

ENTERPRISE PRODUCTS PARTNERS L P

Form 424B5

October 22, 2004

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PROSPECTUS SUPPLEMENT  
(To the prospectus dated April 21, 2003)

ENTERPRISE PRODUCTS PARTNERS L.P.

UP TO 11,346,111 COMMON UNITS  
REPRESENTING LIMITED PARTNER INTERESTS

This prospectus supplement supplements the base prospectus dated April 21, 2003.

This prospectus supplement, together with the accompanying base prospectus, relates to the issuance and sale of up to 11,346,111 of our common units representing limited partnership interests in us from time to time in connection with the conversion of outstanding Series F2 Rights to purchase our common units.

Our common units are traded on the New York Stock Exchange under the symbol **EPD**. The last reported sale price of our common units on the New York Stock Exchange on October 21, 2004 was \$23.72 per common unit.

Pursuant to a Merger Agreement dated as of December 15, 2003 by and among us, certain of our subsidiaries, GulfTerra Energy Partners, L.P. ( **GulfTerra** ) and one of its subsidiaries, on September 30, 2004, one of our wholly-owned subsidiaries was merged into GulfTerra, and each outstanding common unit of GulfTerra was converted into 1.81 common units of limited partnership interest in us. In addition, we assumed all of GulfTerra's obligations in respect of GulfTerra's unconverted Series F convertible units. GulfTerra sold the Series F convertible units (comprised of 80 Series F1 convertible units and 80 Series F2 convertible units) to a single investor on May 16, 2003. In connection with such sale and issuance, GulfTerra engaged Raymond James & Associates, Inc. as placement agent. Pursuant to a placement agent agreement, GulfTerra agreed to pay Raymond James a fee of three percent of the gross consideration that was received in connection with the conversion of the Series F convertible units. In connection with the merger, we assumed GulfTerra's obligations in respect of the Series F convertible units. At the time of the merger, all of GulfTerra's Series F1 units had converted into GulfTerra common units, and none of GulfTerra's Series F2 units had been converted into GulfTerra common units. We refer to the GulfTerra Series F2 convertible units that converted into the right to purchase our common units upon the closing of the GulfTerra merger as the Series F2 Rights.

**BEFORE TENDERING ANY SERIES F2 RIGHTS FOR CONVERSION, YOU SHOULD READ THE DISCUSSION OF MATERIAL RISKS OF INVESTING IN OUR COMMON UNITS IN RISK FACTORS BEGINNING ON PAGE S-5 OF THIS PROSPECTUS SUPPLEMENT AND ON PAGE 2 OF THE ACCOMPANYING PROSPECTUS.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING BASE PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

Delivery of the common units covered by this prospectus supplement will be made to the purchaser through Depository Trust Company's Deposit and Withdrawal at Custodian system from time to time upon conversion of the Series F2 Rights.

THE DATE OF THIS PROSPECTUS SUPPLEMENT IS OCTOBER 22, 2004.

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You should rely on the information contained in this prospectus supplement, the accompanying base prospectus and the documents we have incorporated by reference. We have not authorized anyone to provide you with different information. We are not making an offer of the common units covered by this prospectus supplement in any jurisdiction where the offer or delivery upon conversion of the common units covered by this prospectus supplement is not permitted. You should not assume that the information provided by this prospectus supplement or the accompanying base prospectus, as well as the information we have previously filed with the Securities and Exchange Commission that is incorporated by reference herein, is accurate as of any date other than the date on the front of the respective document. For purposes of this prospectus supplement and the accompanying base prospectus, when we refer to us, we, our, Enterprise or the Partnership we are describing ourselves, Enterprise Products Partners L.P. together with our subsidiaries, including GulfTerra and its general partner.

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This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering of common units. The second part is the base prospectus, which gives more general information, some of which may not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts combined. If information varies between the prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement.

You should read carefully the entire prospectus supplement, the accompanying base prospectus and the other documents incorporated by reference to understand fully the terms of the common units, as well as the tax and other considerations that are important in making your investment decision.

**Enterprise Products Partners L.P.**

We are a leading North American midstream energy company that provides a wide range of services to producers and consumers of natural gas and natural gas liquids, or NGLs. NGLs are used by the petrochemical and refining industries to produce plastics, motor gasoline and other industrial and consumer products and also are used as residential, agricultural and industrial fuels. Our existing asset platform in the Gulf Coast region of the United States, combined with our Mid-America and Seminole pipeline systems acquired in 2002 and our merger with GulfTerra creates the only integrated natural gas and NGL transportation, fractionation, processing, storage and import/export network in North America. We provide integrated services to our customers and generate fee-based cash flow from multiple sources along our natural gas and NGL value chain.

On September 30, 2004, we completed the merger of GulfTerra into a wholly-owned subsidiary of ours. Additionally, we and our subsidiaries completed certain other transactions related to the merger, including the purchase of the 50% interest in GulfTerra's general partner held by El Paso Corporation and the purchase from El Paso Corporation of certain midstream assets located in South Texas.

In connection with the merger, we paid \$500 million cash to El Paso in exchange for 10,937,500 Series C common units of GulfTerra and 2,876,620 Series A common units of GulfTerra, and the remaining 57,762,369 outstanding GulfTerra common units were converted into 104,549,889 common units of Enterprise. In addition, we assumed all of GulfTerra's obligations with respect to its unconverted Series F2 convertible units, which we refer to as the Series F2 Rights.

Our principal executive offices are located at 2727 North Loop West, Houston, Texas 77008, and our phone number is (713) 880-6500.

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**The Offering**

Common Units offered	Up to 11,346,111 common units, depending on the conversion price then in effect for our Series F2 Rights and assuming all Series F2 Rights are exercised in full and not on a cashless, or netted, basis.
Common units to be outstanding after this offering	Up to 371,564,084 common units, based upon 360,217,973 common units outstanding on September 30, 2004.
Common unit distributions	Cash distributions are made on our common units on a quarterly basis. Commencing with our quarterly distribution scheduled to be paid in November 2004, our quarterly distribution rate will be at least \$0.395 per common unit, or \$1.58 per common unit on an annualized basis. Cash distributions on our common units are generally paid before the end of the second month following March 31, June 30, September 30 and December 31.
New York Stock Exchange symbol for the common units	EPD
Use of proceeds	<p>The gross proceeds that we will receive from the conversion of our Series F2 Rights will depend upon:</p> <ul style="list-style-type: none"> <li>the number of Series F2 Rights actually converted, and</li> <li>the number of Series F2 Rights converted on a cashless, or netted, basis.</li> </ul> <p>If all of the Series F2 Rights are converted in full and not on a cashless, or netted, basis, we will receive net cash proceeds from this offering (after payment of placement agent fees and estimated offering expenses) of approximately \$38.8 million. We will use all proceeds from the conversion of Series F2 Rights for general partnership purposes.</p> <p>In addition, assuming all Series F2 Rights are converted in full and not on a cashless, or netted, basis, we will receive a contribution of approximately \$0.8 million from our general partner to maintain its 2% general partner interest in us.</p>
Risk factors	An investment in our common units involves risk. See Risk Factors beginning on page S-5 of this prospectus supplement and beginning on page 2 of the accompanying prospectus for a more detailed discussion of additional factors that you should consider before converting any Series F2 Rights into our common units.
Conversion of Series F2 Rights	At the date of this prospectus supplement, there were 80 Series F2 Rights outstanding, none of which have any voting rights. The Series F2 Rights are convertible until 4:00 p.m., New York City time, on March 30, 2005 (subject to defined extension rights). Each Series F2 Right is convertible into \$500,000 worth of our common units on the basis of the payment of a conversion price per common unit equal to the prevailing price (as defined below), if the

prevailing price is equal to or greater than \$19.751381, or the prevailing price minus the product of 50 percent of the positive difference, if any, of \$19.751381 minus the prevailing price, if

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the prevailing price is less than \$19.751381. The prevailing price is equal to the least of (1) the average closing price of our common units for the 60 business days ending on and including the fourth business day prior to the date of receipt of notice from the holder of the Series F2 Rights of the intent to convert them into our common units; (2) the average closing price of the common units for the first seven business days of the 60 day period included in (1); or (3) the average closing price of our common units for the last seven days of the 60 day period included in (1).

If the prevailing price is below \$14.36464, a converting holder of the Series F2 Rights may elect in the conversion notice to receive settlement units, in lieu of the number of common units otherwise issuable upon conversion of the Series F2 Rights covered by such conversion notice, provided that the holder shall not be required to tender the conversion consideration designated in the relevant conversion notice. Notwithstanding the holder's election to receive settlement units in a cashless conversion, we have the sole right to elect no later than the business day immediately after the date the conversion notice is delivered to us to consummate such cashless conversion with the payment of the cash settlement amount in lieu of the issuance of settlement units. In addition, if the prevailing price is below \$14.36464 and the converting holder does not elect cashless conversion in a conversion notice, then we may, no later than one business day immediately after the date the conversion notice is delivered to us, elect cashless conversion (and whether the settlement shall be in the form of the cash settlement amount or the settlement units). The cash settlement amount is an amount in cash equal to the difference of (x) the product of (A) the number of common units issuable on the relevant conversion closing date and (B) the last sale price of our common units on the New York Stock Exchange on the business day immediately preceding the conversion notice date, as reported by Bloomberg, L.P., and (y) the conversion consideration which would otherwise be payable by the holder of the Series F2 Right. The settlement units are a number of common units equal to the cash settlement amount divided by the prevailing price.

We may specify a minimum conversion price below which we shall settle a conversion notice with the cash settlement amount or settlement units in lieu of common units by giving 20 business days prior written notice to the holders of the Series F2 Rights, however, at the date of this prospectus supplement, no minimum conversion price has been specified. Subject to and upon compliance with the terms and conditions of the Statement of Rights, Privileges and Limitations of Series F2 Convertible Units (the Statement), each holder of Series F2 Rights shall be entitled to convert his units, in whole or in part, from time to time, on any business day, by receipt by us of a notice in substantially the form of Exhibit B to the Statement (or a reasonable facsimile thereof) duly executed by such holder. The closing of each conversion shall take place at or before 2:00 p.m., New York City time (1) on the third business day following and excluding the date the conversion notice is received or (2) on any other date upon which such holder and the

Partnership mutually agree. A form for the conversion notice is attached to this prospectus supplement as Annex A. We are not obligated to issue upon conversion of the Series F2 Rights more than 11,346,111 of our common units.

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You may obtain a copy of the Statement without charge upon written or oral request to:

Investor Relations  
Enterprise Products Partners L.P.  
2727 North Loop West, Suite 700  
Houston, Texas 77008-1044  
Telephone Number: (713) 880-6812.  
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**Risk Factors**

*You should consider carefully the following risk factors and the risk factors beginning on page 2 of the accompanying prospectus, together with all of the other information included in, or incorporated by reference into, this prospectus prior to converting any Series F2 Rights into our common units. This document also contains forward-looking statements that involve risks and uncertainties. Please read Information Regarding Forward-Looking Statements.*

**Risks Related to our Business**

In addition to the risk factors contained under Risk Factors Risks Related to Our Business beginning on page 2 of the accompanying prospectus, the following risks apply to us.

*We may not be able to integrate successfully our operations with GulfTerra's operations.*

Integration of the two previously independent companies will be a complex, time consuming and costly process. Failure to timely and successfully integrate these companies may have a material adverse effect on our business, financial condition and results of operations. The difficulties of combining the companies will present challenges to our management, including:

operating a significantly larger company with operations in geographic areas and business lines in which we have not previously operated;

managing relationships with new joint venture partners with whom we have not previously partnered;

integrating personnel with diverse backgrounds and organizational cultures;

experiencing operational interruptions or the loss of key employees, customers or suppliers;

establishing the internal controls and procedures that we are required to maintain under the Sarbanes-Oxley Act of 2002; and

consolidating other corporate and administrative functions.

We are also exposed to risks that are commonly associated with transactions similar to the merger, such as unanticipated liabilities and costs, some of which may be material, and diversion of management's attention. As a result, the anticipated benefits of the merger, including expected cost savings, may not be fully realized, if at all.

***Changes in the prices of hydrocarbon products may materially adversely affect our results of operations, cash flows and financial condition.***

We operate predominantly in the midstream energy sector which includes gathering, transporting, processing, fractionating and storing natural gas, NGLs and crude oil. As such, our results of operations, cash flows and financial condition may be materially adversely affected by changes in the prices of these hydrocarbon products and by changes in the relative price levels among these hydrocarbon products. In general terms, the prices of natural gas, NGLs, crude oil and other hydrocarbon products are subject to fluctuations in response to changes in supply, market uncertainty and a variety of additional factors that are impossible to control. These factors include:

the level of domestic production;

the availability of imported oil and natural gas;

actions taken by foreign oil and natural gas producing nations;

the availability of transportation systems with adequate capacity;

the availability of competitive fuels;

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fluctuating and seasonal demand for oil, natural gas and NGLs; and

conservation and the extent of governmental regulation of production and the overall economic environment.

The profitability of our NGL and natural gas processing operations depends upon the spread between NGL product prices and natural gas prices. A reduction in the spread between NGL product prices and natural gas prices can result in a reduction in demand for fractionation, processing, NGL storage and NGL transportation services and, thus, may materially adversely affect our results of operations and cash flows. In addition, a portion of our natural gas processing activities are exposed to commodity price risk associated with the relative price of NGLs to natural gas under our keep-whole natural gas processing contracts. Under keep-whole agreements, we take title to NGLs that we extract from the natural gas stream and are obligated to pay market value, based on natural gas prices, for the energy extracted from the natural gas stream. When prices for natural gas increase, the cost to us of making these keep-whole payments increases, and, where NGL prices do not experience a commensurate increase, we realize lower margins from these transactions. As a result, changes in prices for natural gas compared to NGLs could have a material adverse affect on our results of operations, cash flows and financial position.

We are also exposed to natural gas and NGL commodity price risk under natural gas processing and gathering and NGL fractionation contracts that provide for our fee to be calculated based on a regional natural gas or NGL price index or to be paid in-kind by taking title to natural gas or NGLs. A decrease in natural gas and NGL prices can result in lower margins from these contracts which may materially adversely affect our results of operations, cash flows and financial position.

***A decline in the volume of natural gas, NGLs and crude oil delivered to our facilities could adversely affect our results of operations, cash flows and financial condition.***

Our profitability could be materially impacted by a decline in the volume of natural gas, NGLs and crude oil transported, gathered or processed at our facilities. A material decrease in natural gas or crude oil production or crude oil refining, as a result of depressed commodity prices, a decrease in exploration and development activities or otherwise, could result in a decline in the volume of natural gas, NGLs and crude oil handled by our facilities.

The crude oil, natural gas and NGLs available to our facilities will be derived from reserves produced from existing wells, which reserves naturally decline over time. To offset this natural decline, our facilities will need access to additional reserves. Additionally, some of our facilities will be dependent on reserves that are expected to be produced from newly discovered properties that are currently being developed.

Exploration and development of new oil and natural gas reserves is capital intensive, particularly offshore in the Gulf of Mexico. Many economic and business factors are out of our control and can adversely affect the decision by producers to explore for and develop new reserves. These factors include relatively low oil and natural gas prices, cost and availability of equipment, regulatory changes, capital budget limitations or the lack of available capital. For example, a sustained decline in the price of natural gas and crude oil could result in a decrease in natural gas and crude oil exploration and development activities in the regions where our facilities are located. This could result in a decrease in volumes to our offshore platforms, natural gas processing plants, natural gas, crude oil and NGL pipelines, and NGL fractionators which would have a material adverse affect on our results from operations cash flows and financial position. Additional reserves, if discovered, may not be developed in the near future or at all.

***A reduction in demand for NGL products by the petrochemical, refining or heating industries could materially adversely affect our results of operations, cash flows and financial position.***

A reduction in demand for NGL products by the petrochemical, refining or heating industries, whether because of general economic conditions, reduced demand by consumers for the end products made with NGL products, increased

competition from petroleum-based products due to pricing differences, adverse weather conditions, government regulations affecting prices and production levels of natural gas or the content of motor

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gasoline or other reasons, could materially adversely affect our results of operations, cash flows and financial position. For example:

*Ethane.* If natural gas prices increase significantly in relation to ethane prices, we may be more profitable for natural gas producers to leave the ethane in the natural gas stream to be burned as fuel than to extract the ethane from the mixed NGL stream for sale.

*Propane.* The demand for propane as a heating fuel is significantly affected by weather conditions. Unusually warm winters could cause the demand for propane to decline significantly and could cause a significant decline in the volumes of propane that we transport.

*Isobutane.* Any reduction in demand for motor gasoline additives may reduce demand for isobutane. During periods in which the difference in market prices between isobutane and normal butane is low or inventory values are high relative to current prices for normal butane or isobutane, our operating margin from selling isobutane could be reduced.

*Propylene.* Any downturn in the domestic or international economy could cause reduced demand for propylene, which could cause a reduction in the volumes of propylene that we produce and expose our investment in inventories of propane/propylene mix to pricing risk due to requirements for short-term price discounts in the spot or short-term propylene markets.

***We face competition from third parties in our midstream businesses.***

Even if reserves exist in the areas accessed by our facilities and are ultimately produced, we may not be chosen by the producers in these areas to gather, transport, process, fractionate, store or otherwise handle the hydrocarbons that are produced. We compete with others, including producers of oil and natural gas, for any such production on the basis of many factors, including:

geographic proximity to the production;

costs of connection;

available capacity;

rates; and

access to markets.

***Our debt level may limit our future financial and operating flexibility.***

As of October 12, 2004, giving effect to the GulfTerra merger and related transactions on September 30, 2004, the consummation of our sale of \$2.0 billion principal amount of Senior Notes on October 4, 2004, and the retirement of approximately \$915 million of GulfTerra's outstanding Notes on October 5, 2004, we had approximately \$4.5 billion of consolidated debt outstanding. Our consolidated balance sheet has significant leverage. The amount of our debt could have significant effects on our future operations, including, among other things:

a significant portion of our cash flow from operations will be dedicated to the payment of principal and interest on outstanding debt and will not be available for other purposes, including payment of distributions;

credit rating agencies may view our debt level negatively;



covenants contained in our existing debt arrangements will require us to continue to meet financial tests that may adversely affect our flexibility in planning for and reacting to changes in our business;

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our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general partnership purposes may be limited;

we may be at a competitive disadvantage relative to similar companies that have less debt; and

we may be more vulnerable to adverse economic and industry conditions as a result of our significant debt level.

Our public debt indentures currently do not limit the amount of future indebtedness that we can create, incur, assume or guarantee. Our revolving credit facilities, however, restrict our ability to incur additional debt, though any debt we may incur in compliance with these restrictions may still be substantial.

Our revolving credit facilities and indentures for our public debt contain conventional financial covenants and other restrictions. A breach of any of these restrictions by us could permit the lenders to declare all amounts outstanding under those debt agreements to be immediately due and payable and, in the case of the credit facilities, to terminate all commitments to extend further credit.

Our ability to access the capital markets to raise capital on favorable terms will be affected by our debt level, the amount of our debt maturing in the next several years and current maturities, and by adverse market conditions resulting from, among other things, general economic conditions, contingencies and uncertainties that are difficult to predict and impossible to control. Moreover, if the rating agencies were to downgrade our corporate credit, then we could experience an increase in our borrowing costs, difficulty accessing capital markets or a reduction in the market price of our common units. Such a development could adversely affect our ability to obtain financing for working capital, capital expenditures or acquisitions or to refinance existing indebtedness. If we are unable to access the capital markets on favorable terms in the future, we might be forced to seek extensions for some of our short-term securities or to refinance some of our debt obligations through bank credit, as opposed to long-term public debt securities or equity securities. The price and terms upon which we might receive such extensions or additional bank credit, if at all, could be more onerous than those contained in existing debt agreements. Any such arrangements could, in turn, increase the risk that our leverage may adversely affect our future financial and operating flexibility and our ability to pay cash distributions at expected rates.

***Increases in interest rates could adversely affect our business.***

In addition to our exposure to commodity prices, we have significant exposure to increases in interest rates. As of October 12, 2004, we had approximately \$4.5 billion of consolidated debt, of which \$3.2 billion was at fixed interest rates and \$1.3 billion was at variable interest rates, after giving effect to existing interest swap arrangements. We may from time to time enter into additional interest rate swap arrangements, which could increase our exposure to variable interest rates. As a result, our results of operations, cash flows and financial condition, could be materially adversely affected by significant increases in interest rates.

