ATLAS PIPELINE PARTNERS LP
Form 10-K
February 20, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-14998

ATLAS PIPELINE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE	**23-3011077**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Park Place Corporate Center One 1000 Commerce Drive, 4th Floor Pittsburgh, Pennsylvania	**15275-1011**
(Address of principal executive office)	**(Zip code)**

Registrant s telephone number, including area code: (877) 950-7473

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Units representing Limited Partnership Interests	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The aggregate market value of the equity securities held by non-affiliates of the registrant, based upon the closing price of $38.19 per common limited partner unit on June 30, 2013, was approximately $2,714.2 million.

The number of common units of the registrant outstanding on February 17, 2014 was 80,595,148.

DOCUMENTS INCORPORATED BY REFERENCE: None

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

The matters discussed within this report include forward-looking statements. These statements may be identified by the use of forward-looking terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, predict, should, or will, or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report are forward-looking statements. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

the demand for natural gas, NGLs and condensate;

the price volatility of natural gas, NGLs and condensate;

our ability to connect new wells to our gathering systems;

our ability to integrate operations and personnel from acquired businesses;

adverse effects of governmental and environmental regulation;

limitations on our access to capital or on the market for our common units; and

the strength and financial resources of our competitors.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described under Item 1A, Risk Factors in this report. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of these statements to reflect future events or developments.

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Glossary of Terms

Definitions of terms and acronyms generally used in the energy industry and in this report are as follows:

BPD	Barrels per day. Barrel measurement for a standard US barrel is 42 gallons. Crude oil and condensate are generally reported in barrels.
BTU	British thermal unit, a basic measure of heat energy
Condensate	Liquid hydrocarbons present in casinghead gas that condense within the gathering system and are removed prior to delivery to the gas plant. This product is generally sold on terms more closely tied to crude oil pricing.
EBITDA	Net income (loss) before net interest expense, income taxes, and depreciation and amortization. EBITDA is a non-GAAP measure.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fractionation	The process used to separate an NGL stream into its individual components.
GAAP	Generally Accepted Accounting Principles
G.P.	General Partner or General Partnership
GPM	Gallons per minute
IFRS	International Financial Reporting Standards
Keep-Whole	A contract with a natural gas producer whereby the plant operator pays for or returns gas having an equivalent BTU content to the gas received at the well-head.
L.P.	Limited Partner or Limited Partnership
MCF	Thousand cubic feet
MCFD	Thousand cubic feet per day
MMBTU	Million British thermal units
MMCFD	Million cubic feet per day
NGL(s)	Natural Gas Liquid(s), primarily ethane, propane, normal butane, isobutane and natural gasoline
Percentage of Proceeds, (POP)	A contract with a natural gas producer whereby the plant operator retains a negotiated percentage of the sale proceeds.
Residue gas	The portion of natural gas remaining after natural gas is processed for removal of NGLs and impurities.
SEC	Securities and Exchange Commission

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PART I

ITEM 1. BUSINESS

Corporate Structure

We are a publicly-traded Delaware limited partnership formed in 1999 whose common units are listed on the New York Stock Exchange under the symbol APL. We are a leading provider of natural gas gathering, processing and treating services primarily in the Anadarko, Arkoma and Permian Basins located in the southwestern and mid-continent regions of the United States and in the Eagle Ford Shale play in south Texas; a provider of natural gas gathering services in the Appalachian Basin in the northeastern region of the United States and a provider of NGL transportation services in the southwestern region of the United States.

Our general partner, Atlas Pipeline Partners GP, LLC (Atlas Pipeline GP or the General Partner), manages our operations and activities through its ownership of our general partner interest. Atlas Pipeline GP is a wholly-owned subsidiary of Atlas Energy, L.P. (ATLS), a publicly traded Delaware limited partnership (NYSE: ATLS), which owned 6.0% of the limited partner interests in us at December 31, 2013, as well as a 2.0% general partner interest.

