, our general partner and its affiliates will have no fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us and the limited partners.

Issuance of additional units	No approval right.
Amendment of the partnership agreement	Certain amendments may be made by the general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. Please see Amendment of the Partnership Agreement.
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority in certain circumstances. Please see Merger, Consolidation, Conversion, Sale or Other Disposition of Assets.
Dissolution of our partnership	Unit majority. Please see Termination and Dissolution.
Continuation of our business upon dissolution	Unit majority. Please see Termination and Dissolution.
Withdrawal of the general partner	Under most circumstances, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is required for the withdrawal of our general partner prior to June 30, 2017 in a manner that would cause a dissolution of our partnership. Please see Withdrawal or Removal of the General Partner.
Removal of the general partner	Not less than 66 $^{2}/3$% of the outstanding units, voting as a single class, including units held by our general partner and its affiliates. Please see Withdrawal or Removal of the General Partner.

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Transfer of the general partner interest	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets, to such person. The approval of a majority of the common units, excluding common units held by the general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third party prior to June 30, 2017. Please see Transfer of General Partner Units.
Transfer of incentive distribution rights	Except for transfers to an affiliate or another person as part of our general partner s merger or consolidation, sale of all or substantially all of its assets or the sale of all of the ownership interests in such holder, the approval of a majority of the common units, excluding common units held by the general partner and its affiliates, is required in most circumstances for a transfer of the incentive distribution rights to a third party prior to June 30, 2017. Please see Transfer of Incentive Distribution Rights.
Transfer of ownership interests in our general partner	No approval required at any time. Please see Transfer of Ownership Interests in the General Partner.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of the partnership agreement, his liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to us for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace our general partner;
- to approve some amendments to the partnership agreement; or
- to take other action under the partnership agreement;

constituted participation in the control of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as the general partner. This liability would extend to persons who transact business with us who reasonably believe that the limited partner is a general partner. Neither the partnership agreement nor the Delaware Act specifically provides for legal recourse against the general partner if a limited partner were to lose limited liability through any fault of the general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited

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partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except that such person is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

Our subsidiaries conduct business in Texas, Oklahoma, Kansas, Colorado and New Mexico and we may have subsidiaries that conduct business in other states in the future. Maintenance of our limited liability as a limited partner of the operating company may require compliance with legal requirements in the jurisdictions in which the operating company conducts business, including qualifying our subsidiaries to do business there.

Limitations on the liability of limited partners for the obligations of a limited partner have not been clearly established in many jurisdictions. If, by virtue of our membership interest in the operating company or otherwise, it were determined that we were conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace the general partner, to approve some amendments to the partnership agreement, or to take other action under the partnership agreement constituted participation in the control of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as the general partner under the circumstances. We will operate in a manner that the general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities for the consideration and on the terms and conditions determined by our general partner without the approval of the unitholders.

It is possible that we will fund acquisitions through the issuance of additional common units, subordinated units or other partnership securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other partnership securities may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities that, as determined by our general partner, may have special voting rights to which the common units are not entitled. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of equity securities, which may effectively rank senior to the common units.

Upon issuance of additional partnership securities (other than the issuance of common units upon exercise by the underwriters of their over-allotment option, the issuance of partnership securities issued in connection with a reset of the incentive distribution target levels relating to our general partner s incentive distribution rights or the issuance of partnership securities upon conversion of outstanding partnership securities), our general partner will be entitled, but not required, to make additional capital contributions to the extent necessary to maintain its 2% general partner interest in us. Our general partner s 2% interest in us will be reduced if we issue additional units in the future (other than the issuance of common units upon exercise by the underwriters of their over-allotment option, the issuance of partnership securities issued in connection with a reset of the incentive distribution target levels relating to our general partner s incentive distribution rights or the issuance of partnership securities upon conversion of outstanding partnership securities) and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest. Moreover, our

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general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units, subordinated units or other partnership securities whenever, and on the same terms that, we issue those securities to persons other than our general partner and its affiliates, to the extent necessary to maintain the percentage interest of the general partner and its affiliates, including such interest represented by common units and subordinated units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership securities.

Amendment of the Partnership Agreement

General. Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. However, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. In order to adopt a proposed amendment, other than the amendments discussed below, our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by a unit majority.