***We may not be able to fully execute our growth strategy if we encounter illiquid capital markets or increased competition for qualified assets.***

Our strategy contemplates growth through the development and acquisition of a wide range of midstream and other energy infrastructure assets while maintaining a strong balance sheet. This strategy includes constructing and acquiring additional assets and businesses to enhance our ability to compete effectively and diversify our asset portfolio, thereby providing more stable cash flow. We regularly consider and enter into discussions regarding, and are currently contemplating, potential joint ventures, stand alone projects or other transactions that we believe will present opportunities to realize synergies, expand our roles in the energy infrastructure business and increase our market position.

We may require substantial new capital to finance the future development and acquisition of assets and businesses. Limitations on our access to capital will impair our ability to execute this strategy. Expensive capital will limit our ability to develop or acquire accretive assets. We may not be able to raise the necessary funds on satisfactory terms, if at all.

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In addition, we are experiencing increased competition for the assets we purchase or contemplate purchasing. Increased competition for a limited pool of assets could result in us losing to other bidders more often or acquiring assets at higher prices. Either occurrence would limit our ability to fully execute our growth strategy. Our inability to execute our growth strategy may materially adversely impact the market price of our securities.

***Our growth strategy may adversely affect our results of operations if we do not successfully integrate the businesses that we acquire or if we substantially increase our indebtedness and contingent liabilities to make acquisitions.***

Our ability to successfully execute our growth strategy is dependent upon making accretive acquisitions. As a result, from time to time, we evaluate and acquire assets and businesses that we believe complement our existing operations. Similar to the risks associated with integrating our operations with GulfTerra's operations, we may be unable to integrate successfully businesses we acquire in the future. We may incur substantial expenses or encounter delays or other problems in connection with our growth strategy that could negatively impact our results of operations, cash flows and financial condition. Moreover, acquisitions and business expansions involve numerous risks, including:

difficulties in the assimilation of the operations, technologies, services and products of the acquired companies or business segments;

inefficiencies and complexities that can arise because of unfamiliarity with new assets and the businesses associated with them, including with their markets; and

diversion of the attention of management and other personnel from day-to-day business to the development or acquisition of new businesses and other business opportunities.

If consummated, any acquisition or investment would also likely result in the incurrence of indebtedness and contingent liabilities and an increase in interest expense and depreciation, depletion and amortization expenses. As a result, our capitalization and results of operations may change significantly following an acquisition. A substantial increase in our indebtedness and contingent liabilities could have a material adverse effect on our business.

***Our operating cash flows from our capital projects may not be immediate.***

We are engaged in several capital expansion projects and greenfield projects for which significant capital has been expended, and our operating cash flow from a particular project may not increase immediately following completion of such projects. For instance, if we build a new pipeline or platform or expand an existing facility, the design, construction, development and installation may occur over an extended period of time, and we may not receive any material increase in operating cash flow from that project until after new or expanded assets are placed in service. If we experience unanticipated or extended delays in generating operating cash flow from these projects, we may be required to reduce or reprioritize our capital budget, sell non-core assets, access the capital markets or decrease distributions to unitholders in order to meet our capital requirements.

***Our actual construction, development and acquisition costs could exceed forecasted amounts.***

We will have significant expenditures for the development, construction or other acquisition of energy infrastructure assets, including some construction and development projects with significant technological challenges. For example, underwater operations, especially those in water depths in excess of 600 feet, are very expensive and involve much more uncertainty and risk, and if a problem occurs, the solution, if one exists, may be very expensive and time consuming. Accordingly, there is an increase in the frequency and amount of cost overruns related to underwater operations, especially in depths in excess of 600 feet. We may not be able to complete our projects, whether in deep water or otherwise, at the costs currently estimated.



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***We may be unable to cause our joint ventures to take or not to take certain actions unless some or all of our joint venture participants agree.***

We participate in several joint ventures. Due to the nature of some of these joint ventures, each participant in each of these joint ventures has made substantial investments in the joint venture and, accordingly, has required that the relevant organizational documents contain certain features designed to provide each participant with the opportunity to participate in the management of the joint venture and to protect our investment in that joint venture, as well as any other assets which may be substantially dependent on or otherwise affected by the activities of that joint venture. These participation and protective features include a corporate governance structure that requires at least a majority in interest vote to authorize many basic activities and requires a greater voting interest (sometimes up to 100%) to authorize more significant activities. Examples of these more significant activities are large expenditures or contractual commitments, the construction or acquisition of assets, borrowing money or otherwise raising capital, transactions with affiliates of a joint venture participant, litigation and transactions not in the ordinary course of business, among others. Thus, without the concurrence of joint venture participants with enough voting interests, we may be unable to cause any of our joint ventures to take or not to take certain actions, even though those actions may be in the best interest of the particular joint venture or us.

Moreover, any joint venture owner may sell, transfer or otherwise modify our ownership interest in a joint venture, whether in a transaction involving third parties or the other joint venture owners. Any such transaction could result in our partnering with different or additional parties.

***The interruption of distributions to us from our subsidiaries and joint ventures may affect our ability to satisfy our obligations and to make cash distributions to our unitholders.***

We are a holding company with no business operations. Our only significant asset is the equity interests we own in our subsidiaries and joint ventures. As a result, we depend upon the earnings and cash flow of our subsidiaries and joint ventures and the distribution of that cash to us in order to meet our obligations and to allow us to make distributions to our unitholders.

In addition, our joint venture charter documents typically vest in our management committee sole discretion regarding the occurrence and amount of distributions. Some of the joint ventures in which we participate have separate credit arrangements that contain various restrictive covenants. Among other things, those covenants may limit or restrict the joint venture's ability to make distributions to us under certain circumstances. Accordingly, our joint ventures may be unable to make distributions to us at current levels or at all.

***A natural disaster, catastrophe or other event could result in severe personal injury, property damage and environmental damage, which could curtail our operations and otherwise materially adversely affect our cash flow.***

Some of our operations involve risks of personal injury, property damage and environmental damage, which could curtail our operations and otherwise materially adversely affect our cash flow. For example, natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. We also operate oil and natural gas facilities located underwater in the Gulf of Mexico, which can involve complexities, such as extreme water pressure. Virtually all of our operations are exposed to potential natural disasters, including hurricanes, tornados, storms, floods and earthquakes.

If one or more facilities that we own or that deliver oil, natural gas or other products to us are damaged by severe weather or any other disaster, accident, catastrophe or event, our operations could be significantly interrupted. Similar interruptions could result from damage to production or other facilities that supply our facilities or other stoppages arising from factors beyond our control. These interruptions might involve significant damage to people, property or

the environment, and repairs might take from a week or less for a minor incident to six months or more for a major interruption. Additionally, some of the storage contracts that we are a party to will obligate us to indemnify our customers for any damage or injury occurring during the period in which the customers' natural gas is in our possession. Any event that interrupts the fees generated by our energy infrastructure assets, or which causes us to make significant expenditures not covered by insurance, could reduce our cash available for paying our interest obligations as well as unitholder distributions and, accordingly, adversely affect the market price of our securities.

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We believe we maintain adequate insurance coverage, although insurance will not cover many types of interruptions that might occur. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. If we were to incur a significant liability for which we were not fully insured, our financial position and results of operations could be materially adversely affected. In addition, the proceeds of any such insurance may not be paid in a timely manner and may be insufficient if such an event were to occur.

***An impairment of goodwill could reduce our earnings.***

We had recorded only \$82.4 million of goodwill on our consolidated balance sheet as of June 30, 2004. Based on information currently available, we expect to record approximately \$361.5 million of goodwill or other intangible assets as a result of the merger, but that estimate is subject to change. Consequently, we expect that approximately \$443.9 million, representing approximately 4% of our consolidated assets, may be recorded as goodwill or other intangible assets. Goodwill is recorded when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. GAAP will require us to test goodwill for impairment on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. Long-lived assets such as intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we determine that any of our goodwill or intangible assets were impaired, we would be required to take an immediate charge to earnings with a correlative effect on partners' equity and balance sheet leverage as measured by debt to total capitalization.

***The use of derivative financial instruments could result in material financial losses to us.***

We historically have sought to limit a portion of the adverse effects resulting from changes in oil and natural gas commodity prices and interest rates by using financial derivative instruments and other hedging mechanisms from time to time. To the extent that we hedge our commodity price and interest rate exposures, we forego the benefits we would otherwise experience if commodity prices or interest rates were to change in our favor. In addition, even though monitored by management, hedging activities can result in losses. Such losses could occur under various circumstances, including if a counterparty does not perform its obligations under the hedge arrangement, the hedge is imperfect, or hedging policies and procedures are not followed.

***Our pipeline integrity program may impose significant costs and liabilities on us.***

In December 2003, the U.S. Department of Transportation issued a final rule (effective as of February 14, 2004) requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule refers to as high consequence areas. The final rule resulted from the enactment of the Pipeline Safety Improvement Act of 2002. At this time, we cannot predict the effects of this rule on us. However, we continue our pipeline integrity testing programs, which are intended to assess and maintain the integrity of our pipelines. While the costs associated with the pipeline integrity testing itself are not large, the results of these tests could cause us to incur significant and unanticipated capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of our pipelines.

***Environmental costs and liabilities and changing environmental regulation could materially affect our cash flow.***

Our operations are subject to extensive federal, state and local regulatory requirements relating to environmental affairs, health and safety, waste management and chemical and petroleum products. Governmental authorities have the power to enforce compliance with applicable regulations and permits and to subject violators to civil and criminal



penalties, including substantial fines, injunctions or both. Third parties may also have the right to pursue legal actions to enforce compliance.

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We make expenditures in connection with environmental matters as part of normal capital expenditure programs. However, future environmental law developments, such as stricter laws, regulations, permits or enforcement policies, could significantly increase some costs of our operations, including the handling, manufacture, use, emission or disposal of substances and wastes. Moreover, as with other companies engaged in similar or related businesses, our operations will have some risk of environmental costs and liabilities because we handle petroleum products.

***Federal, state or local regulatory measures could materially adversely affect our business.***

The Federal Energy Regulatory Commission, or FERC, regulates our interstate natural gas pipelines and interstate NGL and petrochemical pipelines, while state regulatory agencies regulate our intrastate natural gas and NGL pipelines, intrastate storage facilities and gathering lines. This federal and state regulation extends to such matters as:

rate structures;

rates of return on equity;

recovery of costs;

the services that our regulated assets are permitted to perform;

the acquisition, construction and disposition of assets; and

to an extent, the level of competition in that regulated industry.

Our 2003 Annual Report on Form 10-K, which is incorporated by reference into this prospectus, contains a general overview of FERC and state regulation applicable to our energy infrastructure assets. This regulatory oversight can affect certain aspects of our business and the market for our products and could materially adversely affect our cash flow. Please read "Business and Properties" "Regulation and Environmental Matters" in our Annual Report on Form 10-K for the year ended December 31, 2003.

Under the Natural Gas Act, FERC has authority to regulate our natural gas companies that provide natural gas pipeline transportation services in interstate commerce. FERC's authority to regulate those services includes the rates charged for the services, terms and conditions of service, certification and construction of new facilities, the extension or abandonment of services and facilities, the maintenance of accounts and records, the acquisition and disposition of facilities, the initiation and discontinuation of services, and various other matters. Pursuant to FERC's jurisdiction over interstate gas pipeline rates, existing pipeline rates may be challenged by complaint and proposed rate increases may be challenged by protest.

FERC also has authority under the Interstate Commerce Act, or ICA, to regulate the rates, terms, and conditions applied to our interstate pipelines engaged in the transportation of NGLs and petrochemicals (commonly known as "oil pipelines"). Pursuant to the ICA, oil pipeline rates can be challenged at FERC either by protest, when they are initially filed or increased, or by complaint at any time they remain on file with the jurisdictional agency.

We have interests in offshore natural gas pipeline facilities offshore from Texas and Louisiana. These facilities are subject to regulation by FERC and other federal agencies, including the Department of Interior, under the Outer Continental Shelf Lands Act, and by the Department of Transportation's Office of Pipeline Safety under the Natural Gas Pipeline Safety Act.

Our intrastate NGL and gas pipelines are subject to regulation by state regulatory agencies. Our natural gas gathering lines are also subject to regulation in many states. Our intrastate natural gas pipelines are located in

Louisiana, while our intrastate NGL pipelines are located in Texas and Louisiana. We also have natural gas underground storage facilities in Louisiana, Mississippi and Texas. Although state regulation is typically less onerous than at FERC, proposed and existing rates subject to state regulation are also subject to challenge by protest and complaint, respectively.

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We are subject to ratable take and common purchaser statutes in certain states where we operate. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas. Federal law leaves any economic regulation of natural gas gathering to the states, and some of the states in which we operate have adopted complaint-based or other limited economic regulation of natural gas gathering activities. States in which we operate that have adopted some form of complaint-based regulation, like Texas, generally allow natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination.

As a result of the GulfTerra merger, we are subject to increased regulatory oversight by FERC and state regulatory agencies as certain former companies, assets and services of GulfTerra are regulated by FERC, including an interstate natural gas pipeline system, interstate natural gas storage facilities and service provided by intrastate natural gas pipelines pursuant to Section 311 of the Natural Gas Policy Act. For example, High Island Offshore System, L.L.C., or HIOS, an interstate natural gas pipeline, is subject to a pending rate case before FERC. We are seeking to increase our transportation rates, but several parties have protested the increased rate. FERC accepted HIOS' tariff sheets implementing the new rates subject to refund and set certain issues for hearing before an Administrative Law Judge, or ALJ. A hearing was held in November 2003. The ALJ issued her initial decision on that hearing on April 22, 2004, finding, *inter alia*, that HIOS's overall cost-of-service should be approximately thirty percent lower than HIOS's proposed cost-of-service. The initial decision has no binding effect, however, and several parties, including HIOS, have filed briefs on exceptions to the initial decision with the FERC. On August 5, 2004, HIOS filed an Offer of Settlement and Stipulation and Agreement whereby HIOS would implement its previously effective rate for a three-year period. That rate is approximately forty-five percent higher than the rate proposed in the initial decision. A number of shippers on HIOS's system have filed comments in support of the Offer of Settlement, while FERC Staff and other shippers have filed comments opposing it. FERC action on the Offer of Settlement and the briefs on exception is currently pending. FERC's decision will dictate HIOS' rates, thereby impacting our cash flow.

Additionally, in December 1999, GulfTerra Texas (formerly EPGT Texas) filed a petition with the FERC for approval of our rates for interstate transportation service pursuant to Section 311 of the NGPA. In June 2002, the FERC issued an order that required revisions to GulfTerra Texas' proposed maximum rates. The changes ordered by the FERC involve reductions to rate of return and depreciation rates, and revisions to the proposed rate design, including a requirement to state separately rates for gathering service. The FERC also ordered refunds to customers for the difference, if any, between the originally proposed levels and the revised rates ordered by the FERC. In July 2002, GulfTerra Texas requested rehearing on certain issues raised by the FERC's order, including the depreciation rates and the requirement to state separately a gathering rate. On February 25, 2004, the FERC issued an order denying GulfTerra Texas' request for rehearing and ordering GulfTerra Texas to file a calculation of refunds and a refund plan. GulfTerra Texas filed that information with the FERC on July 12, 2004. GulfTerra Texas's filing includes our calculation of approximately \$1,200 in refunds due to GulfTerra Texas and notes that GulfTerra Texas would update the calculation, upon a final FERC order in the proceeding, to include any additional amounts, including interest due to GulfTerra Texas. A final FERC order is currently pending. Additionally, the FERC's February 25, 2004 order directed GulfTerra Texas to file a new rate case or justification of existing rates within three years. GulfTerra Texas has filed a timely request for rehearing of that requirement, which request is currently pending.

On July 20, 2004, the United States Court of Appeals for the District of Columbia Circuit issued its opinion in *BP West Coast Products, LLC v. FERC*, which upheld FERC's determination that SFPP's rates were grandfathered rates under the Energy Policy Act and that SFPP's shippers had not demonstrated substantially changed circumstances that would justify modification of those rates. The court also vacated the FERC's *Lakehead* policy. In *Lakehead*, the FERC allowed a regulated entity organized as a master limited partnership to include in its cost of service an income tax

allowance to the extent that its unitholders were corporations subject to income tax. The court remanded the issue of whether SFPP's revised cost of service without the tax allowance would qualify as a substantially changed circumstance that would justify modification of SFPP's rates. Because the court remanded to the FERC and because the FERC's ruling on the substantially changed circumstances issue will focus on the facts

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and record presented to it, it is not clear what impact, if any, the opinion will have on our rates or on the rates of other FERC-jurisdictional pipelines organized as tax pass-through entities. Moreover, it is not clear whether FERC's action taken in response to *BP West Coast* will be challenged and, if so, whether it will withstand further FERC or judicial review.

We are also subject to regulatory oversight by state regulatory agencies in additional jurisdictions. Recently acquired GulfTerra assets, such as interests in gathering systems in Alabama, Colorado, Mississippi, New Mexico and Texas, are regulated by state regulatory agencies. We also acquired intrastate natural gas pipelines in the GulfTerra merger that are regulated by state regulatory agencies in Alabama and Texas. We also acquired NGL gathering and intrastate transportation pipelines in the GulfTerra merger that are located in Texas. All of these facilities are regulated to some degree by state regulatory agencies.

Certain offshore oil and gas pipelines that we acquired in the GulfTerra merger are subject to oversight by FERC and other federal agencies under Outer Continental Shelf Lands Act, and the Department of Transportation's Office of Pipeline Safety under the Natural Gas Pipeline Safety Act of 1968.

### **Risk Related to Our Common Units as a Result of Our Partnership Structure**

In addition to the risks set forth in the accompanying prospectus under Risk Factors Risks Relating to Our Common Units as a Result of Our Partnership Structure, the following risk also applies to an investment in our common units.

*A large number of our outstanding common units may be sold in the market, which may depress the market price of our common units.*

Sales of a substantial number of our common units in the public market could cause the market price of our common units to decline. As of September 30, 2004, we had approximately 360,217,973 common units outstanding. Shell US Gas & Power LLC, which owns 41,000,000 of our common units representing approximately 11.4% of our outstanding common units, has publicly announced its intention to reduce its holdings of our common units on an orderly schedule over a period of years, taking into account market conditions. Under a registration rights agreement, we are obligated, subject to certain limitations and conditions, to register the common units held by Shell US Gas & Power for resale.

Additionally, El Paso Corporation owns 13,454,499 of our common units, representing approximately 3.7% of our outstanding common units at September 30, 2004. Six months after the closing of the GulfTerra merger, or earlier in certain circumstances, El Paso Corporation will have the right for three years to contribute all of its 9.9% membership interest in our general partner to our general partner in return for a number of common units equal to 9.9% of the aggregate quarterly distribution paid by us to our general partner divided by the preceding quarterly distribution per unit paid to the holders of our common units. Our general partner may elect to deliver Enterprise common units that it owns (which it may acquire from one of its affiliates), an equivalent cash amount or a combination of Enterprise common units and cash. Under a registration rights agreement, we are obligated, subject to certain limitations and conditions, to register the common units held by El Paso Corporation for resale. Sales of a substantial number of these units in the trading markets, whether in a single transaction or series of transactions, or the possibility that these sales may occur, could reduce the market price of our outstanding common units. In addition, these sales, or the possibility that these sales may occur, could make it more difficult for us to sell our common units in the future.

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**Use of Proceeds**

The gross proceeds that we will receive from the conversion of our Series F2 Rights will depend upon:

the number of Series F2 Rights actually converted, and

the number of Series F2 Rights converted on a cashless, or netted, basis.

If all of the Series F2 Rights are converted in full and not on a cashless, or netted, basis, we will receive net cash proceeds from this offering (after payment of placement agent fees and estimated offering expenses) of approximately \$38.8 million. We will use any proceeds from the conversion of Series F2 Rights for general partnership purposes.