The following chart displays the corporate organizational structure as of December 31, 2013:

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Recent Developments

Acquisitions

On May 7, 2013, we completed the acquisition of 100% of the equity interests of TEAK Midstream, L.L.C. (TEAK) for $974.7 million in cash, including final purchase price adjustments, less cash received within working capital (the TEAK Acquisition). The assets acquired, which we refer to as the SouthTX assets, include the following gas gathering and processing facilities in the Eagle Ford shale region of south Texas:

- the Silver Oak I plant, which is a 200 MMCFD cryogenic processing facility;
- a second 200 MMCFD cryogenic processing facility, the Silver Oak II plant, expected to be in service the second quarter of 2014;
- 265 miles of primarily 20-24 inch gathering and residue lines;
- approximately 275 miles of low pressure gathering lines;
- a 75% interest in T2 LaSalle Gathering Company L.L.C. (T2 LaSalle), which owns a 62 mile, 24-inch gathering line;
- a 50% interest in T2 Eagle Ford Gathering Company L.L.C. (T2 Eagle Ford), which owns a 45 mile 16-inch gathering pipeline; a 71 mile, 24-inch gathering line; and a 50 mile residue pipeline; and
- a 50% interest in T2 EF Cogeneration Holdings L.L.C. (T2 Co-Gen), which owns a cogeneration facility.

Gas Plant Expansion Projects

In December 2012, we announced construction of the Stonewall Plant, a 120 MMCFD cryogenic processing plant which is expandable to a processing capacity of 200 MMCFD. Construction of the plant continues and we expect it to be placed into service early in second quarter 2014 with an initial processing capacity of 120 MMCFD. The SouthOK system name-plate processing capacity will increase to 500 MMCFD upon initial completion of the Stonewall Plant.

On April 12, 2013, we placed into service a new 200 MMCFD cryogenic processing plant, known as the Driver Plant, in our WestTX system in the Permian Basin of Texas, increasing the name-plate processing capacity of our WestTX system to 455 MMCFD.

As part of the TEAK Acquisition in May 2013, we acquired a 200 MMCFD cryogenic processing plant, known as the Silver Oak II Plant, which is under construction. We expect the plant to be placed into service during the second quarter 2014, increasing the SouthTX system name-plate processing capacity to 400 MMCFD.

On July 15, 2013, we announced plans to construct a new 200 MMCFD cryogenic processing plant, known as the Edward Plant, in our WestTX system. The plant is expected to be placed into service in late 2014, which will increase our WestTX system name-plate processing capacity to 655 MMCFD.

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On October 24, 2013, we announced plans to expand the gathering footprint of our WestTX system. This project includes the laying of a high pressure gathering line into Martin County, Texas, as well as adding incremental compression and processing to utilize WestTX s existing assets, including installation of the Edward Plant.

In addition, on October 24, 2013, we announced plans to expand the gathering infrastructure of the Velma system located in the Woodford Shale Region of southern Oklahoma and connect it to the Arkoma system, which is also located in the Woodford Shale Region. The expansion of our Velma system and connection with our Arkoma system will accommodate the increased demand for processing capacity behind the Velma system, where the emerging South Central Oklahoma Oil Province (SCOOP) play has attracted significant producer interest. Since the Velma system is nearly fully utilized and the Arkoma system capacity is being increased by 120 MMCFD with the first quarter 2014 start-up of the Stonewall Plant, as discussed below, the planned connection between the Velma and Arkoma systems will offer us more operational flexibility and help us better utilize our processing capacity across both systems. We expect to complete the connection of the two systems during the third quarter 2014. We now refer to the combined Velma and Arkoma systems as SouthOK.

Financing

On February 11, 2013, we issued $650.0 million of 5.875% unsecured senior notes due August 1, 2023 (5.875% Senior Notes) in a private placement transaction. The 5.875% Senior Notes were issued at par. We received net proceeds of $637.3 million and utilized the proceeds to redeem our outstanding 8.75% senior unsecured notes due June 15, 2018 (8.75% Senior Notes) and repay a portion of the outstanding indebtedness under our revolving credit facility. On January 9, 2014 we consummated an exchange offer for the 5.875% Senior Notes.

Prior to issuance of the 5.875% Senior Notes and in anticipation thereof, on January 28, 2013, we commenced a cash tender offer for any and all of our outstanding $365.8 million 8.75% Senior Notes. In February 2013, we accepted for purchase all 8.75% Senior Notes validly tendered as of the expiration of the consent solicitation. We also redeemed all the 8.75% Senior Notes not purchased in connection with the tender offer.

On April 17, 2013, we sold 11,845,000 of our common units in a registered public offering at a price of $34.00 per unit, yielding net proceeds of $388.4 million after underwriting commissions and expenses. We also received a capital contribution from the General Partner of $8.3 million to maintain its 2.0% general partnership interest. We used the proceeds from this offering to fund a portion of the purchase price of the TEAK Acquisition.