Prohibited Amendments. No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected; or

- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which consent may be given or withheld at its option.

The provision of our partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class (including units owned by our general partner and its affiliates). Upon completion of the offering, our general partner and its affiliates will own approximately 46.2% of the outstanding common and subordinated units (prior to giving effect to any purchases by affiliates of our general partner in our directed unit program).

No Unitholder Approval. Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner or assignee to reflect:

- a change in our name, the location of our principal place of our business, our registered agent or our registered office;

- the admission, substitution, withdrawal, or removal of partners in accordance with our partnership agreement;

- a change that our general partner determines to be necessary or appropriate for us to qualify or to continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we, nor the operating company, nor any of its subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

- a change in our fiscal year or taxable year and related changes;

an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or the directors, officers, agents, or trustees of our general partner from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or plan

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asset regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

an amendment that our general partner determines to be necessary or appropriate for the authorization of additional partnership securities or rights to acquire partnership securities, including any amendment that our general partner determines is necessary or appropriate in connection with:

the adjustments of the minimum quarterly distribution, first target distribution, second target distribution and third target distribution in connection with the reset of our general partner s incentive distribution rights as described under Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner s Right to Reset Incentive Distribution Levels; or

the implementation of the provisions relating to our general partner s right to reset its incentive distribution rights in exchange for Class B units; and

any modification of the incentive distribution rights made in connection with the issuance of additional partnership securities or rights to acquire partnership securities, provided that, any such modifications and related issuance of partnership securities have received approval by a majority of the members of the conflicts committee of our general partner;

any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;

an amendment effected, necessitated, or contemplated by a merger agreement that has been approved under the terms of the partnership agreement;

any amendment that our general partner determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership, or other entity, as otherwise permitted by our partnership agreement;

any amendment necessary to require limited partners to provide a statement, certification or other evidence to us regarding whether such limited partner is subject to United States federal income taxation on the income generated by us;

conversions into, mergers with or conveyances to another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the conversion, merger or conveyance other than those it receives by way of the conversion, merger or conveyance; or

any other amendments substantially similar to any of the matters described in the clauses above.

In addition, our general partner may make amendments to our partnership agreement without the approval of any limited partner if our general partner determines that those amendments:

do not adversely affect the limited partners (or any particular class of limited partners) in any material respect;

are necessary or appropriate to satisfy any requirements, conditions, or guidelines contained in any opinion, directive, order, ruling, or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline, or requirement of any securities exchange on which the limited partner interests are or will be listed for trading;

are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units under the provisions of our partnership agreement; or

are required to effect the intent expressed in this prospectus or the intent of the provisions of the partnership agreement or are otherwise contemplated by our partnership agreement.

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Opinion of Counsel and Unitholder Approval. For amendments of the type not requiring unitholder approval, our general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in our being treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes in connection with any of the amendments. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding units voting as a single class unless we first obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action is required to be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced.

Merger, Consolidation, Conversion, Sale or Other Disposition of Assets

A merger, consolidation or conversion of us requires the prior consent of our general partner. However, our general partner will have no duty or obligation to consent to any merger, consolidation or conversion and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interest of us or the limited partners.

In addition, the partnership agreement generally prohibits our general partner, without the prior approval of the holders of a unit majority, from causing us to, among other things, sell, exchange, or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation, or other combination, or approving on our behalf the sale, exchange, or other disposition of all or substantially all of the assets of our subsidiaries. Our general partner may, however, mortgage, pledge, hypothecate, or grant a security interest in all or substantially all of our assets without that approval. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval. Finally, our general partner may consummate any merger without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction would not result in a material amendment to the partnership agreement, each of our units will be an identical unit of our partnership following the transaction, and the partnership securities to be issued do not exceed 20% of our outstanding partnership securities immediately prior to the transaction.

If the conditions specified in the partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey some or all of our assets to, a newly formed entity if the sole purpose of that conversion, merger or conveyance is to effect a mere change in our legal form into another limited liability entity, our general partner has received an opinion of counsel regarding limited liability and tax matters, and the governing instruments of the new entity provide the limited partners and the general partner with the same rights and obligations as contained in the partnership agreement. The unitholders are not entitled to dissenters rights of appraisal under the partnership agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets, or any other similar transaction or event.