In addition, assuming all Series F2 Rights are converted in full and not on a cashless, or netted, basis, we will receive a contribution of approximately \$0.8 million from our general partner to maintain its 2% general partner interest in us.

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**Conversion of Series F2 Rights**

At the date of this prospectus supplement, there were 80 Series F2 Rights outstanding, none of which have any voting rights. The Series F2 Rights are convertible until 4:00 p.m., New York City time, on March 30, 2005 (subject to defined extension rights). Each Series F2 Right is convertible into \$500,000 worth of our common units on the basis of the payment of a conversion price per common unit (the "Conversion Unit Price") equal to the prevailing price, if the prevailing price is equal to or greater than \$19.751381, or the prevailing price minus the product of 50 percent of the positive difference, if any, of \$19.751381 minus the prevailing price, if the prevailing price is less than \$19.751381. The prevailing price is equal to the least of (1) the average closing price of our common units for the 60 business days ending on and including the fourth business day prior to the date of receipt of notice from the holder of the Series F2 Rights of the intent to convert them into our common units; (2) the average closing price of the common units for the first seven business days of the 60 day period included in (1); or (3) the average closing price of our common units for the last seven days of the 60 day period included in (1).

If the prevailing price is below \$14.36464, a converting holder of the Series F2 Rights may elect in the conversion notice to receive settlement units, in lieu of the number of common units otherwise issuable upon conversion of the Series F2 Rights covered by such conversion notice, provided that the holder shall not be required to tender the conversion consideration designated in the relevant conversion notice. Notwithstanding the holder's election to receive settlement units in a cashless conversion, we will have the sole right to elect no later than the business day immediately after the date such conversion notice is delivered to us to consummate the cashless conversion with the payment of the cash settlement amount in lieu of the issuance of settlement units. In addition, if the prevailing price is below \$14.36464 and the converting holder does not elect cashless conversion in a conversion notice, then we may, no later than one business day immediately after the date such conversion notice is delivered to us, elect cashless conversion (and whether the settlement shall be in the form of the cash settlement amount or the settlement units). The cash settlement amount is an amount in cash equal to the difference of (x) the product of (A) the number of common units issuable on the relevant conversion closing date and (B) the last sale price of our common units on the New York Stock Exchange on the business day immediately preceding the conversion notice date, as reported by Bloomberg, L.P., and (y) the conversion consideration which would otherwise be payable by the holder of the Series F2 Right. The settlement units are a number of common units equal to the cash settlement amount divided by the prevailing price.

We may specify a minimum conversion price below which we shall settle a conversion notice with the cash settlement amount or settlement units in lieu of common units by giving 20 business days prior written notice to the holders of the Series F2 Rights, however, at the date of this prospectus supplement, no minimum conversion price has been specified. Subject to and upon compliance with the terms and conditions of the Statement, each holder of Series F2 Rights will be entitled to convert such units, in whole or in part, from time to time, on any business day, by receipt by us of a notice in substantially the form of Exhibit B to the Statement (or a reasonable facsimile thereof) duly executed by such holder. The closing of each conversion shall take place at or before 2:00 p.m., New York City time (1) on the third business day following and excluding the date the conversion notice is received or (2) on any other date upon which such holder and we mutually agree. A form for the conversion notice is attached to this prospectus supplement as Annex A. We are not obligated to issue more than 11,346,111 of our common units upon conversion of the Series F2 Rights.

The expiration time for converting Series F2 Rights will be extended by one business day for each business day (1) that a blackout period or a blackout violation exists; and (2) during the period commencing on the earlier of the day on which we (x) announce a restatement and (y) announce our intention to make a restatement and ending on the restatement filing date. If both (1) and (2) exist at the same time, then the expiration times will be extended by only one business day for each business day on which these conditions both exist. At any time prior to the expiration time we may, without any liability to us and upon notice to each holder, suspend the rights of each holder of Series F2 Rights to convert pursuant to the registration statement of which this prospectus is a part upon the occurrence of any



of the following (each, a blackout period ):

a request by the Securities and Exchange Commission, or SEC, for amendments or supplements to the registration statement or this prospectus;

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the issuance by the SEC of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose;

the filing of any post-effective amendments or supplements to the registration statement or this prospectus that we deem necessary or appropriate to maintain or utilize for any purpose the registration statement or this prospectus;

the happening of any event that requires us to make changes to the registration statement or this prospectus in order that the registration statement or this prospectus do not contain an untrue statement of a material fact nor omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of this prospectus, in light of the circumstances under which they were made) not misleading; and

we deliver to the holder a certificate signed by any of our chief executive officer, chief operating officer, chief financial officer, general counsel or vice president that the board of directors of our general partner has made the determination in good faith and using reasonable judgment that disclosure of information sufficient to ensure that the registration statement and this prospectus contain no misstatement or omission would be premature, could be reasonably expected to be significantly and materially disadvantageous to our financial condition, or could be reasonably expected to be injurious to the consummation of any material transaction.

If any of the above conditions or events should occur, we will immediately give the holders of the Series F2 Rights notice that a blackout period is in effect.

Upon the commencement of a blackout period, we will, as appropriate:

use commercially reasonable efforts to obtain the withdrawal at the earliest possible time of any order suspending the effectiveness of the registration statement;

as promptly as practical prepare and file a post-effective amendment to the registration statement or an amendment or supplement to this prospectus and any other required document so that, as thereafter delivered to the holder upon conversion of the Series F2 Rights, this prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or

use commercially reasonable efforts to amend such registration statement or amend or supplement this prospectus if necessary and to take all other actions necessary to allow the issuance of common units upon conversion of Series F2 Rights to take place as promptly as possible, subject, however, to our right in our sole discretion to determine whether to delay further conversion of the Series F2 Rights until the conditions or circumstances have ceased to exist or have been disclosed.

Upon receipt of notice from us that a blackout period exists, the holder's Series F2 Rights shall immediately become unconvertible until each holder receives notice from us that the blackout period has ended. At any time during a blackout period, each holder may (1) tender a conversion notice providing for a conversion closing date delayed to a date that is three business days after the termination of the relevant blackout period; each such delayed closing conversion notice shall have the effect of preserving the Conversion Unit Price, prevailing price and conversion price that was in effect as of the date of such delayed closing conversion notice; each subject to adjustment pursuant to the adjustment provisions of the Statement; provided that such holder may withdraw at any time a delayed closing conversion notice prior to the relevant delayed conversion closing date; or (2) tender a conversion notice requesting the delivery on the conversion closing date of common units that have not been registered pursuant to the registration statement, so long as (A) the offer, sale and issuance of such common units shall be exempt from the registration requirements of the Securities Act and shall have been registered or qualified (or exempt from registration or qualification) under the registration, permit or qualification requirements of all applicable state securities laws, and

(B) such holder delivers to us an opinion of counsel of national repute reasonably satisfactory in our sole discretion to such effect. Any certificate representing unregistered common units shall be imprinted with a legend restricting transfer of such units prior to compliance with applicable securities laws.

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We will be entitled to exercise our rights to suspend conversion of the Series F2 Rights twice in any twelve-month period provided that each period during which conversion may be suspended at any time shall not exceed 30 days. No blackout period may commence less than 30 days after the end of the preceding blackout period. If any blackout period exceeds the duration or frequency limits set forth above, a blackout violation will have occurred. If a blackout violation occurs the Conversion Unit Price for all unconverted Series F2 Rights shall be permanently reduced by one and one-half percent (1 1/2%) for each month (or portion thereof) that a blackout violation exists. Other than the reduction to the Conversion Unit Price described above, we will incur no liability to any holder in connection with any blackout period or blackout violation.

A restatement is any restatement that materially affects our consolidated statement of income or consolidated statement of cash flows with respect our quarterly or annual actual (not pro forma) historical financial statements that have been:

filed with the SEC,

included in a press release, or

made public by any other method.

However, the term restatement does not include any restatement (1) required as a result of a change occurring after the closing date in (A) applicable law or (B) generally accepted accounting principles promulgated by the Financial Accounting Standards Board or the SEC, which change is implemented by us in the manner and at the time prescribed by such law or promulgation, or (2) resulting in a change from one generally accepted accounting principle to another; provided, that the audit and conflicts committee of the board of directors of our general partner has made the determination to change to another principle after discussions with our external auditors.

As of the date of this prospectus supplement, there has been no blackout period and no blackout violation and no restatement. Accordingly, there have not been any extension of the expiration times.

## **Tax Consequences**

The tax consequences to you of an investment in common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the ownership and disposition of common units, please read **Tax Consequences** in the accompanying prospectus. We recommend that you consult your own tax advisor about the federal, state, local and foreign tax consequences peculiar to your circumstances.

We estimate that if you purchase common units in this offering and own them through December 31, 2005, then you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 10% of the cash distributed with respect to that period. If you own common units purchased in this offering for a shorter period, the percentage of federal taxable income allocated to you may be higher. These estimates are based upon the assumption that our available cash for distribution will approximate the amount required to distribute cash to the holders of the common units in an amount equal to the quarterly distribution of \$0.395 per unit and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and certain tax reporting positions that we have adopted with which the IRS could disagree. In addition, subsequent issuances of equity securities by us could also affect the percentage of distributions that will constitute taxable income. Accordingly, we cannot assure you that the estimates will be correct. The actual percentage of distributions that will constitute taxable income could

be higher or lower, and any differences could be material and could materially affect the value of the common units.

Legislation has recently been enacted that, among other things, reduces the maximum tax rate applicable to corporate dividends to 15%. The effect of this reduction, if any, on the value of our common units in relation to

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investments in corporate stock is not clear. The legislation also reduces the maximum tax rate for an individual to 35% and the maximum tax rate applicable to net long term capital gains of an individual to 15%.

Common units acquired upon conversion of all or a portion of a Series F2 Right will have a capital account equal to the capital account of a previously outstanding common units immediately after such conversion. On January 22, 2003, the IRS and Treasury proposed regulations (referred to as the Proposed Regulations) that address the tax treatment of non-compensatory options to acquire partnership interests, which includes instruments like the Series F2 Rights. The Proposed Regulations would, if made final in their current form, apply only to non-compensatory options issued on or after the date the final Treasury Regulations are published in the Federal Register and therefore would not apply to the Series F2 Rights.

Under current law, you will recognize income upon the conversion of all or a portion of a Series F2 Right to the extent that the sum of the aggregate capital accounts of the common units you receive exceeds the sum of the amount you contributed upon conversion plus the allocable portion of the amount originally contributed to acquire the converted portion of such Series F2 Right.

**Plan of Distribution**

As a result of the GulfTerra merger, we have assumed all of GulfTerra's obligations in respect of the Series F convertible units. Pursuant to a placement agency agreement, GulfTerra engaged Raymond James as its exclusive placement agent to use its reasonable best efforts to solicit offers to purchase GulfTerra's common units and Series F convertible units in the May 16, 2003 offering of GulfTerra's common units and Series F convertible units. Raymond James has no obligations to solicit conversions of the Series F2 Rights into our common units.

Raymond James' compensation for acting as placement agent for GulfTerra's May 16, 2003 offering consisted of a placement agency fee of \$1.2 million and reimbursement of expenses described below. In addition, GulfTerra agreed to pay Raymond James a commission upon the conversion of the Series F convertible units. The following table sets forth the placement agent fee payable in connection with the conversion of Series F2 Rights, which will equal three percent of the gross proceeds that we receive upon conversion of the Series F2 Rights.

	<b>Per Series F2 Right(1)</b>	<b>Total</b>
Placement agency fees	\$ 15,000	\$ 1,200,000

(1) Assumes that a Series F2 Right is converted in full for gross proceeds of \$500,000.

If, however, none of the outstanding Series F2 Rights are converted, we will not be required to pay Raymond James any additional fees. In addition, GulfTerra also agreed to reimburse Raymond James \$15,000 of reasonable expenses incurred by it in connection with the May 16, 2003 offering plus additional expenses that GulfTerra approves in advance.

GulfTerra agreed to indemnify Raymond James and its stockholders, directors, officers, employees, agents, affiliates and controlling persons from and against, and to make contributions for payments made by such person with respect to, certain liabilities, including liabilities arising under the Securities Act of 1933. Raymond James may be deemed an underwriter within the meaning of the Securities Act.

The expenses directly related to this offering, excluding the placement agency fee, are estimated to be approximately \$40,000 and will be paid by us. Expenses of this offering, exclusive of the placement agency fee, include our legal and accounting fees, printing expenses, transfer fees and miscellaneous fees.

GulfTerra sold the Series F2 Rights to a single investor that is a large institutional accredited investor which bought for its own account. In connection with the May 16, 2003 offering, the investor executed a unitholder agreement on such date pursuant to which, among other things, the investor represented and warranted matters to

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GulfTerra and agreed not to engage in short sales (as such term is defined by Rule 3b-3 promulgated under the Securities Exchange Act of 1934, as amended).

**Legal Matters**

Certain legal matters with respect to the common units will be passed upon for us by Vinson & Elkins L.L.P., Houston, Texas. Attorneys at Vinson & Elkins L.L.P. who have participated in the preparation of this prospectus supplement, the accompanying prospectus, the registration statement of which they are a part and the related transaction documents beneficially own approximately 3,200 common units of Enterprise.

**Experts**

The (1) consolidated financial statements and the related consolidated financial statement schedule of Enterprise Products Partners L.P. and subsidiaries as incorporated in this prospectus supplement, by reference from Enterprise Products Partners L.P.'s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the balance sheet of Enterprise Products GP, LLC as of December 31, 2003, incorporated in this prospectus supplement by reference from Exhibit 99.1 to Enterprise Products Partners L.P.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2004, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference (each such report expresses an unqualified opinion and the report for Enterprise Products Partners L.P. includes an explanatory paragraph referring to a change in method of accounting for goodwill in 2002 and derivative instruments in 2001 as discussed in Notes 8 and 1, respectively, to Enterprise Products Partners L.P.'s consolidated financial statements), and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The (1) consolidated financial statements of GulfTerra Energy Partners, L.P. ( GulfTerra ), (2) the financial statements of Poseidon Oil Pipeline Company, L.L.C. ( Poseidon ) and (3) the combined financial statements of El Paso Hydrocarbons, L.P. and El Paso NGL Marketing Company, L.P. (the Companies ) all incorporated in this prospectus supplement by reference to Enterprise Products Partners L.P.'s Current Reports on Form 8-K dated April 20, 2004 for (1) and (2) and April 16, 2004 for (3), have been so incorporated in reliance on the reports (which (i) report on the consolidated financial statements of GulfTerra contains an explanatory paragraph relating to GulfTerra's agreement to merge with Enterprise Products Partners L.P. as described in Note 2 to the consolidated financial statements, (ii) report on the financial statements of Poseidon contains an explanatory paragraph relating to Poseidon's restatement of its prior year financial statements as described in Note 1 to the financial statements, and (iii) report on the combined financial statements of the Companies contains an explanatory paragraph relating to the Companies' significant transactions and relationships with affiliated entities as described in Note 5 to the combined financial statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Information derived from the report of Netherland, Sewell & Associates, Inc., independent petroleum engineers and geologists, with respect to GulfTerra's estimated oil and natural gas reserves incorporated in this prospectus supplement and accompanying base prospectuses by reference to our Current Report on Form 8-K dated April 20, 2004 has been so incorporated in reliance on the authority of said firm as experts with respect to such matters contained in their report.

**Where You Can Find More Information**



The SEC allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering is completed (other than information furnished under Item 9 or Item 12 of any Form 8-K that

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is listed below or under Item 2.02 or Item 7.01 of any Form 8-K or is filed in the future and which is not deemed filed under the Exchange Act):

Our Annual Report on Form 10-K for the year ended December 31, 2003, SEC File No. 1-14323;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004, SEC File Nos. 1-14323;

Our Current Reports on Form 8-K filed with the SEC on January 6, 2004, February 10, 2004, March 22, 2004, April 16, 2004, April 20, 2004, April 21, 2004, April 26, 2004, April 27, 2004, May 3, 2004, July 29, 2004, August 2, 2004, August 5, 2004, August 11, 2004, August 30, 2004, September 1, 2004, September 7, 2004, September 8, 2004, September 14, 2004, September 17, 2004, September 21, 2004, September 27, 2004, September 28, 2004, October 1, 2004, October 5, 2004, and October 6, 2004, SEC File Nos. 1-14323;

Our Current Report on Form 8-K filed with the SEC on June 16, 2004, as amended by our Current Report on Form 8-K/A (Amendment No. 1) filed with the SEC on August 4, 2004, SEC File No. 1-14323;

Our Current Report on Form 8-K filed with the SEC on September 30, 2004, as amended by our Current Reports on Form 8-K/A (Amendment Nos. 1 and 2 filed with the SEC on October 5, 2004 and October 18, 2004), SEC File No. 1-14323; and

Our Current Report on Form 8-K (containing the description of our common units, which description amends and restates the description of our common units contained in the Registration Statement on Form 8-A, initially filed with the SEC on July 21, 1998) filed with the SEC on February 10, 2004, SEC File No. 1-14323.

**Forward-Looking Statements**

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference contain various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by us and information currently available to us. When used in this prospectus, words such as anticipate, project, expect, plan, goal, forecast, intend, could, believe, may and similar expressions regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that have a direct bearing on our result of operations and financial condition are:

fluctuations in oil, natural gas and NGL prices and production due to weather and other natural and economic forces;

the effects of our debt level on our future financial and operating flexibility;

a reduction in demand for our products by the petrochemical, refining or heating industries;

a decline in the volumes of NGLs delivered by our facilities;

the failure to successfully integrate our and GulfTerra's respective business operations or our failure to successfully integrate any other future acquisitions;

the failure to realize the anticipated cost savings, synergies and other benefits of the GulfTerra merger;

the failure of our credit risk management efforts to adequately protect us against customer non-payment; and  
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terrorist attacks affecting our facilities.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under **Risk Factors** in this prospectus supplement and the accompanying prospectus.

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**ANNEX A**

**Form of Conversion Notice**

(To Be Executed Upon Conversion of the Series F Convertible Unit)

**[DATE]**

Enterprise Products Partners L.P.  
2727 North Loop West  
Houston, Texas 77008-1037  
Attention: Chief Financial Officer

Re: Statement of Rights, Privileges and Limitations Series F2 Rights ( Statement )

Ladies and Gentlemen:

Pursuant to the terms and conditions contained in the Statement, **[HOLDER]** hereby elects to convert \$[ ](1) of Series F2 Rights into [ ] Common Units, which would be purchased at a Conversion Unit Price of \$[ ] **[, AND SHALL DELIVER ON THE CONVERSION CLOSING DATE SUCH AMOUNT VIA WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS AS PAYMENT FOR SUCH COMMON UNITS] [PURSUANT TO A [CASHLESS SETTLEMENT] [CASHLESS CONVERSION]]** in accordance with the terms of the Statement. All undefined capitalized terms used in this Conversion Notice shall have the meaning set forth in the Statement.

In accordance with the terms of the Statement, the undersigned requests that certificates for such units be registered in the name of and delivered to the undersigned at the following address:

**[TO BE ADDED]**

Any cash in lieu of fractional shares should be sent to:

**[INSERT ACCOUNT INFORMATION OR ADDRESS INFORMATION]**

The undersigned shall deliver the original of the certificate(s) representing the Series F2 Rights no later than the second Business Day after and excluding the date of this notice as well as each document required to be delivered on the Conversion Closing Date by the Statement.

- (1) Insert the dollar amount of Series F2 Rights being converted. In the case of partial conversion, a new certificate representing the Series F2 Rights shall be issued and delivered, representing the unconverted portion of the Series F2 Right.

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[IF THE EXERCISED AMOUNT IS NOT IN INCREMENTS OF CONVERTIBLE UNITS OR \$500,000 FOR SERIES F2 RIGHTS, INSERT THE FOLLOWING: THE UNDERSIGNED REQUESTS THAT A NEW CERTIFICATE SUBSTANTIALLY IDENTICAL TO THE ATTACHED SERIES F CONVERTIBLE UNIT BE ISSUED TO THE UNDERSIGNED EVIDENCING THE RIGHT TO PURCHASE THE DOLLAR AMOUNT OF COMMON UNITS EQUAL TO (x) THE SERIES F2 CONVERSION CONSIDERATION LESS (y) THE TENDERED CONVERSION CONSIDERATION.]