On May 7, 2013, we completed a private placement of $400.0 million of our Class D convertible preferred units (Class D Preferred Units) to third party investors, at a negotiated price per unit of $29.75 for net proceeds of $397.7 million. We also received a capital contribution from the General Partner of $8.2 million to maintain its 2.0% general partnership interest. We used the proceeds to fund a portion of the purchase price of the TEAK Acquisition.

On May 10, 2013, we issued $400.0 million of 4.75% unsecured senior notes due November 15, 2021 (4.75% Senior Notes) in a private placement transaction. The 4.75% Senior Notes were issued at par. We received net proceeds of $391.2 million and utilized the proceeds to repay a portion of our outstanding indebtedness under the revolving credit facility as part of the TEAK Acquisition. On January 9, 2014 we consummated an exchange offer for the 4.75% Senior Notes.

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General

We conduct our business in the midstream segment of the natural gas industry through two reportable segments: Gathering and Processing; and Transportation, Treating and Other (Transportation and Treating).

The Gathering and Processing segment consists of (1) the SouthOK, SouthTX, WestOK, and WestTX operations, which are comprised of natural gas gathering, processing and treating assets servicing drilling activity in the Anadarko, Arkoma and Permian Basins and the Eagle Ford Shale play in south Texas; (2) natural gas gathering assets located in the Barnett Shale play in Texas and the Appalachian Basin in Tennessee; and (3) through the year ended December 31, 2011, the revenues and gain on sale related to our former 49% interest in Laurel Mountain Midstream, LLC (Laurel Mountain). Gathering and Processing revenues are primarily derived from the sale of residue gas and NGLs and the gathering and processing of natural gas.

Our Gathering and Processing operations own, have interests in, and operate fourteen natural gas processing plants with aggregate capacity of approximately 1,500 MMCFD located in Oklahoma and Texas; a gas treating facility located in Oklahoma; and approximately 11,200 miles of active natural gas gathering systems located in Oklahoma, Kansas, Tennessee and Texas. Our gathering systems gather natural gas from oil and natural gas wells and central delivery points and deliver this gas to processing plants and third-party pipelines.

Our Gathering and Processing operations are all located in or near areas of abundant and long-lived natural gas production, including the Golden Trend, Mississippian Limestone and Hugoton Field in the Anadarko Basin; the Woodford Shale; the Spraberry Trend, which is an oil play with associated natural gas in the Permian Basin; the Eagle Ford Shale; and the Barnett Shale. Our gathering systems are connected to receipt points consisting primarily of individual well connections and, secondarily, central delivery points, which are linked to multiple wells. We believe we have significant scale in each of our primary service areas. We provide gathering, processing and treating services to the wells connected to our systems primarily under long-term contracts. As a result of the location and capacity of our gathering, processing and treating assets, we believe we are strategically positioned to capitalize on the drilling activity in our service areas.

Our Transportation and Treating segment consists of the Gas Treating operations and a 20% interest in West Texas LPG Pipeline Limited Partnership (WTLPG). The Gas Treating operations own seventeen gas treating facilities used to provide contract treating services to natural gas producers located in Arkansas, Louisiana, Oklahoma and Texas. The Gas Treating operations are located in various shale plays including the Avalon, Eagle Ford, Granite Wash, Haynesville, Fayetteville and Woodford. WTLPG is operated by Chevron Pipeline Company, an affiliate of Chevron Corporation, a Delaware corporation (Chevron NYSE: CVX), which owns the remaining 80% interest. WTLPG owns a common-carrier pipeline system that transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation.

In connection with the TEAK Acquisition (see Recent Developments), we reviewed the acquired assets to determine the proper alignment of these assets within the existing reportable segments. The gas gathering and processing facilities acquired, along with their related assets, are included in the Gathering and Processing segment since the operating activities of the acquired assets are similar to the operating activities of other assets within that segment.

We intend to continue to expand our business through strategic acquisitions and internal growth projects in efforts to increase distributable cash flow.