Termination and Dissolution

We will continue as a limited partnership until terminated under our partnership agreement. We will dissolve upon:

- the election of our general partner to dissolve us, if approved by the holders of units representing a unit majority;

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- there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law;

- the entry of a decree of judicial dissolution of our partnership; or

- the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or withdrawal or removal following approval and admission of a successor.

Upon a dissolution under the last clause above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of units representing a unit majority, subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability of any limited partner; and

- neither our partnership, our operating company nor any of our other subsidiaries would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate, liquidate our assets and apply the proceeds of the liquidation as described in Provisions of Our Partnership Agreement Relating to Cash Distributions Distributions of Cash Upon Liquidation. The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of the General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to June 30, 2017 without obtaining the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after June 30, 2017, our general partner may withdraw as general partner without first obtaining approval of any unitholder by giving 90 days written notice, and that withdrawal will not constitute a violation of our partnership agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days notice to the limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than the general partner and its affiliates. In addition, the partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. Please see Transfer of General Partner Units and Transfer of Incentive Distribution Rights.

Upon withdrawal of our general partner under any circumstances, other than as a result of a transfer by our general partner of all or a part of its general partner interest in us, the holders of a unit majority, voting as separate classes, may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up, and liquidated, unless within a specified period of time after that withdrawal, the holders of a unit majority agree in writing to continue our business and to appoint a successor general partner. Please see Termination and Dissolution.

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than 66 $^{2}/3$% of the outstanding units, voting together as a single class, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any

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removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units and Class B units, if any, voting as a separate class, and subordinated units, voting as a separate class. The ownership of more than 33 $^{1}/3$% of the outstanding units by our general partner and its affiliates would give them the practical ability to prevent our general partner s removal. At the closing of this offering, our general partner and its affiliates will own approximately 46.2% of the outstanding common and subordinated units (prior to giving effect to any purchases by management of our general partner or our Parent in our directed unit program).

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal:

- the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis;

- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

- our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of those interests at that time.

In the event of removal of a general partner under circumstances where cause exists or withdrawal of a general partner where that withdrawal violates our partnership agreement, a successor general partner will have the option to purchase the general partner interest and incentive distribution rights of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where our general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner and its incentive distribution rights for their fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner s general partner interest and its incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Units

Except for the transfer by our general partner of all, but not less than all, of its general partner units to:

- an affiliate of our general partner (other than an individual); or

- another entity as part of the merger or consolidation of our general partner with or into another entity or the transfer by our general partner of all or substantially all of its assets to another entity;

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our general partner may not transfer all or any part of its general partner units to another person prior to June 30, 2017 without the approval of the holders of at least a majority of the outstanding common units, excluding common units held by our general partner and its affiliates. As a condition of this transfer, the transferee must assume, among other things, the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement, and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates may at any time transfer units to one or more persons, without unitholder approval, except that they may not transfer subordinated units to us.

Transfer of Ownership Interests in the General Partner

At any time, our Parent may sell or transfer all or part of its membership interests in our general partner to an affiliate or a third party without the approval of our unitholders.

Transfer of Incentive Distribution Rights

Our general partner or its affiliates or a subsequent holder may transfer its incentive distribution rights to an affiliate of the holder (other than an individual) or another entity as part of the merger or consolidation of such holder with or into another entity, the sale of all of the ownership interest in the holder or the sale of all or substantially all of its assets to, that entity without the prior approval of the unitholders. Prior to June 30, 2017, other transfers of the incentive distribution rights will require the affirmative vote of holders of a majority of the outstanding common units, excluding common units held by our general partner and its affiliates. On or after June 30, 2017, the incentive distribution rights will be freely transferable.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove our general partner or otherwise change our management. If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group approved by our general partner or to any person or group who acquires the units with the prior approval of the board of directors of our general partner.

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal:

- the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis;

- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

- our general partner will have the right to convert its general partner units and its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of those interests at that time.

Limited Call Right

If at any time our general partner and its affiliates own more than 80% of the then-issued and outstanding limited partner interests of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the limited partner interests of the class

held by unaffiliated persons as of a record date to be selected by our general partner, on at least 10 but not more than 60 days notice. The purchase price in the event of this purchase is the greater of:

- the highest cash price paid by either of our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and

- the current market price as of the date three days before the date the notice is mailed.