**[HOLDER]**

By:

Name:

Title:

Agreed to and Acknowledged as of

**[INSERT DATE]**

ENTERPRISE PRODUCTS PARTNERS L.P.

By:

Name:

Title:

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PROSPECTUS

**\$1,500,000,000**  
**Enterprise Products Partners L.P.**  
**Enterprise Products Operating L.P.**

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**COMMON UNITS**

**DEBT SECURITIES**

We may offer the following securities under this prospectus:

common units representing limited partner interests in Enterprise Products Partners L.P.; and

debt securities of Enterprise Products Operating L.P., which will be guaranteed by its parent company, Enterprise Products Partners L.P.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read carefully this prospectus and any prospectus supplement before you invest. You should also read the documents we have referred you to in the **Where You Can Find More Information** section of this prospectus for information on us and for our financial statements.

In addition, common units may be offered from time to time by other holders thereof. Any selling unitholders will be identified, and the number of common units to be offered by them will be specified, in a prospectus supplement to this prospectus. We will not receive proceeds of any sale of shares by any such selling unitholders.

Our common units are listed on the New York Stock Exchange under the trading symbol **EPD**.

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Unless otherwise specified in a prospectus supplement, the senior debt securities, when issued, will be unsecured and will rank equally with our other unsecured and unsubordinated indebtedness. The subordinated debt securities, when issued, will be subordinated in right of payment to our senior debt.

**Limited partnerships are inherently different from corporations. You should review carefully **Risk Factors** beginning on page 2 for a discussion of important risks you should consider before investing on our securities.**

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

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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The date of this prospectus is April 21, 2003.

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You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We 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. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

In this prospectus, the terms we, us and our refer to Enterprise Products Partners L.P. and Enterprise Products Operating L.P. and their subsidiaries, unless otherwise indicated or the context requires otherwise.

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we file with the Securities and Exchange Commission (the Commission) using a shelf registration process. Under this shelf process, we may offer from time to time up to \$1,500,000,000 of our securities. Each time we offer securities, we will provide you with a prospectus supplement that will describe, among other things, the specific amounts and prices of the securities being offered and the terms of the offering. The prospectus supplement may also add, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement. Therefore, you should read this prospectus and any attached prospectus supplement before you invest in our securities.

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**OUR COMPANY**

We are a publicly traded limited partnership that was formed in April 1998 to acquire, own, and operate all of the NGL processing and distribution assets of Enterprise Products Company, or EPCO. We conduct all of our business through our 99% owned subsidiary, Enterprise Products Operating L.P., our Operating Partnership and its subsidiaries and joint ventures. Our general partner, Enterprise Products GP, LLC, owns a 1.0% interest in us and a 1.0101% interest in our Operating Partnership.

We are a leading North American midstream energy company that provides a wide range of services to producers and consumers of natural gas and natural gas liquids, or NGLs. NGLs are used by the petrochemical and refining industries to produce plastics, motor gasoline and other industrial and consumer products and also are used as residential and industrial fuels. Our asset platform creates the only integrated natural gas and NGL transportation, fractionation, processing, storage and import/export network in North America. We provide integrated services to our customers and generate fee-based cash flow from multiple sources along our natural gas and NGL value chain. Our services include the:

gathering and transmission of raw natural gas from both onshore and offshore Gulf of Mexico developments;

processing of raw natural gas into a marketable product that meets industry quality specifications by removing mixed NGLs and impurities;

purchase and transportation of natural gas for delivery to our industrial, utility and municipal customers;

transportation of mixed NGLs to fractionation facilities by pipeline;

fractionation, or separation, of mixed NGLs produced as by-products of crude oil refining and natural gas production into component NGL products: ethane, propane, isobutane, normal butane and natural gasoline;

transportation of NGL products to end-users by pipeline, railcar and truck;

import and export of NGL products and petrochemical products through our dock facilities;

fractionation of refinery-sourced propane/propylene mix into high purity propylene, propane and mixed butane;

transportation of high purity propylene to end-users by pipeline;

storage of natural gas, mixed NGLs, NGL products and petrochemical products;

conversion of normal butane to isobutane through the process of isomerization;

production of high-octane additives for motor gasoline from isobutane; and

sale of NGL and petrochemical products we produce and/or purchase for resale on a merchant basis.

Certain of our facilities are owned jointly by us and other industry partners, either through co-ownership arrangements or joint ventures. Some of our jointly owned facilities are operated by other owners.

We do not have any employees. All of our management, administrative and operating functions are performed by employees of EPCO, our ultimate parent company, pursuant to the EPCO Agreement. For a discussion of the EPCO Agreement, please read Item 13 of our Annual Report on Form 10-K.

Our principal executive offices are located at 2727 North Loop West, Houston, Texas 77008-1038, and our telephone number is (713) 880-6500.

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**RISK FACTORS**

An investment in our securities involves risks. You should consider carefully the following risk factors, together with all of the other information included in, or incorporated by reference into, this prospectus and any prospectus supplement in evaluating an investment in our securities. This prospectus also contains forward-looking statements that involve risks and uncertainties. Please read Forward-Looking Statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this prospectus. If any of these risks occur, our business, financial condition or results of operation could be adversely affected.

**Risks Related to Our Business**

***We have significant leverage that may restrict our future financial and operating flexibility.***

Our leverage is significant in relation to our partners' capital. At February 28, 2003, our total outstanding debt, which represented approximately 58.0% of our total capitalization, was approximately \$2.1 billion. As of January 31, 2003, we had \$2.1 billion of senior indebtedness ranking equal in right of payment to all of our other senior indebtedness. As to the assets of our subsidiary, Seminole Pipeline Company, this \$2.1 billion in senior indebtedness is structurally subordinated and ranks junior in right of payment to \$45 million of indebtedness of Seminole Pipeline Company.

Debt service obligations, restrictive covenants and maturities resulting from this leverage may adversely affect our ability to finance future operations, pursue acquisitions and fund other capital needs, and may make our results of operations more susceptible to adverse economic or operating conditions. Our ability to repay, extend or refinance our existing debt obligations and to obtain future credit will depend primarily on our operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control.

Our ability to access the capital markets for future offerings may be limited by adverse market conditions resulting from, among other things, general economic conditions, contingencies and uncertainties that are difficult to predict and beyond our control. If we are unable to access the capital markets for future offerings, we might be forced to seek extensions for some of our short-term maturities or to refinance some of our debt obligations through bank credit, as opposed to long-term public debt securities or equity securities. The price and terms upon which we might receive such extensions or additional bank credit could be more onerous than those contained in our existing debt agreements. Any such arrangements could, in turn, increase the risk that our leverage may adversely affect our future financial and operating flexibility.

***A decrease in the difference between NGL product prices and natural gas prices results in lower margins on volumes processed, which would adversely affect our profitability.***

The profitability of our operations depends upon the spread between NGL product prices and natural gas prices. NGL product prices and natural gas prices are subject to fluctuations in response to changes in supply, market uncertainty and a variety of additional factors that are beyond our control. These factors include:

- the level of domestic production;
- the availability of imported oil and gas
- actions taken by foreign oil and gas producing nations;
- the availability of transportation systems with adequate capacity;
- the availability of competitive fuels;
- fluctuating and seasonal demand for oil, gas and NGLs; and
- conservation and the extent of governmental regulation of production and the overall economic environment.



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Our Processing segment is directly exposed to commodity price risks, as we take title to NGLs and are obligated under certain of our gas processing contracts to pay market value for the energy extracted from the natural gas stream. We are exposed to various risks, primarily that of commodity price fluctuations in response to changes in supply, market uncertainty and a variety of additional factors that are beyond our control. These pricing risks cannot be completely hedged or eliminated, and any attempt to hedge pricing risks may expose us to financial losses.

***A reduction in demand for our products by the petrochemical, refining or heating industries, could adversely affect our results of operations.***

A reduction in demand for our products by the petrochemical, refining or heating industries, whether because of general economic conditions, reduced demand by consumers for the end products made with NGL products, increased competition from petroleum-based products due to pricing differences, adverse weather conditions, government regulations affecting prices and production levels of natural gas or the content of motor gasoline or other reasons, could adversely affect our results of operations. For example:

*Ethane.* If natural gas prices increase significantly in relation to ethane prices, it may be more profitable for natural gas processors to leave the ethane in the natural gas stream to be burned as fuel than to extract the ethane from the mixed NGL stream for sale.

*Propane.* The demand for propane as a heating fuel is significantly affected by weather conditions. Unusually warm winters will cause the demand for propane to decline significantly and could cause a significant decline in the volumes of propane that we extract and transport.

*Isobutane.* Any reduction in demand for motor gasoline in general or MTBE in particular may similarly reduce demand for isobutane. During periods in which the difference in market prices between isobutane and normal butane is low or inventory values are high relative to current prices for normal butane or isobutane, our operating margin from selling isobutane will be reduced.

*MTBE.* A number of states have either banned or currently are considering legislation to ban MTBE. In addition, Congress is contemplating a federal ban on MTBE, and several oil companies have taken an early initiative to phase out the production of MTBE. If MTBE is banned or if its use is significantly limited, the revenues and equity earnings we record may be materially reduced or eliminated. For additional information regarding MTBE, please read Business and Properties Regulation and Environmental Matters Impact of the Clean Air Act's oxygenated fuels programs on our BEF investment in our Annual Report on Form 10-K for the year ended December 31, 2002.

*Propylene.* Any downturn in the domestic or international economy could cause reduced demand for propylene, which could cause a reduction in the volumes of propylene that we produce and expose our investment in inventories of propane/ propylene mix to pricing risk due to requirements for short-term price discounts in the spot or short-term propylene markets.

Please read Items 1 and 2. Business and Properties The Company's Operations beginning on page 3 of our Annual Report on Form 10-K for a more detailed discussion of our operations.

***A decline in the volume of NGLs delivered to our facilities could adversely affect our results of operations.***

Our profitability is materially impacted by the volume of NGLs processed at our facilities. A material decrease in natural gas production of crude oil refining, as a result of depressed commodity prices or otherwise, or a decrease in imports of mixed butanes, could result in a decline in the volume of NGLs delivered to our facilities for processing, thereby reducing revenue and operating income.



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### ***Our business requires extensive credit risk management that may not be adequate to protect against customer nonpayment.***

As a result of business failures, revelations of material misrepresentations and related financial restatements by several large, well-known companies in various industries over the last year, there have been significant disruptions and extreme volatility in the financial markets and credit markets. Because of the credit intensive nature of the energy industry and troubling disclosures by some large, diversified energy companies, the energy industry has been especially impacted by these developments, with the rating agencies downgrading a number of large energy-related companies. Accordingly, in this environment we are exposed to an increased level of credit and performance risk with respect to our customers. If we fail to adequately assess the creditworthiness of existing or future customers, unanticipated deterioration in their creditworthiness could have an adverse impact on us.

### ***Acquisitions and expansions may affect our business by substantially increasing the level of our indebtedness and contingent liabilities and increasing our risks of being unable to effectively integrate these new operations.***

From time to time, we evaluate and acquire assets and businesses that we believe complement our existing operations. We may encounter difficulties integrating these acquisitions with our existing businesses without a loss of employees or customers, a loss of revenues, an increase in operating or other costs or other difficulties. In addition, we may not be able to realize the operating efficiencies, competitive advantages, cost savings or other benefits expected from these acquisitions. Future acquisitions may require substantial capital or the incurrence of substantial indebtedness. As a result, our capitalization and results of operations may change significantly following an acquisition, 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.

### ***Terrorist attacks aimed at our facilities could adversely affect our business.***

Since the September 11, 2001 terrorist attacks on the United States, the United States government has issued warnings that energy assets, including our nation's pipeline infrastructure, may be the future target of terrorist organizations. Any terrorist attack on our facilities, those of our customers and, in some cases, those of other pipelines, could have a material adverse effect on our business. An escalation of political tensions in the Middle East and elsewhere, such as the recent commencement of United States military action in Iraq, could result in increased volatility in the world's energy markets and result in a material adverse effect on our business.

## **Risks Related to Our Common Units as a Result of Our Partnership Structure**

### ***We may not have sufficient cash from operations to pay distributions at the current level following establishment of cash reserves and payments of fees and expenses, including payments to our general partner.***

Because distributions on our common units are dependent on the amount of cash we generate, distributions may fluctuate based on our performance. We cannot guarantee that we will continue to pay distributions at the current level each quarter. The actual amount of cash that is available to be distributed each quarter will depend upon numerous factors, some of which are beyond our control and the control of our general partner. These factors include but are not limited to the following:

the level of our operating costs;

the level of competition in our business segments;

prevailing economic conditions;

the level of capital expenditures we make;

the restrictions contained in our debt agreements and our debt service requirements;

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fluctuations in our working capital needs;

the cost of acquisitions, if any; and

the amount, if any, of cash reserves established by our general partner, in its discretion.

In addition, you should be aware that our ability to pay the minimum quarterly distribution each quarter depends primarily on our cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and we may not make distributions during periods when we record net income.

***Cost reimbursements due our general partner may be substantial and will reduce our cash available for distribution to holders of common units.***

Prior to making any distribution on our common units, we will reimburse our general partner and its affiliates, including officers and directors of our general partner, for expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to pay cash distributions to holders of common units. Our general partner has sole discretion to determine the amount of these expenses, subject to an annual limit. In addition, our general partner and its affiliates may provide us other services for which we will be charged fees as determined by our general partner.

***Our general partner and its affiliates have limited fiduciary responsibilities and conflicts of interest with respect to our partnership.***

The directors and officers of our general partner and its affiliates have duties to manage the general partner in a manner that is beneficial to its members. At the same time, our general partner has duties to manage our partnership in a manner that is beneficial to us. Therefore, our general partner's duties to us may conflict with the duties of its officers and directors to its members.

Such conflicts may include, among others, the following:

decisions of our general partner regarding the amount and timing of asset purchases and sales, cash expenditures, borrowings, issuances of additional units and reserves in any quarter may affect the level of cash available to pay quarterly distributions to unitholders and the general partner;

under our partnership agreement, our general partner determines which costs incurred by it and its affiliates are reimbursable by us;

our general partner is allowed to take into account the interests of parties other than us, such as Enterprise Products Company, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to unitholders;

affiliates of our general partner may compete with us in certain circumstances;

our general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. As a result of purchasing units, you are deemed to consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law;

we do not have any employees and we rely solely on employees of the general partner and its affiliates; and

in some instances, our general partner may cause us to borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to hasten the expiration of the subordination period.

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### ***Even if unitholders are dissatisfied, they cannot easily remove our general partner.***

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 did not elect our general partner or the directors of the general partner and will have no right to elect our general partner or the directors of our general partner on an annual or other continuing basis.

Furthermore, if unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. Our general partner may not be removed except upon the vote of the holders of at least 66 2/3% of the outstanding units voting together as a single class. Because affiliates of our general partner own more than one-third of our outstanding units, the general partner currently cannot be removed without the consent of the general partner and its affiliates.

Unitholders' voting rights are further restricted by the partnership agreement provision stating that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner and its affiliates, cannot be voted on any matter. In addition, the partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

As a result of these provisions, the price at which the common units will trade may be lower because of the absence or reduction of a takeover premium in the trading price.

### ***If our general partner is removed without cause during the subordination period, your distribution and liquidation preference over the subordinated units will be prematurely eliminated.***

If our general partner is removed without cause during the subordination period, all remaining subordinated units will automatically convert into common units and will share distributions with the existing common units pro rata, existing arrearages on the common units will be extinguished and the common units will no longer be entitled to arrearages if we fail to pay the minimum quarterly distribution in any quarter. A removal of the general partner under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which otherwise would have continued until we had met certain distribution and performance tests.

Under our partnership agreement, cause is narrowly defined to mean that a court of competent jurisdiction has entered a final non-appealable judgment finding our general partner liable for actual fraud, gross negligence 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 the general partner's performance in managing our partnership will most likely result in the termination of the subordination period.

### ***We may issue additional common units without the approval of common unitholders, which would dilute their existing ownership interests.***

During the subordination period, our general partner may cause us to issue up to 54,550,000 additional common units without any approval by the common unitholders. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without such approval, in a number of circumstances, such as:

the issuance of common units in connection with acquisitions that increase cash flow from operations per unit on a pro forma basis;

the conversion of subordinated units into common units;

the conversion of special units into common units;

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the conversion of the general partner interest and the incentive distribution rights into common units as a result of the withdrawal of our general partner; or

issuances of common units under our long-term incentive plan.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. Our partnership agreement does not give the common unitholders the right to approve our issuance of equity securities ranking junior to the common units.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

the proportionate ownership interest of common unitholders in us will decrease;

the amount of cash available for distribution on each unit may decrease;

since 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 the common unitholders will increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

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

If at any time our general partner and its affiliates own 85% more of the common units then outstanding, 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 remaining common units held by unaffiliated persons at a price not less than their then current market price. As a result, common unitholders may be required to sell their common units at an undesirable time or price and may therefore not receive any return on their investment. They may also incur a tax liability upon a sale of their units. Under our partnership agreement, Shell is not deemed to be an affiliate of our general partner for purposes of this limited call right.

***Common unitholders may not have limited liability if a court finds that limited partner actions constitute control of our business.***

Under Delaware law, common unitholders could be held liable for our obligations to the same extent as a general partner if a court determined that the right of limited partners to remove our general partner or to take other action under the partnership agreement constituted participation in the control of our business.

Under Delaware law, the general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a limited partner may be liable to us for the amount of a distribution for a period of three years from the date of the distribution.

## **Tax Risks to Common Unitholders**

You are urged to read **Tax Consequences** beginning on page 39 for a more complete discussion of the following federal income tax risks related to owning and disposing of common units.

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***The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to common unitholders.***

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, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were classified as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35%, and we likely would pay state taxes as well. Distributions to you would generally be taxed again to you 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, the 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 after-tax return to you, likely causing a substantial reduction in the value of the common units.

A change in current law or a change in our business could cause us to be taxed as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. Our 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, then the minimum quarterly distribution and the target distribution levels will be decreased to reflect that impact on us.

***A successful IRS contest of the federal income tax positions we take may adversely impact the market for common units, and the costs of any contests will be borne by our unitholders and our general partner.***

We have not requested a ruling from the IRS with respect to any matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in the accompanying 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 concur with our counsel's conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for common units and the price at which they trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be borne indirectly by our unitholders and our general partner.

***Common unitholders may be required to pay taxes even if they do not receive any cash distributions.***

Common unitholders will be required to pay federal income taxes and, in some cases, state, local and foreign income taxes on their share of our taxable income even if they do not receive any cash distributions from us. They may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from their share of our taxable income.

***Tax gain or loss on disposition of common units could be different than expected.***

If you sell your common units, you will recognize 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 to you. Should the IRS successfully contest some positions we take, you could recognize more gain on the sale of units than would be the case under those positions, without the benefit of decreased income in prior years. Also, 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 foreign persons raises issues unique to them. For example, virtually all of our income allocated to unitholders who are 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. Very little of our income will be qualifying income to a regulated investment company or mutual fund. Distributions to foreign persons will be reduced by withholding taxes at the highest effective U.S. federal income tax rate for individuals, and foreign persons will be required to file federal income tax returns and pay tax on their share of our taxable income.

***We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.***

We are registered with the IRS as a tax shelter. Our tax shelter registration number is 9906100007. The tax laws require that some types of entities, including some partnerships, register as tax shelters in response to the perception that they claim tax benefits that may be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in our unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your personal tax return and indirectly bear a portion of the cost of an audit of us.

***We will treat each purchaser of common 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 our common units.***

Because we cannot match transferors and transferees of common units, we adopt depreciation and amortization positions that may not conform with all aspects of applicable Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to a common unitholder. It also could affect the timing of these tax benefits or the amount of gain from a sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to the common unitholder's tax returns.

***Common unitholders will likely be subject to state and local taxes in states where they do not live as a result of an investment in our common units.***

In addition to federal income taxes, common unitholders will likely be subject to other taxes, including 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 and in which they do not reside. Common unitholders may be required to file state and local income tax returns and pay state and local income taxes in many or all of the jurisdictions in which we do business or own property. Further, they may be subject to penalties for failure to comply with those requirements. It is the responsibility of the common unitholder to file all United States federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the common units.