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Business Strategy

The primary business objective of our management team is to provide stable long-term cash distributions to our unitholders. Our business strategies focus on creating value for our unitholders by providing efficient operations; focusing on prudent growth opportunities via organic growth projects and external acquisitions; and maintaining a commodity risk management program in an attempt to manage our commodity price exposure. We intend to accomplish our primary business objective by executing on the following:

Expanding operations through organic growth projects and increasing the profitability of our existing assets. In many cases, we can expand our gathering pipelines and processing plants and, to the extent we have excess capacity, we can connect and process new supplies of natural gas with minimal additional capital requirements, also increasing plant efficiency and economics. We plan to access new supplies of natural gas by providing excellent service to our existing customers; aggressively marketing our services to new customers; and prudently expanding our existing infrastructure to ensure our services can meet the needs of potential customers. Our recent construction of the Driver processing facility, our current construction of the Silver Oak II and Stonewall plants and our announced construction of the Edward plant and connection of the Arkoma and Velma systems are examples of executing this strategy. Other opportunities include pursuing relationships with new producers; eliminating pipeline bottlenecks; reducing operating line pressures; and focusing on reduction of pipeline losses along our gathering systems.

Pursuing strategic acquisitions. We continue to pursue strategic acquisitions that leverage our existing asset base, employees and customer relationships. The recent TEAK Acquisition is an example of executing this strategy (see Recent Developments). In the past, we have pursued opportunities in certain regions outside of our current areas of operation and will continue to do so when these options make sense economically and strategically.

Reducing the sensitivity of our cash flows through prudent economic risk management and contract arrangements. We attempt to structure our contracts in a manner that allows us to achieve our target rates of return while reducing our exposure to commodity price movements. We actively review our contract mix and seek to optimize a balance of cash flow stability with attractive economic returns. Our commodity price risk management activities are designed to reduce the effect of commodity price volatility related to future sales of natural gas, NGLs and condensate, while allowing us to meet our debt service requirements; fund our maintenance capital program; and meet our distribution objectives.

Maintaining our financial flexibility. We intend to maintain a capital structure in which we do not significantly exceed equal amounts of debt and equity on a long-term basis while not jeopardizing our ability to achieve our other business strategies as listed above. We seek to maintain a minimum total liquidity of at least $100.0 million; a ratio of debt to capital of not more than 50%; and a ratio of long-term debt to trailing 12-month EBITDA of less than 4x. We believe our revolving credit facility, our ability to issue additional long-term debt or common units and our relationships with our partners provide us with the ability to achieve this strategy. We will also consider alternative financing, joint venture arrangements and other means that allow us to achieve our business strategies while continuing to maintain an acceptable capital structure.

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The Midstream Natural Gas Gathering and Processing Industry

The midstream natural gas gathering and processing industry is characterized by regional competition based on the proximity of gathering systems and processing plants to producing natural gas wells.

The natural gas gathering process begins with the drilling of wells into natural gas or oil bearing rock formations. Once a well has been completed, the well is connected to a gathering system. Gathering systems generally consist of a network of pipelines that collect natural gas from points near producing wells and transport gas and other associated products to plants for processing and treating and to larger pipelines for further transportation to end-user markets. Gathering systems are operated at design pressures via pipe size and compression that help maximize the total throughput from all connected wells.

While natural gas produced in some areas does not require treating or processing, natural gas produced in other areas is not suitable for long-haul pipeline transportation or commercial use and must be compressed, gathered via pipeline to a central processing facility, potentially treated and then processed to remove certain hydrocarbon components, such as NGLs and other contaminants, that would interfere with pipeline transportation or the end use of the natural gas. Natural gas treating and processing plants generally treat (remove carbon dioxide and hydrogen sulfide) and extract the NGLs, enabling the treated, dry gas (commercially marketable BTU content) to meet pipeline specification for long-haul transport to end users. After being separated from natural gas at the processing plant, the mixed NGL stream, commonly referred to as y-grade or raw mix, is typically transported in pipelines to a centralized facility for fractionation into discrete NGL purity products: ethane, propane, normal butane, isobutane, and natural gasoline. Generally NGL transportation agreements generate revenue based on a fee per unit of volume transported.

Contracts and Customer Relationships

Our principal revenue is generated from the gathering, processing and treating of natural gas; the sale of natural gas, NGLs and condensate; the transportation of NGLs; and the leasing of gas treating facilities. Primary contracts are Fee-Based, POP and Keep-Whole (see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations How We Evaluate Our Operations). For the year ended December 31, 2013, ONEOK Hydrocarbon, L.P. (ONEOK); Tenaska Marketing Ventures, Inc.; and DCP NGL Services, LLC, a subsidiary of DCP Midstream, LLC (DCP) accounted for approximately 29%, 17% and 14%, respectively, of our consolidated total third-party revenues, respectively, excluding the impact of all financial derivative activity, with no other single customer accounting for more than 10% for this period.