As a result of our general partner s right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at a price that may be lower than market prices at various times prior to such purchase or lower than a unitholder may anticipate the market price to be in the future. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. Please see Material Tax Consequences Disposition of Common Units.

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited.

Our general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please see Issuance of Additional Securities. However, if at any time any person or group, other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum, or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as our partnership agreement otherwise provides, subordinated units will vote together with common units and Class B units as a single class.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

Status as Limited Partner

By transfer of any common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Except as described above under Limited Liability, the common units will be fully paid, and unitholders will not be required to make additional contributions.

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Non-Taxpaying Assignees; Redemption

The Longview system is, and any additional interstate pipelines that we acquire or construct may be, subject to rate regulation by FERC. Our general partner has the right under our partnership agreement to institute procedures, by giving notice to each of our unitholders, that would require transferees of common units and, upon the request of our general partner, existing holders of our common units to certify that they are Eligible Holders. The purpose of these certification procedures would be to enable us to utilize a federal income tax expense as a component of the pipeline s cost of service upon which tariffs may be established under FERC rate making policies applicable to entities that pass-through their taxable income to their owners. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. If these tax certification procedures are implemented, transferees of common units will be required to certify and our general partner, acting on our behalf, may at any time require each unitholder to re-certify:

- that the transferee or unitholder is an individual or an entity subject to United States federal income taxation on the income generated by us; or

- that, if the transferee unitholder is an entity not subject to United States federal income taxation on the income generated by us, as in the case, for example, of a mutual fund taxed as a regulated investment company or a partnership, all the entity s owners are subject to United States federal income taxation on the income generated by us.

If, following institution of the certification procedures by our general partner, unitholders:

- fail to furnish a transfer application containing the required certification;

- fail to furnish a re-certification containing the required certification within 30 days after request; or

- are unable to provide a certification to the effect set forth in one of the two bullet points in the second preceding paragraph; then

we will have the right, which we may assign to any of our affiliates, to acquire all but not less than all of the units held by any such unitholder by giving written notice of redemption to such unitholder.

The purchase price in the event of such an acquisition for each unit held by such unitholder will be equal to the lesser of the price paid by such unitholder for the relevant unit and the current market price as of the date of redemption.

The purchase price will be paid in cash or by delivery of a promissory note, as determined by our general partner. Any such promissory note will bear interest at the rate of 5% annually and be payable in three equal annual installments of principal and accrued interest, commencing one year after the redemption date.

Non-Citizen Assignees; Redemption

If we are or become subject to federal, state, or local laws or regulations that, in the reasonable determination of our general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship, or other related status of any limited partner, we may redeem the units held by the limited partner at their current market price. In order to avoid any cancellation or forfeiture, our general partner may require each limited partner to furnish information about his nationality, citizenship, or related status. If a limited partner fails to furnish information about his nationality, citizenship, or other related status within 30 days after a request for the information or our general partner determines after receipt of the information that the limited partner is not an eligible citizen, the limited partner may be treated as a non-citizen assignee. A non-citizen assignee is entitled to an interest equivalent to that of a limited partner for the

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right to share in allocations and distributions from us, including liquidating distributions. A non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in-kind upon our liquidation.

Indemnification

Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, or similar events:

- our general partner;
- any departing general partner;
- any person who is or was an affiliate of a general partner or any departing general partner;
- any person who is or was a officer, director, member, partner, fiduciary or trustee of any entity set forth in the preceding three bullet points;
- any person who is or was serving as a director, officer, member, partner, fiduciary or trustee of another person at the request of our general partner or any departing general partner; and
- any person designated by our general partner.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, our general partner will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

Reimbursement of Expenses

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf on-site at our terminals and pipeline, and expenses allocated to our general partner by its affiliates. The general partner is entitled to determine in good faith the expenses that are allocable to us.

Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For tax and financial reporting purposes, our fiscal year is the calendar year.

We will furnish or make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we will also furnish or make available summary financial information within 90 days after the close of each quarter.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to unitholders will depend on the cooperation of unitholders in supplying us with specific information. Every unitholder will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns, regardless of whether he supplies us with information.

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Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable written demand stating the purpose of such demand and at his own expense, have furnished to him:

- a current list of the name and last known address of each partner;
- a copy of our tax returns;
- information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each partner became a partner;