**Table of Contents****USE OF PROCEEDS**

We will use the net proceeds from any sale of securities described in this prospectus for future business acquisitions and other general corporate purposes, such as working capital, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities. The prospectus supplement will describe the actual use of the net proceeds from the sale of securities. The exact amounts to be used and when the net proceeds will be applied to corporate purposes will depend on a number of factors, including our funding requirements and the availability of alternative funding sources.

We will not receive any proceeds from any sale of common units by any selling unitholders.

**RATIO OF EARNINGS TO FIXED CHARGES**

The ratios of earnings to fixed charges for each of the periods indicated are as follows:

Company	Year Ended December 31,				
	1998	1999	2000	2001	2002
Enterprise Products Partners L.P.	1.16	5.84	6.40	5.10	2.07
Enterprise Products Operating L.P.	1.16	5.90	6.46	5.14	2.08

These computations include us and our subsidiaries, and 50% or less equity companies. For these ratios, earnings is the amount resulting from adding and subtracting the following items.

Add the following:

pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees;

fixed charges;

amortization of capitalized interest;

distributed income of equity investees; and

our share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges.

From the total of the added items, subtract the following:

interest capitalized;

preference security dividend requirements of consolidated subsidiaries; and

minority interest in pre-tax income of subsidiaries that have not incurred fixed charges.

The term fixed charges means the sum of the following:

interest expensed and capitalized;

amortized premiums, discounts and capitalized expenses related to indebtedness;

an estimate of the interest within rental expenses (equal to one-third of rental expense); and

preference security dividend requirements of consolidated subsidiaries.



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**DESCRIPTION OF DEBT SECURITIES**

In this Description of Debt Securities references to the Issuer mean only Enterprise Products Operating L.P. and not its subsidiaries. References to the Guarantor mean only Enterprise Products Partners L.P. and not its subsidiaries. References to we and us mean the Issuer and the Guarantor collectively.

The debt securities will be issued under an Indenture dated as of March 15, 2000 (the Indenture ), among the Issuer, the Guarantor, and Wachovia Bank, National Association (successor to First Union National Bank), as trustee (the Trustee ). The terms of the debt securities will include those expressly set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the Trust Indenture Act ). Capitalized terms used in this Description of Debt Securities have the meanings specified in the Indenture.

This Description of Debt Securities is intended to be a useful overview of the material provisions of the debt securities and the Indenture. Since this Description of Debt Securities is only a summary, you should refer to the Indenture for a complete description of our obligations and your rights.

**General**

The Indenture does not limit the amount of debt securities that may be issued thereunder. Debt securities may be issued under the Indenture from time to time in separate series, each up to the aggregate amount authorized for such series. The debt securities will be general obligations of the Issuer and the Guarantor and may be subordinated to Senior Indebtedness of the Issuer and the Guarantor. See Subordination.

A prospectus supplement and a supplemental indenture (or a resolution of our Board of Directors and accompanying officers certificate) relating to any series of debt securities being offered will include specific terms relating to the offering. These terms will include some or all of the following:

the form and title of the debt securities;

the total principal amount of the debt securities;

the portion of the principal amount which will be payable if the maturity of the debt securities is accelerated;

the currency or currency unit in which the debt securities will be paid, if not U.S. dollars;

any right we may have to defer payments of interest by extending the dates payments are due whether interest on those deferred amounts will be payable as well;

the dates on which the principal of the debt securities will be payable;

the interest rate which the debt securities will bear and the interest payment dates for the debt securities;

any optional redemption provisions;

any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;

any changes to or additional Events of Default or covenants;

whether the debt securities are to be issued as Registered Securities or Bearer Securities or both; and any special provisions for Bearer Securities;

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the subordination, if any, of the debt securities and any changes to the subordination provisions of the Indenture; and

any other terms of the debt securities.

The prospectus supplement will also describe any material United States federal income tax consequences or other special considerations applicable to the applicable series of debt securities, including those applicable to:

Bearer Securities;

debt securities with respect to which payments of principal, premium or interest are determined with reference to an index or formula, including changes in prices of particular securities, currencies or commodities;

debt securities with respect to which principal, premium or interest is payable in a foreign or composite currency;

debt securities that are issued at a discount below their stated principal amount, bearing no interest or interest at a rate that at the time of issuance is below market rates; and

variable rate debt securities that are exchangeable for fixed rate debt securities.

At our option, we may make interest payments, by check mailed to the registered holders thereof or, if so stated in the applicable prospectus supplement, at the option of a holder by wire transfer to an account designated by the holder. Except as otherwise provided in the applicable prospectus supplement, no payment on a Bearer Security will be made by mail to an address in the United States or by wire transfer to an account in the United States.

Unless otherwise provided in the applicable prospectus supplement, Registered Securities may be transferred or exchanged at the office of the Trustee at which its corporate trust business is principally administered in the United States or at the office of the Trustee or the Trustee's agent in New York City, subject to the limitations provided in the Indenture, without the payment of any service charge, other than any applicable tax or governmental charge. Bearer Securities will be transferable only by delivery. Provisions with respect to the exchange of Bearer Securities will be described in the applicable prospectus supplement.

Any funds we pay to a paying agent for the payment of amounts due on any debt securities that remain unclaimed for two years will be returned to us, and the holders of the debt securities must thereafter look only to us for payment thereof.

## **Guarantee**

The Guarantor will unconditionally guarantee to each holder and the Trustee the full and prompt payment of principal of, premium, if any, and interest on the debt securities, when and as the same become due and payable, whether at maturity, upon redemption or repurchase, by declaration of acceleration or otherwise.

## **Certain Covenants**

Except as set forth below or as may be provided in a prospectus supplement and supplemental indenture, neither the Issuer nor the Guarantor is restricted by the Indenture from incurring any type of indebtedness or other obligation, from paying dividends or making distributions on its partnership interests or capital stock or purchasing or redeeming its partnership interests or capital stock. The Indenture does not require the maintenance of any financial ratios or specified levels of net worth or liquidity. In addition, the Indenture does not contain any provisions that would require the Issuer to repurchase or redeem or otherwise modify the terms of any of the debt securities upon a change in control or other events involving the Issuer which may adversely affect the creditworthiness of the debt securities.

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*Limitations on Liens.* The Indenture provides that the Guarantor will not, nor will it permit any Subsidiary to, create, assume, incur or suffer to exist any mortgage, lien, security interest, pledge, charge or other encumbrance ( *liens* ) other than Permitted Liens (as defined below) upon any Principal Property (as defined below) or upon any shares of capital stock of any Subsidiary owning or leasing any Principal Property, whether owned or leased on the date of the Indenture or thereafter acquired, to secure any indebtedness for borrowed money ( *debt* ) of the Guarantor or the Issuer or any other person (other than the debt securities), without in any such case making effective provision whereby all of the debt securities outstanding shall be secured equally and ratably with, or prior to, such debt so long as such debt shall be so secured.

In the Indenture, the term *Subsidiary* means:

(1) the Issuer; or

(2) any corporation, association or other business entity of which more than 50% of the total voting power of the equity interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof or any partnership of which more than 50% of the partners' equity interests (considering all partners' equity interests as a single class) is, in each case, at the time owned or controlled, directly or indirectly, by the Guarantor, the Issuer or one or more of the other Subsidiaries of the Guarantor or the Issuer or combination thereof.

Permitted Liens means:

(1) liens upon rights-of-way for pipeline purposes;

(2) any statutory or governmental lien or lien arising by operation of law, or any mechanics', repairmen's, materialmen's, suppliers', carriers', landlords', warehousemen's or similar lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction, development, improvement or repair; or any right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property;

(3) liens for taxes and assessments which are (a) for the then current year, (b) not at the time delinquent, or (c) delinquent but the validity or amount of which is being contested at the time by the Guarantor or any Subsidiary in good faith by appropriate proceedings;

(4) liens of, or to secure performance of, leases, other than capital leases; or any lien securing industrial development, pollution control or similar revenue bonds;

(5) any lien upon property or assets acquired or sold by the Guarantor or any Subsidiary resulting from the exercise of any rights arising out of defaults on receivables;

(6) any lien in favor of the Guarantor or any Subsidiary; or any lien upon any property or assets of the Guarantor or any Subsidiary in existence on the date of the execution and delivery of the Indenture;

(7) any lien in favor of the United States of America or any state thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any state thereof, to secure partial, progress, advance, or other payments pursuant to any contract or statute, or any debt incurred by the Issuer or any Subsidiary for the purpose of financing all or any part of the purchase price of, or the cost of constructing, developing, repairing or improving, the property or assets subject to such lien;

(8) any lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;

(9) liens in favor of any person to secure obligations under provisions of any letters of credit, bank guarantees, bonds or surety obligations required or requested by any governmental authority in

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connection with any contract or statute; or any lien upon or deposits of any assets to secure performance of bids, trade contracts, leases or statutory obligations;

(10) any lien upon any property or assets created at the time of acquisition of such property or assets by the Guarantor or any Subsidiary or within one year after such time to secure all or a portion of the purchase price for such property or assets or debt incurred to finance such purchase price, whether such debt was incurred prior to, at the time of or within one year after the date of such acquisition; or any lien upon any property or assets to secure all or part of the cost of construction, development, repair or improvements thereon or to secure debt incurred prior to, at the time of, or within one year after completion of such construction, development, repair or improvements or the commencement of full operations thereof (whichever is later), to provide funds for any such purpose;

(11) any lien upon any property or assets existing thereon at the time of the acquisition thereof by the Guarantor or any Subsidiary and any lien upon any property or assets of a person existing thereon at the time such person becomes a Subsidiary by acquisition, merger or otherwise; provided that, in each case, such lien only encumbers the property or assets so acquired or owned by such person at the time such person becomes a Subsidiary;

(12) liens imposed by law or order as a result of any proceeding before any court or regulatory body that is being contested in good faith, and liens which secure a judgment or other court-ordered award or settlement as to which the Guarantor or the applicable Subsidiary has not exhausted its appellate rights;

(13) any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refunding or replacements) of liens, in whole or in part, referred to in clauses (1) through (12) above; provided, however, that any such extension, renewal, refinancing, refunding or replacement lien shall be limited to the property or assets covered by the lien extended, renewed, refinanced, refunded or replaced and that the obligations secured by any such extension, renewal, refinancing, refunding or replacement lien shall be in an amount not greater than the amount of the obligations secured by the lien extended, renewed, refinanced, refunded or replaced and any expenses of the Guarantor and its Subsidiaries (including any premium) incurred in connection with such extension, renewal, refinancing, refunding or replacement; or

(14) any lien resulting from the deposit of moneys or evidence of indebtedness in trust for the purpose of defeasing debt of the Guarantor or any Subsidiary.

*Principal Property* means, whether owned or leased on the date of the Indenture or thereafter acquired:

(1) any pipeline assets of the Guarantor or any Subsidiary, including any related facilities employed in the transportation, distribution, storage or marketing of refined petroleum products, natural gas liquids, and petrochemicals, that are located in the United States of America or any territory or political subdivision thereof; and

(2) any processing or manufacturing plant or terminal owned or leased by the Guarantor or any Subsidiary that is located in the United States or any territory or political subdivision thereof,

except, in the case of either of the foregoing clauses (1) or (2):

(a) any such assets consisting of inventories, furniture, office fixtures and equipment (including data processing equipment), vehicles and equipment used on, or useful with, vehicles; and

(b) any such assets, plant or terminal which, in the opinion of the board of directors of the General Partner, is not material in relation to the activities of the Issuer or of the Guarantor and its Subsidiaries taken as a whole.

Notwithstanding the foregoing, under the Indenture, the Guarantor may, and may permit any Subsidiary to, create, assume, incur, or suffer to exist any lien upon any Principal Property to secure debt of the Guarantor or any other person (other than the debt securities) other than a Permitted Lien without securing the debt securities, provided that the aggregate principal amount of all debt then outstanding secured by such lien and all similar liens, together with all Attributable Indebtedness from Sale-Leaseback Transactions

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(excluding Sale-Leaseback Transactions permitted by clauses (1) through (4), inclusive, of the first paragraph of the restriction on sale-leasebacks covenant described below) does not exceed 10% of Consolidated Net Tangible Assets.

*Consolidated Net Tangible Assets* means, at any date of determination, the total amount of assets after deducting therefrom:

(1) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (B) current maturities of long-term debt); and

(2) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth, or on a pro forma basis would be set forth, on the consolidated balance sheet of the Guarantor and its consolidated subsidiaries for the Guarantor's most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

*Restriction on Sale-Leasebacks.* The Indenture provides that the Guarantor will not, and will not permit any Subsidiary to, engage in the sale or transfer by the Guarantor or any Subsidiary of any Principal Property to a person (other than the Issuer or a Subsidiary) and the taking back by the Guarantor or any Subsidiary, as the case may be, of a lease of such Principal Property (a Sale-Leaseback Transaction), unless:

(1) such Sale-Leaseback Transaction occurs within one year from the date of completion of the acquisition of the Principal Property subject thereto or the date of the completion of construction, development or substantial repair or improvement, or commencement of full operations on such Principal Property, whichever is later;

(2) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than three years;

(3) the Guarantor or such Subsidiary would be entitled to incur debt secured by a lien on the Principal Property subject thereto in a principal amount equal to or exceeding the Attributable Indebtedness from such Sale-Leaseback Transaction without equally and ratably securing the debt securities; or

(4) the Guarantor or such Subsidiary, within a one-year period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the Attributable Indebtedness from such Sale-Leaseback Transaction to (a) the prepayment, repayment, redemption, reduction or retirement of any debt of the Guarantor or any Subsidiary that is not subordinated to the debt securities, or (b) the expenditure or expenditures for Principal Property used or to be used in the ordinary course of business of the Guarantor or its Subsidiaries. *Attributable Indebtedness*, when used with respect to any Sale-Leaseback Transaction, means, as at the time of determination, the present value (discounted at the rate set forth or implicit in the terms of the lease included in such transaction) of the total obligations of the lessee for rental payments (other than amounts required to be paid on account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items that do not constitute payments for property rights) during the remaining term of the lease included in such Sale-Leaseback Transaction (including any period for which such lease has been extended). In the case of any lease that is terminable by the lessee upon the payment of a penalty or other termination payment, such amount shall be the lesser of the amount determined assuming termination upon the first date such lease may be terminated (in which case the amount shall also include the amount of the penalty or termination payment, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or the amount determined assuming no such termination.

Notwithstanding the foregoing, under the Indenture the Guarantor may, and may permit any Subsidiary to, effect any Sale-Leaseback Transaction that is not excepted by clauses (1) through (4), inclusive, of the first paragraph under *Restrictions On Sale-Leasebacks*, provided that the Attributable Indebtedness from such Sale-Leaseback Transaction, together with the aggregate principal amount of outstanding debt

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(other than the debt securities) secured by liens other than Permitted Liens upon Principal Property, do not exceed 10% of Consolidated Net Tangible Assets.

*Merger, Consolidation or Sale of Assets.* The Indenture provides that each of the Guarantor and the Issuer may, without the consent of the holders of any of the debt securities, consolidate with or sell, lease, convey all or substantially all of its assets to, or merge with or into, any partnership, limited liability company or corporation if:

(1) the partnership, limited liability company or corporation formed by or resulting from any such consolidation or merger or to which such assets shall have been transferred (the successor) is either the Guarantor or the Issuer, as applicable, or assumes all the Guarantor's or the Issuer's, as the case may be, obligations and liabilities under the Indenture and the debt securities (in the case of the Issuer) and the Guarantee (in the case of the Guarantor);

(2) the successor is organized under the laws of the United States, any state or the District of Columbia; and

(3) immediately after giving effect to the transaction no Default or Event of Default shall have occurred and be continuing.

The successor will be substituted for the Guarantor or the Issuer, as the case may be, in the Indenture with the same effect as if it had been an original party to the Indenture. Thereafter, the successor may exercise the rights and powers of the Guarantor or the Issuer, as the case may be, under the Indenture, in its name or in its own name. If the Guarantor or the Issuer sells or transfers all or substantially all of its assets, it will be released from all liabilities and obligations under the Indenture and under the debt securities (in the case of the Issuer) and the Guarantee (in the case of the Guarantor) except that no such release will occur in the case of a lease of all or substantially all of its assets.

**Events of Default**

Each of the following will be an Event of Default under the Indenture with respect to a series of debt securities:

(1) default in any payment of interest on any debt securities of that series when due, continued for 30 days;

(2) default in the payment of principal of or premium, if any, on any debt securities of that series when due at its stated maturity, upon optional redemption, upon declaration or otherwise;

(3) failure by the Guarantor or the Issuer to comply for 60 days after notice with its other agreements contained in the Indenture;

(4) certain events of bankruptcy, insolvency or reorganization of the Issuer or the Guarantor (the bankruptcy provisions); or

(5) the Guarantee ceases to be in full force and effect or is declared null and void in a judicial proceeding or the Guarantor denies or disaffirms its obligations under the Indenture or the Guarantee.

However, a default under clause (3) of this paragraph will not constitute an Event of Default until the Trustee or the holders of 25% in principal amount of the outstanding debt securities of that series notify the Issuer and the Guarantor of the default such default is not cured within the time specified in clause (3) of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (4) above) occurs and is continuing, the Trustee by notice to the Issuer, or the holders of at least 25% in principal amount of the outstanding debt securities of that series by notice to the Issuer and the Trustee, may, and the Trustee at the request of such holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the debt securities of that series to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. If an Event of Default

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described in clause (4) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the debt securities will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders. The holders of a majority in principal amount of the outstanding debt securities of a series may waive all past defaults (except with respect to nonpayment of principal, premium or interest) and rescind any such acceleration with respect to the debt securities of that series and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction and all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the debt securities of that series that have become due solely by such declaration of acceleration, have been cured or waived.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder may pursue any remedy with respect to the Indenture or the debt securities unless:

- (1) such holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in principal amount of the outstanding debt securities of that series have requested the Trustee to pursue the remedy;
- (3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) the holders of a majority in principal amount of the outstanding debt securities of that series have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding debt securities of a series are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee with respect to that series of debt securities. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any debt securities, the Trustee may withhold notice if and so long as a committee of trust officers of the Trustee in good faith determines that withholding notice is in the interests of the holders. In addition, the Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Issuer also is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

## **Amendments and Waivers**

Modifications and amendments of the Indenture may be made by the Issuer, the Guarantor and the Trustee with the consent of the holders of a majority in principal amount of all debt securities then outstanding under the Indenture (including consents obtained in connection with a tender offer or exchange offer for the

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debt securities). However, without the consent of each holder of outstanding debt securities of each series affected thereby, no amendment may, among other things:

- (1) reduce the amount of debt securities whose holders must consent to an amendment;
- (2) reduce the stated rate of or extend the stated time for payment of interest on any debt securities;
- (3) reduce the principal of or extend the stated maturity of any debt securities;
- (4) reduce the premium payable upon the redemption of any debt securities or change the time at which any debt securities may be redeemed as described above under Optional Redemption or any similar provision;
- (5) make any debt securities payable in money other than that stated in the debt securities;
- (6) impair the right of any holder to receive payment of, premium, if any, principal of and interest on such holder's debt securities on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's debt securities;
- (7) make any change in the amendment provisions which require each holder's consent or in the waiver provisions; or
- (8) release the Guarantor or modify the Guarantee in any manner adverse to the holders.

The holders of a majority in aggregate principal amount of the outstanding debt securities of each series affected thereby, on behalf of all such holders, may waive compliance by the Issuer and the Guarantor with certain restrictive provisions of the Indenture. Subject to certain rights of the Trustee as provided in the Indenture, the holders of a majority in aggregate principal amount of the debt securities of each series affected thereby, on behalf of all such holders, may waive any past default under the Indenture (including any such waiver obtained in connection with a tender offer or exchange offer for the debt securities), except a default in the payment of principal, premium or interest or a default in respect of a provision that under the Indenture that cannot be modified or amended without the consent of all holders of the series of debt securities that is affected.