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Our Gathering and Processing Operations

We own and operate approximately 11,200 miles of intrastate natural gas gathering systems located in Oklahoma, Kansas, Tennessee and Texas. We also own and operate fourteen natural gas processing facilities and one treating facility located in Oklahoma and Texas. Our gathering, processing and treating assets service long-lived natural gas regions, including the Anadarko, Arkoma and Permian Basins and the Eagle Ford Shale play in south Texas. Our systems gather natural gas from oil and natural gas wells; process the raw natural gas into residue gas by extracting NGLs and removing impurities; and transport natural gas to interstate and public utility pipelines for delivery to customers. Our gathering, processing and treating systems have receipt points consisting primarily of individual well connections and, secondarily, central delivery points, which are linked to multiple wells. Our gathering systems interconnect with interstate and intrastate natural gas pipelines operated by Atmos Energy Corporation; El Paso Natural Gas Company; Enogex, LLC; Enterprise Intrastate, LLC; Kinder Morgan Tejas Pipeline LLC; Natural Gas Pipeline Company of America; Northern Natural Gas Company; ONEOK Gas Transportation, LLC; Panhandle Eastern Pipe Line Company, LP; Southern Star Central Gas Pipeline, Inc.; Tennessee Gas Pipeline Company, LLC; Texas Eastern Transmission; Transcontinental Gas Pipe Line; and APL SouthTex Transmission Company, L.P., our Section 311; intrastate pipeline (see Pipeline Safety and Other Regulations Transmission Pipeline Regulation). Our processing facilities are connected to NGL pipelines operated by Chaparral Pipeline Company, L.P.; Crosstex Energy, L.P.; DCP; Lone Star NGL LLC; ONEOK and WTLPG. Construction is underway to connect our SouthTX processing facilities to an NGL pipeline owned by TexStar Midstream Services, L.P.

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Gathering Systems

SouthOK. SouthOK consists of the Velma system and the Arkoma systems, which will be connected during 2014 through installing approximately 55 miles of pipeline between the systems. The connection between the Velma and Arkoma areas is anticipated to be completed by third quarter of 2014. (see Recent Developments).

The Velma gathering system is located in the Golden Trend and near the Woodford Shale areas of southern Oklahoma. The gathering system has approximately 1,200 miles of active pipelines. The primary producers on the Velma gathering system include Marathon Oil Company; Merit Management Partners; and XTO Energy, Inc. (XTO).

The Arkoma gathering systems are located in the Woodford Shale in southern Oklahoma. The gathering systems have approximately 100 miles of active pipeline. The primary producers on the Arkoma gathering system include Atoka Midstream, LLC and Vanguard Natural Resources, LLC.

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SouthTX. The SouthTX gathering systems were acquired as part of the TEAK Acquisition (see Recent Developments) and are located in the Eagle Ford Shale in southern Texas. The gathering systems have approximately 500 miles of active pipeline with receipt points consisting primarily of individual well connections and, secondarily, central delivery points, which are linked to multiple wells. Our SouthTX assets also include a 75% interest in T2 LaSalle, which has approximately 60 miles of active gathering pipeline; and a 50% interest in T2 Eagle Ford, which has approximately 116 miles of active gathering pipeline. The primary producers on the SouthTX gathering system include Statoil Natural Gas LLC (Statoil) and Talisman Energy USA Inc. (Talisman).

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WestOK. The WestOK gathering system is located in north central Oklahoma and southern Kansas Anadarko Basin. The gathering system has approximately 5,700 miles of active natural gas gathering pipelines. The primary producers on the WestOK gathering system include Chesapeake Energy Corporation and SandRidge Exploration and Production, LLC (Sandridge).

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WestTX. The WestTX gathering system, which we operate and in which we have an approximate 72.8% ownership, has approximately 3,600 miles of active natural gas gathering pipelines located across seven counties within the Permian Basin in West Texas. Pioneer Natural Resources Company (NYSE: PXD) (Pioneer), the largest active driller in the Spraberry Trend and a major producer in the Permian Basin, owns the remaining interest in the WestTX system. The primary producers on the WestTX gathering system include COG Operating, LLC; Laredo Petroleum, Inc.; and Pioneer Natural Resources USA, Inc.