Without the consent of any holder, the Issuer, the Guarantor and the Trustee may amend the Indenture to:

- (1) cure any ambiguity, omission, defect or inconsistency;
- (2) provide for the assumption by a successor corporation, partnership, trust or limited liability company of the obligations of the Guarantor or the Issuer under the Indenture;
- (3) provide for uncertificated debt securities in addition to or in place of certificated debt securities (provided that the uncertificated debt securities are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated debt securities are described in Section 163(f)(2)(B) of the Code);
- (4) add guarantees with respect to the debt securities;
- (5) secure the debt securities;
- (6) add to the covenants of the Guarantor or the Issuer for the benefit of the holders or surrender any right or power conferred upon the Guarantor or the Issuer;
- (7) make any change that does not adversely affect the rights of any holder; or
- (8) comply with any requirement of the Commission in connection with the qualification of the Indenture under the Trust Indenture Act.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, the Issuer is



required to mail to the holders a

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notice briefly describing such amendment. However, the failure to give such notice to all the holders, or any defect therein, will not impair or affect the validity of the amendment.

### **Defeasance**

The Issuer at any time may terminate all its obligations under a series of debt securities and the Indenture ( legal defeasance ), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the debt securities, to replace mutilated, destroyed, lost or stolen debt securities and to maintain a registrar and paying agent in respect of the debt securities. If the Issuer exercises its legal defeasance option, the Guarantee will terminate with respect to that series.

The Issuer at any time may terminate its obligations under covenants described under Certain Covenants (other than Merger, Consolidation or Sale of Assets ), the bankruptcy provisions with respect to the Guarantor and the Guarantee provision described under Events of Default above with respect to a series of debt securities ( covenant defeasance ).

The Issuer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the affected series of debt securities may not be accelerated because of an Event of Default with respect thereto. If the Issuer exercises its covenant defeasance option, payment of the affected series of debt securities may not be accelerated because of an Event of Default specified in clause (3), (4), (with respect only to the Guarantor) or (5) under Events of Default above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the defeasance trust ) with the Trustee money or U.S. Government Obligations for the payment of principal, premium, if any, and interest on the series of debt securities to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an opinion of counsel (subject to customary exceptions and exclusions) to the effect that holders of the series of debt securities will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such opinion of counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law.

### **Subordination**

Debt securities of a series may be subordinated to our Senior Indebtedness, which we define generally to include all notes or other evidences of indebtedness for money borrowed by the Issuer, including guarantees, that are not expressly subordinate or junior in right of payment to any other indebtedness of the Issuer. Subordinated debt securities will be subordinate in right of payment, to the extent and in the manner set forth in the Indenture and the prospectus supplement relating to such series, to the prior payment of all indebtedness of the Issuer and Guarantor that is designated as Senior Indebtedness with respect to the series.

The holders of Senior Indebtedness of the Issuer will receive payment in full of the Senior Indebtedness before holders of subordinated debt securities will receive any payment of principal, premium or interest with respect to the subordinated debt securities:

upon any payment of distribution of our assets of the Issuer to its creditors;

upon a total or partial liquidation or dissolution of the Issuer; or

in a bankruptcy, receivership or similar proceeding relating to the Issuer or its property.

Until the Senior Indebtedness is paid in full, any distribution to which holders of subordinated debt securities would otherwise be entitled will be made to the holders of Senior Indebtedness, except that such

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holders may receive units representing limited partner interests and any debt securities that are subordinated to Senior Indebtedness to at least the same extent as the subordinated debt securities.

If the Issuer does not pay any principal, premium or interest with respect to Senior Indebtedness within any applicable grace period (including at maturity), or any other default on Senior Indebtedness occurs and the maturity of the Senior Indebtedness is accelerated in accordance with its terms, the Issuer may not:

make any payments of principal, premium, if any, or interest with respect to subordinated debt securities;

make any deposit for the purpose of defeasance of the subordinated debt securities; or

repurchase, redeem or otherwise retire any subordinated debt securities, except that in the case of subordinated debt securities that provide for a mandatory sinking fund, we may deliver subordinated debt securities to the Trustee in satisfaction of our sinking fund obligation, unless, in either case,

the default has been cured or waived and the declaration of acceleration has been rescinded;

the Senior Indebtedness has been paid in full in cash; or

the Issuer and the Trustee receive written notice approving the payment from the representatives of each issue of Designated Senior Indebtedness.

Generally, Designated Senior Indebtedness will include:

indebtedness for borrowed money under a bank credit agreement, called Bank Indebtedness ; and

any specified issue of Senior Indebtedness of at least \$100 million.

During the continuance of any default, other than a default described in the immediately preceding paragraph, that may cause the maturity of any Senior Indebtedness to be accelerated immediately without further notice, other than any notice required to effect such acceleration, or the expiration of any applicable grace periods, the Issuer may not pay the subordinated debt securities for a period called the Payment Blockage Period. A Payment Blockage Period will commence on the receipt by us and the Trustee of written notice of the default, called a Blockage Notice, from the representative of any Designated Senior Indebtedness specifying an election to effect a Payment Blockage Period.

The Payment Blockage Period may be terminated before its expiration:

by written notice from the person or persons who gave the Blockage Notice;

by repayment in full in cash of the Senior Indebtedness with respect to which the Blockage Notice was given; or

if the default giving rise to the Payment Blockage Period is no longer continuing.

Unless the holders of Senior Indebtedness shall have accelerated the maturity of the Senior Indebtedness, we may resume payments on the subordinated debt securities after the expiration of the Payment Blockage Period.

Generally, not more than one Blockage Notice may be given in any period of 360 consecutive days unless the first Blockage Notice within the 360-day period is given by holders of Designated Senior Indebtedness, other than Bank Indebtedness, in which case the representative of the Bank Indebtedness may give another Blockage Notice within the period. The total number of days during which any one or more Payment Blockage Periods are in effect, however, may not exceed an aggregate of 179 days during any period of 360 consecutive days.

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After all Senior Indebtedness is paid in full and until the subordinated debt securities are paid in full, holders of the subordinated debt securities shall be subrogated to the rights of holders of Senior Indebtedness to receive distributions applicable to Senior Indebtedness.

By reason of the subordination, in the event of insolvency, our creditors who are holders of Senior Indebtedness, as well as certain of our general creditors, may recover more, ratably, than the holders of the subordinated debt securities.

## **Book-Entry System**

We will issue the debt securities in the form of one or more global securities in fully registered form initially in the name of Cede & Co., as nominee of DTC, or such other name as may be requested by an authorized representative of DTC. The global securities will be deposited with the Trustee as custodian for DTC and may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any nominee to a successor of DTC or a nominee of such successor.

DTC has advised us as follows:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC holds securities that its participants deposit with DTC and facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities, through electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc.

Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

The rules applicable to DTC and its direct and indirect participants are on file with the Commission.

Purchases of debt securities under the DTC system must be made by or through direct participants, which will receive a credit for the debt securities on DTC's records. The ownership interest of each actual purchaser of debt securities is in turn to be recorded on the direct and indirect participants' records. Beneficial owners of the debt securities will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owner entered into the transaction. Transfers of ownership interests in the debt securities are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the debt securities, except in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by direct participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of debt securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the debt securities; DTC's records reflect only the identity of the direct participants to whose accounts such debt securities are credited, which may or may not be the

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beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the global securities. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the debt securities are credited on the record date (identified in the listing attached to the omnibus proxy).

All payments on the global securities will be made to Cede & Co., as holder of record, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Trustee on payment dates in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participant and not of DTC, us or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) shall be the responsibility of us or the Trustee. Disbursement of such payments to direct participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of direct and indirect participants.

DTC may discontinue providing its service as securities depository with respect to the debt securities at any time by giving reasonable notice to us or the Trustee. In addition, we may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, note certificates in fully registered form are required to be printed and delivered to beneficial owners of the global securities representing such debt securities.

Neither we, the Trustee nor the initial purchasers will have any responsibility or obligation to direct or indirect participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, its nominee or any participant with respect to any ownership interest in the debt securities, or payments to, or the providing of notice to participants or beneficial owners.

So long as the debt securities are in DTC's book-entry system, secondary market trading activity in the debt securities will settle in immediately available funds. All payments on the debt securities issued as global securities will be made by us in immediately available funds.

**Limitations on Issuance of Bearer Securities**

The debt securities of a series may be issued as Registered Securities (which will be registered as to principal and interest in the register maintained by the registrar for the debt securities) or Bearer Securities (which will be transferable only by delivery). If the debt securities are issuable as Bearer Securities, certain special limitations and conditions will apply.

In compliance with United States federal income tax laws and regulations, we and any underwriter, agent or dealer participating in an offering of Bearer Securities will agree that, in connection with the original issuance of the Bearer Securities and during the period ending 40 days after the issue date, they will not offer, sell or deliver any such Bearer Securities, directly or indirectly, to a United States Person (as defined below) or to any person within the United States, except to the extent permitted under United States Treasury regulations.

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Bearer Securities will bear a legend to the following effect: Any United States person who holds this obligation will be subject to limitations under the United States federal income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code. The sections referred to in the legend provide that, with certain exceptions, a United States taxpayer who holds Bearer Securities will not be allowed to deduct any loss with respect to, and will not be eligible for capital gain treatment with respect to any gain realized on the sale, exchange, redemption or other disposition of, the Bearer Securities.

For this purpose, United States includes the United States of America and its possessions, and United States person means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, or an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

Pending the availability of a definitive global security or individual Bearer Securities, as the case may be, debt securities that are issuable as Bearer Securities may initially be represented by a single temporary global security, without interest coupons, to be deposited with a common depositary in London for Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ( Euroclear ), or Centrale de Livraison de Valeurs Mobilières S.A. ( CEDEL ) for credit to the accounts designated by or on behalf of the purchasers thereof. Following the availability of a definitive global security in bearer form, without coupons attached, or individual Bearer Securities and subject to any further limitations described in the applicable prospectus supplement, the temporary global security will be exchangeable for interests in the definitive global security or for the individual Bearer Securities, respectively, only upon receipt of a Certificate of Non-U.S. Beneficial Ownership, which is a certificate to the effect that a beneficial interest in a temporary global security is owned by a person that is not a United States Person or is owned by or through a financial institution in compliance with applicable United States Treasury regulations. No Bearer Security will be delivered in or to the United States. If so specified in the applicable prospectus supplement, interest on a temporary global security will be paid to each of Euroclear and CEDEL with respect to that portion of the temporary global security held for its account, but only upon receipt as of the relevant interest payment date of a Certificate of Non-U.S. Beneficial Ownership.

### **No Recourse Against General Partner**

Our general partner and its directors, officers, employees and members, as such, shall have no liability for any obligations of the Guarantor or the Issuer under the debt securities, the Indenture or the guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the debt securities. Such waiver may not be effective to waive liabilities under the federal securities laws, and it is the view of the Commission that such a waiver is against public policy.

### **Concerning the Trustee**

The Indenture contains certain limitations on the right of the Trustee, should it become our creditor, to obtain payment of claims in certain cases, or to realize for its own account on certain property received in respect of any such claim as security or otherwise. The Trustee is permitted to engage in certain other transactions. However, if it acquires any conflicting interest within the meaning of the Trust Indenture Act, it must eliminate the conflict or resign as Trustee.

The holders of a majority in principal amount of all outstanding debt securities (or if more than one series of debt securities under the Indenture is affected thereby, all series so affected, voting as a single class) will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy or power available to the Trustee for the debt securities or all such series so affected.

If an Event of Default occurs and is not cured under the Indenture and is known to the Trustee, the Trustee shall exercise such of the rights and powers vested in it by the Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will not be under any obligation to exercise any of

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its rights or powers under the Indenture at the request of any of the holders of debt securities unless they shall have offered to such Trustee reasonable security and indemnity.

Wachovia Bank, National Association is the Trustee under the Indenture and has been appointed by the Issuer as Registrar and Paying Agent with regard to the debt securities. Wachovia Bank, National Association is the Administrative Agent and a lender under the Issuer's credit facilities.

**Governing Law**

The Indenture, the debt securities and the guarantee are governed by, and will be construed in accordance with, the laws of the State of New York.

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**DESCRIPTION OF OUR COMMON UNITS**

Generally, our common units represent limited partner interests that entitle the holders to participate in our cash distributions and to exercise the rights and privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units, holders of subordinated units and our general partner in and to cash distributions, together with a description of the circumstances under which subordinated units convert into common units, see "Cash Distribution Policy" in this prospectus.

Our outstanding common units are listed on the NYSE under the symbol "EPD". Any additional common units we issue will also be listed on the NYSE.

The transfer agent and registrar for our common units is Mellon Investor Services LLC.

**Meetings/ Voting**

Each holder of common units is entitled to one vote for each common unit on all matters submitted to a vote of the unitholders.

**Status as Limited Partner or Assignee**

Except as described below under "Limited Liability", the common units will be fully paid, and unitholders will not be required to make additional capital contributions to us.

For a purchaser of common units offered by this prospectus to be registered as a record holder of common units on the books of our transfer agent or issued a common unit certificate, the purchaser must execute a transfer application whereby the purchaser requests admission as a substituted limited partner and makes representations and agrees to provisions stated in the transfer application. If this action is not taken, a purchaser's common units will be held in nominee accounts.

An assignee, pending its admission as a substituted limited partner, is entitled to an interest in us equivalent to that of a limited partner with respect to the right to share in allocations and distributions, including liquidating distributions. Our general partner will vote and exercise other powers attributable to common units owned by an assignee who has not become a substituted limited partner at the written direction of the assignee. Transferees who do not execute and deliver transfer applications will be treated neither as assignees nor as record holders of common units and will not receive distributions, federal income tax allocations or reports furnished to record holders of common units. The only right the transferees will have is the right to admission as a substituted limited partner in respect of the transferred common units upon execution of a transfer application in respect of the common units. A nominee or broker who has executed a transfer application with respect to common units held in street name or nominee accounts will receive distributions and reports pertaining to its common units.

**Limited Liability**

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") and that he otherwise acts in conformity with the provisions of our partnership agreement, his liability under the Delaware Act will be limited, subject to some possible exceptions, generally to the amount of capital he is obligated to contribute to us in respect of his units plus his share of any undistributed profits and assets.

Under the Delaware Act, a limited partnership may not make a distribution to a partner to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the 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, exceed the fair value of the assets of the limited partnership.

For the purposes of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of the property subject to liability of which recourse of creditors is limited shall be



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included in the assets of the limited 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 is liable to the limited partnership for the amount of the distribution for three years from the date of the distribution.

## **Reports and Records**

As soon as practicable, but in no event later than 120 days after the close of each fiscal year, our general partner will furnish or make available to each unitholder of record (as of a record date selected by our general partner) an annual report containing our audited financial statements for the past fiscal year. These financial statements will be prepared in accordance with generally accepted accounting principles. In addition, no later than 45 days after the close of each quarter (except the fourth quarter), our general partner will furnish or make available to each unitholder of record (as of a record date selected by our general partner) a report containing our unaudited financial statements and any other information required by law.

Our general partner will use all reasonable efforts to furnish each unitholder of record information reasonably required for tax reporting purposes within 90 days after the close of each fiscal year. Our general partner's ability to furnish this summary tax information will depend on the cooperation of unitholders in supplying information to our general partner. Each unitholder will receive information to assist him in determining his U.S. federal and state and Canadian federal and provincial tax liability and filing his U.S. federal and state and Canadian federal and provincial income tax returns.

A limited partner can, for a purpose reasonably related to the limited partner's interest as a limited partner, upon reasonable 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 became a partner;

copies of our partnership agreement, our certificate of limited partnership, amendments to either of them and powers of attorney which have been executed under our partnership agreement; information regarding the status of our business and financial condition; and

any other information regarding our affairs as is just and reasonable.

Our general partner may, and intends to, keep confidential from the limited partners trade secrets and other information the disclosure of which our general partner believes in good faith is not in our best interest or which we are required by law or by agreements with third parties to keep confidential.

## **Class A Special Units**

A total of 29,000,000 Class A special units were issued as part of the purchase price of Tejas Natural Gas Liquids LLC. These units do not accrue distributions and are not entitled to cash distributions until their conversion into an equal number of common units. On August 1, 2000, August 1, 2001 and August 1, 2002, 2,000,000, 10,000,000 and 17,000,000 of the Class A special units, respectively, were converted into an equal number of common units. As an additional part of the purchase price of Tejas Natural Gas Liquids LLC, we agreed to issue up to 12,000,000 more Class A special units to the seller if the volumes of natural gas that we process for Shell Oil Company and its affiliates reach certain agreed upon levels in 2000 and 2001. On August 1, 2000, we issued 6,000,000 of these Class A special units to the seller, and on August 1, 2001, we issued the remaining 6,000,000 Class A special units to the seller under our foregoing agreement. On August 1, 2002, 2,000,000 of these additional Class A special units converted into an equal number of common units. The remaining 10,000,000 additional Class A special units will convert into an equal number of common units in August 2003.

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**CASH DISTRIBUTION POLICY**

**Distributions of Available Cash**

*General.* Within approximately 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

*Definition of Available Cash.* Available cash is defined in our partnership agreement and generally means, with respect to any calendar quarter, all cash on hand at the end of such quarter:

less the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the general partner to:

- provide for the proper conduct of our business;
- comply with applicable law or any debt instrument or other agreement (including reserves for future capital expenditures and for our future credit needs); or

provide funds for distributions to unitholders and our general partner in respect of any one or more of the next four quarters;

plus all cash 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 our credit facilities and in all cases are used solely for working capital purposes or to pay distributions to partners.

**Operating Surplus and Capital Surplus**

*General.* Cash distributions are characterized as distributions from either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

*Definition of Operating Surplus.* Operating surplus is defined in the partnership agreement and generally means:

our cash balance on July 31, 1998, the closing date of our initial public offering of common units (excluding \$46.5 million to fund certain capital commitments existing at such closing date); plus

all of our cash receipts since the closing of our initial public offering, excluding cash from interim capital transactions such as borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other disposition of assets for cash, other than inventory, accounts receivable and other assets sold in the ordinary course of business or as part of normal retirements or replacements of assets; plus

up to \$60.0 million of cash from interim capital transactions; plus

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

all of our operating expenditures since the closing of our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less

the amount of cash reserved that we deem necessary or advisable to provide funds for future operating expenditures.

*Definition of Capital Surplus.* Capital surplus is generally generated only by borrowings (other than borrowings for working capital purposes), sales of debt and equity securities and sales or other dispositions of assets for cash (other than inventory, accounts receivable and other assets disposed of in the ordinary course of business).

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*Characterization of Cash Distributions.* To avoid the difficulty of trying to determine whether available cash we distribute is from operating surplus or from capital surplus, all available cash we distribute from any source will be treated as distributed from operating surplus until the sum of all available cash distributed since July 31, 1998 equals the operating surplus as of the end of the quarter prior to such distribution. Any available cash in excess of such amount (irrespective of its source) will be deemed to be from capital surplus and distributed accordingly.

If available cash from capital surplus is distributed in respect of each common unit in an aggregate amount per common unit equal to the \$11.00 initial public offering price of the common units, plus any common unit arrearages, the distinction between operating surplus and capital surplus will cease, and all distributions of available cash will be treated as if they were from operating surplus. We do not anticipate that there will be significant distributions from capital surplus.

## **Subordination Period**

*General.* With respect to each quarter during the subordination period, to the extent there is sufficient available cash, the holders of common units will have the right to receive the minimum quarterly distribution of \$0.225 per unit, plus any common unit arrearages, prior to any distribution of available cash to the holders of subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be sufficient available cash from operating surplus for us to distribute the minimum quarterly distribution on each common unit. Common units will not accrue arrearages with respect to distributions for any quarter after the subordination period, and subordinated units will not accrue any arrearages with respect to distributions for any quarter.

*Definition of Subordination Period.* The subordination period will generally extend until the first day of any quarter beginning after June 30, 2003 that the following tests are met:

distributions of available cash from operating surplus on each of the outstanding common units and the subordinated units with respect to each of the three consecutive, non-overlapping, four-quarter periods immediately preceding such date equaled or exceeded the minimum quarterly distribution on all of the outstanding common units and subordinated units during such periods;

the adjusted operating surplus generated during each of the three consecutive, non-overlapping, four-quarter periods immediately preceding such date equaled or exceeded the sum of:

the minimum quarterly distribution on all of the outstanding common units and subordinated units during those periods on a fully diluted basis; and

the related distribution on the general partner interests in us and our operating partnership; and

there are no outstanding common unit arrearages.

*Early Conversion of Subordinated Units.* On May 1, 2002, 10,704,936 of the original subordinated units, or approximately 25%, converted into an equal number of common units. As of December 31, 2002, 32,114,804 subordinated units remained outstanding. An additional 10,704,936 subordinated units will convert into an equal number of common units on the first day after the record date established for the distribution in respect of any quarter ending on or after March 31, 2003 if the following tests are met:

distributions of available cash from operating surplus on the common units and the subordinated units with respect to each of the three consecutive, non-overlapping, four-quarter periods immediately preceding such date equaled or exceeded the sum of the minimum quarterly distribution on all of the outstanding common units and subordinated units during such periods;

the adjusted operating surplus generated during each of the three consecutive, non-overlapping, four-quarter periods immediately preceding such date equaled or exceeded the sum of \$0.225 per unit on all of the common units and subordinated units that were outstanding during such period on a fully

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diluted basis and the related distribution on the general partner interests in us and our operating partnership; and

there are no outstanding common unit arrearages.

Because the tests for early conversion and the end of the subordination period are the same, if the test for early conversion is not met for the quarter ending March 31, 2003, there will not be any additional early conversion of the subordinated units. If the test is met at the end of any subsequent quarter, then the subordination period will end and all of the subordinated units will convert into common units. On August 1, 2003, 10,000,000 special units owned by Shell that are currently not entitled to distributions will convert into common units and, if the subordination period has not terminated at such time, will be included as common units for purposes of the above test.

*Definition of 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 for any period generally means:

operating surplus generated during that period; less

any net increase in working capital borrowings during that period; less

any net reduction in cash reserves for operating expenditures during that period not relating to an operating expenditure made during that period; plus

any net decrease in working capital borrowings during that period; plus

any net increase in cash reserves for operating expenditures during that period required by any debt instrument for the repayment of principal, interest or premium.

*Effect of Expiration of the Subordination Period.* Upon expiration of the subordination period, 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 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 such 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 common unit arrearages will be extinguished; and

our general partner will have the right to convert its general partner interest into common units or to receive cash in exchange for such interests.

**Distributions of Available Cash from Operating Surplus During the Subordination Period**

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

*first*, 98% to the common unitholders, pro rata, and 2% to the general partner, until there has been distributed in respect of each outstanding common unit an amount equal to \$0.225 per unit for such quarter.

*second*, 98% to the common unitholders, pro rata, and 2% to the general partner, until there has been distributed in respect of each outstanding common unit an amount equal to any common unit arrearages accrued and unpaid with respect to any prior quarters during the subordination period;

*third*, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until there has been distributed in respect of each outstanding subordinated unit an amount equal to \$0.225 per unit; and

*thereafter*, in the manner described in Incentive Distributions below.

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The above references to the 2% of available cash from operating surplus distributed to the general partner are references to the amount of the percentage interest of our general partner (exclusive of its or any of its affiliates' interests as holders of common units or subordinated units) in distributions from us and our operating partnership. Our general partner owns a 1% general partner interests in us and a 1.0101% general partner interest in our operating partnership.

With respect to any common unit, the term common unit arrearages refers to the amount by which the minimum quarterly distribution of \$0.225 per unit in any quarter during the subordination period exceeds the distribution of available cash from operating surplus actually made for such quarter on a common unit issued in our initial public offering, cumulative for such quarter and all prior quarters during the subordination period. Common unit arrearages will not accrue interest.

### **Distributions of Available Cash from Operating Surplus after Subordination Period**

We will make distributions of available cash from operating surplus with respect to any quarter after the subordination period in the following manner:

*first*, 98% to all common unitholders, pro rata and 2% to the general partner, until there has been distributed in respect of each unit an amount equal to \$0.225; and

thereafter, in the manner described in Incentive Distributions below.

### **Incentive Distributions**

Incentive distributions represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. For any quarter for which available cash from operating surplus is distributed to the common and subordinated unitholders in an amount equal to \$0.225 per unit on all units and to the common unitholders in an amount equal to any unpaid common unit arrearages, then any additional available cash from operating surplus in respect of such quarter will be distributed among the unitholders and the general partner in the following manner:

*first*, 98% to all common and subordinated unitholders, pro rata, and 2% to the general partner, until the unitholders have received a total of \$0.253 for such quarter in respect of each outstanding unit (the First Target Distribution );

*second*, 85% to all common and subordinated unitholders, pro rata, and 15% to the general partner, until the unitholders have received a total of \$0.3085 for such quarter in respect of each outstanding unit (the Second Target Distribution ); and

*thereafter*, 75% to all common and subordinated unitholders, pro rata, and 25% to the general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to our common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution.

### **Distributions from Capital Surplus**

*How Distributions from Capital Surplus Will Be Made.* We will make distributions of available cash from capital surplus in the following manner:

*first*, 98% to all common and subordinated unitholders, pro rata, and 2% to the general partner, until we have distributed, in respect of each outstanding common unit issued in our initial public offering, available cash from capital surplus in an aggregate amount per common unit equal to the initial unit price of \$11.00;

*second*, 98% to the holders of common units, pro rata, and 2% to the general partner, until the Company has distributed, in respect of each outstanding common unit, available cash from capital

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surplus in an aggregate amount equal to any unpaid common unit arrearages with respect to such common unit; and

*thereafter*, all distributions of available cash from capital surplus will be distributed as if they were from operating surplus.

*Effect of a Distribution from Capital Surplus.* Our partnership agreement treats a distribution of capital surplus on a common unit as the repayment of the common unit price from its initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per common unit is referred to as the unrecovered initial common unit price. Each time a distribution of capital surplus is made on a common unit, the minimum quarterly distribution and the target distribution levels for all units will be reduced in the same proportion as the corresponding reduction in the unrecovered initial common unit price. Because distributions of capital surplus will reduce the minimum quarterly 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 by us of capital surplus before the unrecovered initial common 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 common unit in any amount equal to the unrecovered initial common unit price plus any arrearages, it will reduce the minimum quarterly distribution and the target distribution levels to zero and it will make all future distributions of available cash from operating surplus, with 25% being paid to the holders of units, as applicable, and 75% to our general partner.

### **Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels**

In addition to reductions of the minimum quarterly distribution and target distribution levels made upon a distribution of available cash from capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

the target distribution levels;

the unrecovered initial common unit price;

the number of common units issuable during the subordination period without a unitholder vote; and

the number of common units issuable upon conversion of the subordinated units.

For example, in the event of a two-for-one split of the common units (assuming no prior adjustments), the minimum quarterly distribution, each of the target distribution levels and the unrecovered capital of the common units would each be reduced to 50% of its initial level.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, then we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest effective federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For example, if we became subject to a maximum effective federal, state and local income tax rate of 38%, then the minimum quarterly distribution and the target distribution levels would each be reduced to 62% of their previous levels.

### **Distributions of Cash upon Liquidation**

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called a liquidation. We will first apply the proceeds of liquidation to the payment of our creditors in the order of priority provided in the partnership agreement and by law and, thereafter, we will distribute any remaining proceeds to the unitholders and our general partner in accordance with their respective capital account balances as so adjusted.

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Partners are entitled to liquidating distributions in accordance with capital account balances. The allocations of gains and losses 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 capital plus any unpaid common unit arrearages. Thus, net losses recognized upon our liquidation will be allocated to the holders of the subordinated units to the extent of their capital account balances before any loss is allocated to the holders of the common units, and net gains recognized upon liquidation will be allocated first to restore negative balances in the capital account of the general partner and any unitholders and then to the common unitholders until their capital account balances equal their unrecovered capital plus unpaid common unit arrearages. However, no assurance can be given that there will be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of such amounts, even though there may be cash available after such allocation for distribution to the holders of subordinated units.

*Manner of Adjustments for Gain.* The manner of the adjustment is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any net gain (or unrealized gain attributable to assets distributed in kind to the partners as follows:

*first*, to the general partner and the holders of units having negative balances in their capital accounts to the extent of and in proportion to such negative balances:

*second*, 98% to the holders of common units, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of

- the unrecovered capital in respect of such common unit; plus
- the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; plus
- any unpaid common unit arrearages in respect of such common unit;

*third*, if the capital account with respect to a Class A special unit is not equal to the capital account with respect to each common unit, 98% to the holders of common units and the holders of Class A special units in the manner and amount necessary to equalize, to the maximum extent possible, the capital account for each common unit and Class A special unit, and 2% to the general partner;

*fourth*, 98% to the holders of subordinated units, pro rata, and 2% to the general partner, until the capital account for each subordinated unit is equal to the sum of

- the unrecovered capital in respect of such subordinated unit; plus
- the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

*fifth*, 98% to all unitholders, pro rata, and 2% to the general partner, until there has been allocated under this paragraph fifth an amount per unit equal to:

- 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
- the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that were distributed 98% to the unitholders, pro rata, and 2% to the general partner for each quarter of our existence;

*sixth*, 85% to all unitholders, pro rata, and 15% to the general partner, until there has been allocated under this paragraph sixth an amount per unit equal to:

- 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

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- the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the First Target Distribution per unit that were distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence; and

*thereafter*, 75% to all unitholders, pro rata, and 25% to the general partner.

If the liquidation occurs after the conversion of all the Class A special units into common units, the distinction between Class A special units and common units will disappear, so that all of paragraph third above will no longer be applicable. If the liquidation occurs after the subordination period, the distinction between common units and subordinated units will disappear, so that the third bullet of paragraph second above and all of paragraph fourth above will no longer be applicable.

*Manner of Adjustments for Losses.* Upon our liquidation, any loss will generally be allocated to the general partner and the unitholders as follows:

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

*second*, if the capital account with respect to a Class A special unit is not equal to the capital account with respect to each common unit, 98% to the holders of common units and the holders of Class A special units in the manner and amount necessary to equalize, to the maximum extent possible, the capital account for each common unit and Class A special unit, and 2% to the general partner;

*third*, 98% to the holders of common units in proportion to the positive balances in their respective 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 subordination period, the distinction between common units and subordinated units will disappear, so that all of paragraph first above will no longer be applicable. If the liquidation occurs after the conversion of all the Class A special units into common units, the distinction between Class A special units and common units will disappear, so that all of paragraph second above will no longer be applicable.

*Adjustments to Capital Accounts.* In addition, interim adjustments to capital accounts will be made at the time we issue additional partnership interests or make distributions of property. Such adjustments will be based on the fair market value of the partnership interests or the property distributed and any gain or loss resulting therefrom will be allocated to the unitholders and the general partner in the same manner as gain or loss is allocated upon liquidation. In the event that positive interim adjustments are made to the capital accounts, any subsequent negative adjustments to the capital accounts resulting from the issuance of additional partnership interests in us, distributions of property by us, or upon our liquidation, will be allocated in a manner which results, to the extent possible, in the capital account balances of the general partner equaling the amount that would have been the general partner's capital account balances if no prior positive adjustments to the capital accounts had been made.



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**DESCRIPTION OF OUR PARTNERSHIP AGREEMENT**

The following is a summary of the material provisions of our partnership agreement. Our amended and restated partnership agreement has been filed with the Commission, and is incorporated by reference in this prospectus. The following provisions of our partnership agreement are summarized elsewhere in this prospectus:

distributions of our available cash are described under Cash Distribution Policy ;

allocations of taxable income and other tax matters are described under Tax Consequences ; and

rights of holders of common units are described under Description of Our Common Units.

**Purpose**

Our purpose under our partnership agreement is to serve as a partner of our operating partnership and to engage in any business activities that may be engaged in by our operating partnership or that are approved by our general partner. The partnership agreement of our operating partnership provides that it may engage in any activity that was engaged in by our predecessors at the time of our initial public offering or reasonably related thereto and any other activity approved by our general partner.

**Power of Attorney**

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application, 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 the authority for the amendment of, and to make consents and waivers under, our partnership agreement.

**Reimbursements of Our General Partner**

Our general partner does not receive any compensation for its services as our general partner. It is, however, entitled to be reimbursed for all of its costs incurred in managing and operating our business. Our partnership agreement provides that our general partner will determine the expenses that are allocable to us in any reasonable manner determined by our general partner in its sole discretion.

**Issuance of Additional Securities**

Our partnership agreement authorizes us to issue an unlimited number of additional limited partner interests and other equity securities that are equal in rank with or junior to our common units on terms and conditions established by our general partner in its sole discretion without the approval of any limited partners. During the subordination period, however, except as set forth in the following paragraph, we may not issue an aggregate of more than approximately 54,550,000 additional common units or an equivalent number of units that are equal in rank with our common units, in each case, without the approval of at least a majority of our outstanding common units (excluding common units owned by the general partner and its affiliates).

During the subordination period, we may issue an unlimited number of common units to finance an acquisition or a capital improvement that would have resulted, on a pro forma basis, in an increase in per unit adjusted operating surplus as provided in our partnership agreement.

In no event may we issue partnership interests during the subordination period that are senior to our common units without the approval of the holders of a majority of our outstanding common units (excluding common units owned by the general partner and its affiliates).

It is possible that we will fund acquisitions through the issuance of additional common units or other equity 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 cash distributions. In addition, the issuance of additional

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partnership interests 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 interests that, in the sole discretion of our general partner, may have special voting rights to which common units are not entitled.

Our general partner has 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 equity 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 their percentage interests in us that existed immediately prior to the issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership interests in us.

### **Amendments to Our Partnership Agreement**

Amendments to our partnership agreement may be proposed only by our general partner. Any amendment that materially and adversely affects the rights or preferences of any type or class of limited partner interests in relation to other types or classes of limited partner interests or our general partner interest will require the approval of at least a majority of the type or class of limited partner interests or general partner interests so affected. However, our general partner may make amendments to our partnership agreement without the approval of our limited partners or assignees to reflect:

a change in our name, the location of our principal place of business, our registered agent or our registered office;

the admission, substitution, withdrawal or removal of partners;

a change to qualify or continue our qualification as a limited partnership or a partnership in which our limited partners have limited liability under the laws of any state or to ensure that neither we, our operating partnership, nor any of our subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

a change that does not adversely affect our limited partners in any material respect;

a change to (i) 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 or (ii) facilitate the trading of our limited partner interests or comply with any rule, regulation, guideline or requirement of any national securities exchange on which our limited partner interests are or will be listed for trading;

a change in our fiscal year or taxable year and any changes that are necessary or advisable as a result of a change in our fiscal year or taxable year;

an amendment that is necessary to prevent us, or our general partner or its directors, officers, trustees or agents from being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or plan asset regulations adopted under the Employee Retirement Income Security Act of 1974, as amended;

an amendment that is necessary or advisable in connection with the authorization or issuance of any class or series of our securities;

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 approved in accordance with our partnership agreement;

an amendment that is necessary or advisable to reflect, account for and deal with appropriately our formation of, or investment in, any corporation, partnership, joint venture, limited liability company or

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other entity other than our operating partnership, in connection with our conduct of activities permitted by our partnership agreement;

a merger or conveyance to effect a change in our legal form; or

any other amendments substantially similar to the foregoing.

**Withdrawal or Removal of Our General Partner**

Our general partner has agreed not to withdraw voluntarily as our general partner prior to December 31, 2008 without obtaining the approval of the holders of a majority of our outstanding common units, excluding those held by our general partner and its affiliates, and furnishing an opinion of counsel stating that such withdrawal (following the selection of the successor general partner) would not result in the loss of the limited liability of any of our limited partners or of a member of our operating partnership or cause us or our operating partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously treated as such).

On or after December 31, 2008, 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. In addition, our general partner may withdraw without unitholder approval upon 90 days notice to our limited partners if at least 50% of our outstanding common units are held or controlled by one person and its affiliates other than our general partner and its affiliates.

Upon the voluntary withdrawal of our general partner, the holders of a majority of our outstanding common units, excluding the common units held by the withdrawing general partner and its affiliates, may elect a successor to the 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 90 days after that withdrawal, the holders of a majority of our outstanding units, excluding the common units held by the withdrawing general partner and its affiliates, and the holders of a majority of the subordinated units, voting as separate classes, agree to continue our business and to appoint a successor general partner.

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than two-thirds of our outstanding units, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of this kind is also subject to the approval of a successor general partner by the vote of the holders of a majority of our outstanding common units, including those held by our general partner and its affiliates, and the holders of a majority of the subordinated units, voting as separate classes.

While our partnership agreement limits the ability of our general partner to withdraw, it allows the general partner interest to be transferred to an affiliate or to a third party in conjunction with a merger or sale of all or substantially all of the assets of our general partner. In addition, our partnership agreement expressly permits the sale, in whole or in part, of the ownership of our general partner. Our general partner may also transfer, in whole or in part, the common units and subordinated units it owns.

**Liquidation and Distribution of Proceeds**

Upon our dissolution, unless we are reconstituted and continued as a new limited partnership, the person authorized to wind up our affairs (the liquidator) will, acting with all the powers of our general partner that

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the liquidator deems necessary or desirable in its good faith judgment, liquidate our assets. The proceeds of the liquidation will be applied as follows:

first, towards the payment of all of our creditors and the creation of a reserve for contingent liabilities; and

then, to all partners in accordance with the positive balance in the respective capital accounts.

Under some circumstances and subject to some limitations, the liquidator may defer liquidation or distribution of our assets for a reasonable period of time. If the liquidator determines that a sale would be impractical or would cause a loss to our partners, our general partner may distribute assets in kind to our partners.

## **Change of Management Provisions**

Our partnership agreement contains the following specific provisions that are intended to discourage a person or group from attempting to remove our general partner or otherwise change management:

if the holders, including the general partner and its affiliates, of at least 66 2/3% of the units vote to remove the general partner without cause, all remaining subordinated units will automatically convert into common units and will share distributions with the existing common units pro rata, existing arrearages on the common units will be extinguished and the common units will no longer be entitled to arrearages if we fail to pay the minimum quarterly distribution in any quarter. 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, gross negligence or willful or wanton misconduct in its capacity as our general partner;

any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner and its affiliates, cannot be voted on any matter; and

the partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

## **Limited Call Right**

If at any time our general partner and its affiliates own 85% or more of the issued and outstanding limited partner interests of any class, our general partner will have the right to purchase all, but not less than all, of the outstanding limited partner interests of that class that are held by non-affiliated persons. The record date for determining ownership of the limited partner interests would be selected by our general partner on at least 10 but not more than 60 days' notice. The purchase price in the event of a purchase under these provisions would be the greater of (1) the current market price (as defined in our partnership agreement) of the limited partner interests of the class as of the date three days prior to the date that notice is mailed to the limited partners as provided in the partnership agreement and (2) the highest cash price paid by our general partner or any of its affiliates for any limited partner interest of the class purchased within the 90 days preceding the date our general partner mails notice of its election to purchase the units. Under our partnership agreement, Shell is not deemed to be an affiliate of our general partner for purposes of this limited call right.

As of March 1, 2003, our general partner and its affiliates own 81,875,602 common units and 32,114,804 subordinated units, representing an aggregate 56.8% limited partner interest in us.

## **Indemnification**

Under our partnership agreement, in most circumstances, we will indemnify our general partner, its affiliates and their officers and directors to the fullest extent permitted by law, from and against all losses, claims or damages any of them may suffer by reason of their status as general partner, officer or director, as long as the person seeking indemnity acted in good faith and in a manner believed to be in or not opposed to our best interest. Any indemnification under these provisions will only be out of our assets. Our general

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partner shall not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable us to effectuate any indemnification. We are authorized to 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.

**Registration Rights**

Under our partnership agreement, we have agreed to register for resale under the Securities Act of 1933, as amended (the Securities Act ) and applicable state securities laws any common units, subordinated units or other partnership securities proposed to be sold by our general partner or any of its affiliates or their assignees if an exemption from the registration requirements is not otherwise available. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions.

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**TAX CONSEQUENCES**

This section is a summary of the material tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, represents the opinion of Vinson & Elkins L.L.P., special counsel to the general partner and us, insofar as it relates to matters of United States federal income tax law matters. This section is based upon current provisions of the Internal Revenue Code, existing and proposed regulations and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

The following discussion does not comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds. Accordingly, we recommend that each prospective unitholder consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of counsel and are based on the accuracy of the representations made by us.

No ruling has been or will be requested from the IRS regarding any matter affecting us or prospective unitholders. Instead, we will rely on opinions and advice of Vinson & Elkins L.L.P. Unlike a ruling, an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made here may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and the general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, counsel has not rendered an opinion with respect to the following specific federal income tax issues:

(1) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read Tax Consequences of Unit Ownership – Treatment of Short Sales );

(2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read Disposition of Common Units – Allocations Between Transferors and Transferees ); and

(3) whether our method for depreciating Section 743 adjustments is sustainable (please read Tax Consequences of Unit Ownership – Section 754 Election ).

**Partnership Status**

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

Section 7704 of the Internal Revenue Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the Qualifying Income Exception, exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable

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year consists of qualifying income. Qualifying income includes income and gains derived from the exploration, development, mining or production, processing, refining, transportation and marketing of any mineral or natural resource. Other types of qualifying income include interest other than from a financial business, dividends, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 2% of our current gross income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and the general partner and a review of the applicable legal authorities, counsel is of the opinion that at least 90% of our current gross income constitutes qualifying income.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status or the status of the Operating Partnership as partnerships for federal income tax purposes or whether our operations generate qualifying income under Section 7704 of the Internal Revenue Code. Instead, we will rely on the opinion of counsel that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below, we and the Operating Partnership will be classified as a partnership for federal income tax purposes.

In rendering its opinion, counsel has relied on factual representations made by us and the general partner. The representations made by us and our general partner upon which counsel has relied are:

(a) Neither we nor the Operating Partnership will elect to be treated as a corporation; and

(b) For each taxable year, more than 90% of our gross income will be income from sources that our counsel has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code.

If we fail to meet the Qualifying Income Exception, other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to the unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of our current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his common units, or taxable capital gain, after the unitholder's tax basis in his common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The discussion below is based on the conclusion that we will be classified as a partnership for federal income tax purposes.

### **Limited Partner Status**

Unitholders who have become limited partners of the Company will be treated as partners of the Company for federal income tax purposes. Also:

(a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners, and

(b) unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units,

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will be treated as partners of the Company for federal income tax purposes. As there is no direct authority addressing assignees of common units who are entitled to execute and deliver transfer applications and become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, the opinion of Vinson & Elkins L.L.P. does not extend to these persons. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read [Tax Consequences of Unit Ownership](#) [Treatment of Short Sales](#).

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. We strongly recommend that prospective unitholders consult their own tax advisors with respect to their status as partners in the Company for federal income tax purposes.

### **Tax Consequences of Unit Ownership**

*Flow-through of Taxable Income.* We will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether corresponding cash distributions are received by him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

*Treatment of Distributions.* Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes to the extent of his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under [Disposition of Common Units](#) below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as nonrecourse liabilities, will be treated as a distribution of cash to that unitholder. To the extent our distributions cause a unitholder's at risk amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read [Limitations on Deductibility of Losses](#).

A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces the unitholder's share of our unrealized receivables, including depreciation recapture, and/or substantially appreciated inventory items, both as defined in the Internal Revenue Code, and collectively, Section 751 Assets. To that extent, he will be treated as having been distributed his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income. That income will equal the excess of (1) the non-pro rata portion of that distribution over (2) the unitholder's tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

*Basis of Common Units.* A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from us, by the unitholder's share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of our debt which is



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recourse to the general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read *Disposition of Common Units* and *Recognition of Gain or Loss*.

*Limitations on Deductibility of Losses.* The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be at risk with respect to our activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally corporate or partnership activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any passive losses we generate will be available to offset only our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or investments in other publicly-traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded partnerships.

*Limitations on Interest Deductions.* The deductibility of a non-corporate taxpayer's investment interest expense is generally limited to the amount of that taxpayer's net investment income. Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment;

our interest expense attributed to portfolio income; and

the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment. The IRS has indicated that net passive income earned by a publicly-traded partnership will be treated as

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investment income to unitholders. In addition, the unitholder's share of our portfolio income will be treated as investment income.

*Entity-Level Collections.* If we are required or elect under applicable law to pay any federal, state or local income tax on behalf of any unitholder or the general partner or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend the partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under the partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner would be required to file a claim in order to obtain a credit or refund.

*Allocation of Income, Gain, Loss and Deduction.* In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the subordinated units, or incentive distributions are made to the general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss for the entire year, that loss will be allocated first to the general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to the general partner.

Specified items of our income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of property contributed to us by the general partner and its affiliates, referred to in this discussion as Contributed Property. The effect of these allocations to a unitholder purchasing common units in this offering will be essentially the same as if the tax basis of our assets were equal to their fair market value at the time of an offering. In addition, items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's book capital account, credited with the fair market value of Contributed Property, and tax capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the Book-Tax Disparity, will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including his relative contributions to us, the interests of all the partners in profits and losses, the interest of all the partners in cash flow and other nonliquidating distributions and rights of all the partners to distributions of capital upon liquidation.

Vinson & Elkins L.L.P. is of the opinion that, with the exception of the issues described in Tax Consequences of Unit Ownership Section 754 Election and Disposition of Common Units Allocations Between Transferors and Transferees, allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

*Treatment of Short Sales.* A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be a partner for those

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units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;

any cash distributions received by the unitholder as to those units would be fully taxable; and

all of these distributions would appear to be ordinary income.

Counsel has not rendered an opinion regarding the treatment of a unitholder where common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. Please also read [Disposition of Common Units](#) [Recognition of Gain or Loss](#).

*Alternative Minimum Tax.* Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. We strongly recommend that prospective unitholders consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

*Tax Rates.* In general the highest effective United States federal income tax rate for individuals currently is 38.6% and the maximum United States federal income tax rate for net capital gains of an individual currently is 20% if the asset disposed of was held for more than 12 months at the time of disposition.

*Section 754 Election.* We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election generally permits us to adjust a common unit purchaser's tax basis in our assets (inside basis) under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply to a person who purchases common units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, a unitholder's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in our assets (common basis) and (2) his Section 743(b) adjustment to that basis.

Treasury regulations under Section 743 of the Internal Revenue Code require that, if the remedial allocation method is adopted (which we have adopted), a portion of the Section 743(b) adjustment attributable to recovery property be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, our general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these Treasury Regulations. Please read [Tax Treatment of Operations](#) [Uniformity of Units](#).

Although Vinson & Elkins L.L.P. is unable to opine as to the validity of this approach because there is no clear authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of the property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable. This method is consistent with the regulations under Section 743 but is arguably inconsistent with Treasury regulation Section 1.167(c)-1(a)(6). To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation

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or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read [Tax Treatment of Operations](#) [Uniformity of Units](#).

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation and depletion deductions and his share of any gain or loss on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

## **Tax Treatment of Operations**

*Accounting Method and Taxable Year.* We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of our income, gain, loss and deduction. Please read [Disposition of Common Units](#) [Allocations Between Transferors and Transferees](#).

*Initial Tax Basis, Depreciation and Amortization.* The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to an offering will be borne by our general partner, its affiliates and our unitholders as of that time. Please read [Tax Consequences of Unit Ownership](#) [Allocation of Income, Gain, Loss and Deduction](#).

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. We are not entitled to any amortization deductions with respect to any goodwill conveyed to us on formation. Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all, of those deductions as ordinary income upon a sale of his interest in us.

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Please read **Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction and Disposition of Common Units Recognition of Gain or Loss.**

The costs incurred in selling our units (called **syndication expenses**) must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized by us, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as a syndication cost.

*Valuation and Tax Basis of Our Properties.* The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

### **Disposition of Common Units**

*Recognition of Gain or Loss.* Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from us in excess of cumulative net taxable income for a common unit that decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a **dealer** in units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held more than 12 months will generally be taxed at a maximum rate of 20%. A portion of this gain or loss, which will likely be substantial, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture or other **unrealized receivables** or to **inventory items** we own. The term **unrealized receivables** includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Net capital loss may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an **equitable apportionment** method. Although the ruling is unclear as to how the holding period of these interests is determined once they are combined, recently finalized Treasury regulations under Section 1223 of the Internal Revenue Code allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus, according to the ruling, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the Treasury regulations, may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder

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electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. We strongly recommend that a unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions consult his tax advisor as to the possible consequences of this ruling and application of the final regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an appreciated partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

a short sale;

an offsetting notional principal contract; or

a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

*Allocations Between Transferors and Transferees.* In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month (the Allocation Date ). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

The use of this method may not be permitted under existing Treasury Regulations. Accordingly, Vinson & Elkins L.L.P. is unable to opine on the validity of this method of allocating income and deductions between unitholders. If this method is not allowed under the Treasury regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between unitholders, as well as among unitholders whose interests vary during a taxable year, to conform to a method permitted under future Treasury regulations.

A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

*Notification Requirements.* A unitholder who sells or exchanges units is required to notify us in writing of that sale or exchange within 30 days after the sale or exchange. We are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

*Constructive Termination.* We will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A constructive termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in his taxable income for the year of termination. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code, and a termination would result in a deferral of

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our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

### **Uniformity of Units**

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read [Tax Consequences of Unit Ownership](#) [Section 754 Election](#).

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of that property, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743, even though that position may be inconsistent with Treasury regulation Section 1.167(c)-1(a)(6). Please read [Tax Consequences of Unit Ownership](#) [Section 754 Election](#). To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read [Disposition of Common Units](#) [Recognition of Gain or Loss](#).

### **Tax-Exempt Organizations and Other Investors**

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

A regulated investment company or mutual fund is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or specified related sources. It is not anticipated that any significant amount of our gross income will include that type of income.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. Under rules applicable to publicly traded

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partnerships, we will withhold (currently at the rate of 38.6%) on cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8 BEN or applicable substitute form in order to obtain credit for these withholding taxes.

In addition, because a foreign corporation that owns units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's U.S. net equity, which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a qualified resident. In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the sale or disposition of that unit to the extent that this gain is effectively connected with a United States trade or business of the foreign unitholder. Apart from the ruling, a foreign unitholder will not be taxed or subject to withholding upon the sale or disposition of a unit if he has owned less than 5% in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the sale or disposition.

## **Administrative Matters**

*Information Returns and Audit Procedures.* We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine his share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury regulations or administrative interpretations of the IRS. Neither we nor counsel can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the Tax Matters Partner for these purposes. The partnership agreement names our general partner as our Tax Matters Partner.

The Tax Matters Partner will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.



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A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

Nominee Reporting. Persons who hold an interest in us as a nominee for another person are required to furnish to us:

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;
- (b) whether the beneficial owner is
  - (1) a person that is not a United States person,
  - (2) a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing, or
  - (3) a tax-exempt entity;
- (c) the amount and description of units held, acquired or transferred for the beneficial owner; and
- (d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

*Registration as a Tax Shelter.* The Internal Revenue Code requires that tax shelters be registered with the Secretary of the Treasury. It is arguable that we are not subject to the registration requirement on the basis that we will not constitute a tax shelter. However, our general partner, as our principal organizer, has registered us as a tax shelter with the Secretary of Treasury because of the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken.

**Issuance of this registration number does not indicate that investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS.**

We must supply our tax shelter registration number to unitholders, and a unitholder who sells or otherwise transfers a unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is \$100 for each failure. The unitholders must disclose our tax shelter registration number on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit we generate is claimed or on which any of our income is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a \$250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

*Accuracy-related Penalties.* An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Internal Revenue Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000

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(\$10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

(1) for which there is, or was, substantial authority, or

(2) as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

More stringent rules apply to tax shelters, a term that in this context does not appear to include us. If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an understatement of income for which no substantial authority exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

## **State, Local and Other Tax Considerations**

In addition to federal income taxes, you will be subject to other taxes, including state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. You will be required to file state income tax returns and to pay state income taxes in some or all of the states in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Some of the states may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read *Tax Consequences of Unit Ownership Entity-Level Collections*. Based on current law and our estimate of our future operations, our general partner anticipates that any amounts required to be withheld will not be material. We may also own property or do business in other states in the future.

*It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, of his investment in us. Accordingly, we strongly recommend that each prospective unitholder consult, and depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state and local, as well as United States federal tax returns, that may be required of him. Vinson & Elkins L.L.P. has not rendered an opinion on the state or local tax consequences of an investment in us.*

## **Tax Consequences of Ownership of Debt Securities**

A description of the material federal income tax consequences of the acquisition, ownership and disposition of debt securities will be set forth in the prospectus supplement relating to the offering of debt securities.

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**SELLING UNITHOLDERS**

In addition to covering our offering of securities, this Prospectus covers the offering for resale of an unspecified number of common units by selling unitholders. The applicable prospectus supplement will set forth, with respect to each selling unitholder:

the name of the selling unitholder,

the nature of any position, office or other materials relationship which the selling unitholder will have had within the prior three years with us or any of our predecessors or affiliates,

the number of common units owned by the selling unitholders prior to the offering,

the amount of common units to be offered for the selling unitholder's account, and

the amount and (if one percent or more) the percentage of the common units to be owned by the selling unitholders after completion of the offering.

**PLAN OF DISTRIBUTION**

We may sell the common units or debt securities directly, through agents, or to or through underwriters or dealers. Please read the prospectus supplement to find the terms of the common unit or debt securities offering including:

the names of any underwriters, dealers or agents;

the offering price;

underwriting discounts;

sales agents' commissions;

other forms of underwriter or agent compensation;

discounts, concessions or commissions that underwriters may pass on to other dealers; and

any exchange on which the common units or debt securities are listed.

We may change the offering price, underwriter discounts or concessions, or the price to dealers when necessary. Discounts or commissions received by underwriters or agents and any profits on the resale of common units or debt securities by them may constitute underwriting discounts and commissions under the Securities Act.

Unless we state otherwise in the prospectus supplement, underwriters will need to meet certain requirements before purchasing common units or debt securities. Agents will act on a "best efforts" basis during their appointment. We will also state the net proceeds from the sale in the prospectus supplement.

Any brokers or dealers that participate in the distribution of the common units or debt securities may be "underwriters" within the meaning of the Securities Act for such sales. Profits, commissions, discounts or concessions received by such broker or dealer may be underwriting discounts and commissions under the securities act.

When necessary, we may fix common unit or debt securities distribution using changeable, fixed prices, market prices at the time of sale, prices related to market prices, or negotiated prices.

We may, through agreements, indemnify underwriters, dealers or agents who participate in the distribution of the common units or debt securities against certain liabilities including liabilities under the Securities Act. We may also provide funds for payments such underwriters, dealers or agents may be required to make. Underwriters, dealers and agents, and their affiliates may transact with us and our affiliates in the

ordinary course of their business.

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### **Distribution by Selling Unitholders**

Distribution of any common units to be offered by one or more of the selling unitholders may be effected from time to time in one or more transactions (which may involve block transactions) (1) on the New York Stock Exchange, (2) in the over-the-counter market, (3) in underwritten transactions; (4) in transactions otherwise than on the New York Stock Exchange or in the over-the-counter market or (5) in a combination of any of these transactions. The transactions may be effected by the selling unitholders at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices or at fixed prices. The selling unitholders may offer their shares through underwriters, brokers, dealers or agents, who may receive compensation in the form of underwriting discounts, commissions or concessions from the selling unitholders and/or the purchasers of the shares for whom they act as agent. The selling unitholders may engage in short sales, short sales against the box, puts and calls and other transactions in our securities, or derivatives thereof, and may sell and deliver their common units in connection therewith. In addition, the selling unitholders may from time to time sell their common units in transactions permitted by Rule 144 under the Securities Act.

As of the date of this prospectus, we have not engaged any underwriter, broker, dealer or agent in connection with the distribution of common units pursuant to this prospectus by the selling unitholders. To the extent required, the number of common units to be sold, the purchase price, the name of any applicable agent, broker, dealer or underwriter and any applicable commissions with respect to a particular offer will be set forth in the applicable prospectus supplement. The aggregate net proceeds to the selling unitholders from the sale of their common units offered hereby will be the sale price of those shares, less any commissions, if any, and other expenses of issuance and distribution not borne by us.

The selling unitholders and any brokers, dealers, agents or underwriters that participate with the selling unitholders in the distribution of shares may be deemed to be underwriters within the meaning of the Securities Act, in which event any discounts, concessions and commissions received by such brokers, dealers, agents or underwriters and any profit on the resale of the shares purchased by them may be deemed to be underwriting discounts and commissions under the Securities Act.

The applicable prospectus supplement will set forth the extent to which we will have agreed to bear fees and expenses of the selling unitholders in connection with the registration of the common units being offered hereby by them. We may, if so indicated in the applicable prospectus supplement, agree to indemnify selling unitholders against certain civil liabilities, including liabilities under the Securities Act.

### **WHERE YOU CAN FIND MORE INFORMATION**

Enterprise Products Partners L.P. and Enterprise Products Operating L.P. file combined annual, quarterly and current reports, and other information with the Commission under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act). You may read and copy any document we file at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-732-0330 for further information on the public reference room. Our filings are also available to the public at the Commission's web site at <http://www.sec.gov>. In addition, documents filed by us can be inspected at the offices of the New York Stock Exchange, Inc. 20 Broad Street, New York, New York 10002.

The Commission allows us to incorporate by reference into this prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is part of this prospectus and later information that we file with the Commission will automatically update and supersede this information. Therefore, before you decide to invest in a particular offering under this shelf registration, you should always check for reports we may have filed with the Commission after the date of this prospectus. We incorporate by reference the documents listed below filed by Enterprise Products Partners L.P. and Enterprise Products Operating L.P. and any future filings

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made by either company with the Commission under section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act until our offering is completed:

Annual Report on Form 10-K for the fiscal year ended December 31, 2002, Commission File Nos. 1-14323 and 333-93239-01;

Current Report on Form 8-K filed with the Commission on January 10, 2003, Commission File Nos. 1-14323 and 333-93239-01; and

the description of the common units contained in the Registration Statement on Form 8-A, initially filed with the Commission on July 21, 1998, and any subsequent amendment thereto filed for the purposes of updating such description.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, a copy of any document incorporated by reference in this prospectus, other than exhibits to any such document not specifically described above. Requests for such documents should be directed to Investor Relations, Enterprise Products Partners L.P., 2727 North Loop West, Suite 700, Houston, Texas 77008-1038; telephone number: (713) 880-6812.

We intend to furnish or make available to our unitholders within 90 days (or such shorter period as the Commission may prescribe) following the close of our fiscal year end annual reports containing audited financial statements prepared in accordance with generally accepted accounting principles and furnish or make available within 45 days (or such shorter period as the Commission may prescribe) following the close of each fiscal quarter quarterly reports containing unaudited interim financial information, including the information required by Form 10-Q, for the first three fiscal quarters of each of our fiscal years. Our annual report will include a description of any transactions with our general partner or its affiliates, and of fees, commissions, compensation and other benefits paid, or accrued to our general partner or its affiliates for the fiscal year completed, including the amount paid or accrued to each recipient and the services performed.

**FORWARD-LOOKING STATEMENTS**

This prospectus and the documents incorporated by reference contain various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by us and information currently available to us. When used in this prospectus, words such as anticipate, project, expect, plan, goal, forecast, intend, could, believe, may and similar expressions regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under Risk Factors in this prospectus and in any prospectus supplement.

**LEGAL MATTERS**

Vinson & Elkins L.L.P., our counsel, will issue an opinion for us about the legality of the common units and debt securities and the material federal income tax considerations regarding the common units. Any underwriter will be advised about other issues relating to any offering by their own legal counsel.

**EXPERTS**

The (i) consolidated financial statements and the related consolidated financial statement schedules of Enterprise Products Partners L.P. and of Enterprise Products Operating L.P. and subsidiaries as of

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December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002, incorporated by reference in this prospectus, and (ii) the balance sheet of Enterprise Products GP, LLC as of December 31, 2002, incorporated by reference in this prospectus, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are incorporated by reference herein (each such report expresses an unqualified opinion and the reports for Enterprise Products Partners L.P. and Enterprise Products Operating L.P. each include an explanatory paragraph referring to a change in method of accounting for goodwill in 2002 and derivative instruments in 2001 as discussed in Notes 8 and 1, respectively, to Enterprise Products Partners L.P.'s and Enterprise Products Operating L.P.'s consolidated financial statements, respectively) and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.