Barnett. The Barnett Shale gas gathering system and related assets are located in Tarrant County, Texas. The system consists of 20 miles of gathering pipeline. The Barnett gas gathering system is used to facilitate gathering the natural gas production of our affiliate, Atlas Resource Partners, L.P. (ARP).

Tennessee. The Tennessee gathering systems are located in the Appalachian Basin. The gathering systems have approximately 70 miles of natural gas gathering pipelines. A portion of the natural gas we gather in Tennessee is derived from wells operated by ARP. In addition, we gather and transport gas for other natural gas producers in the area.

Processing Plants

SouthOK. The Velma processing facility, located in Stephens County, Oklahoma, is comprised of two separate plants, including the original Velma cryogenic plant with a natural gas name-plate capacity of approximately 100 MMCFD and a 60 MMCFD cryogenic plant (the V-60 plant), which was placed in service in July 2012. The V-60 plant supports volumes from XTO and other producers in the area who are looking to take advantage of the high NGL content gas in the Woodford shale. The Arkoma facility processes and treats natural gas through three separate processing plants at the Atoka, Coalgate and Tupelo processing facilities and the East Rockpile treating facility. These facilities also

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process natural gas gathered by MarkWest Oklahoma Gas Company, LLC (MarkWest). The Atoka facility is a 20 MMCFD cryogenic plant in Atoka County, Oklahoma, which started operations in November 2006. The Coalgate facility is an 80 MMCFD cryogenic plant in Coal County, Oklahoma, which started operations in September 2007. The Atoka and Coalgate facilities are owned by Centrahoma, which we operate, and in which we have a 60% ownership interest; the remaining 40% ownership interest is held by MarkWest. The Tupelo facility is a wholly-owned 120 MMCFD cryogenic plant in Coal County, Oklahoma, which started operations in December 2011. The East Rockpile facility is a 250 GPM amine treating plant in Pittsburg County, Oklahoma, which started operations in June 2007. To facilitate increased Woodford shale production, Centrahoma is constructing a new 200 MMCFD cryogenic processing plant, initially equipped to process 120 MMCFD, known as the Stonewall plant, which is located near the Coalgate and Tupelo facilities and is expected to be in service in the first quarter of 2014. The Stonewall plant will initially increase the SouthOK aggregate processing name-plate capacity to approximately 500 MMCFD. We deliver and/or sell natural gas to various parties, including marketing companies and pipelines, at the tailgate of the Velma and Arkoma facilities and sell NGL production to ONEOK.

SouthTX. The SouthTX system, which was acquired as part of the TEAK Acquisition (see Recent Developments), processes natural gas through the Silver Oak I processing facility. The Silver Oak I facility is a 200 MMCFD cryogenic plant located in Bee County, Texas, which started operations in 2012. A second 200 MMCFD cryogenic processing facility, the Silver Oak II plant, is scheduled to be placed into service during the second quarter of 2014. Our SouthTX assets also include a 50% interest in T2 EF Co-Gen, which owns a cogeneration facility. We transport and deliver natural gas to various pipelines at the outlet of our Section 311 intrastate transportation pipeline (see Pipeline Safety and Other Regulations Transmission Pipeline Regulation). We deliver and/or sell natural gas to various third parties, including marketing companies, and sell NGL production to Crosstex Energy L.P. and DCP.

WestOK. The WestOK system processes natural gas through three separate plants at the Waynoka I and II and Chester facilities, which are active cryogenic natural gas processing plants; and one plant at the Chaney Dell facility, which is a refrigeration facility. The WestOK system s processing operations have total name-plate capacity of approximately 458 MMCFD. The Waynoka I processing facility, a 200 MMCFD plant located in Woods County, Oklahoma, began operations in 2006. The Waynoka II processing facility, a 200 MMCFD cryogenic plant in Woods County, Oklahoma, began operations in September 2012. The Chester processing facility, a 28 MMCFD plant located in Woodward County, Oklahoma, began operations in 1981. The Chaney Dell processing facility, a 30 MMCFD refrigeration plant in Woods County, Oklahoma, began operations in January 2012. The oil wells being drilled in the Mississippian play are producing large amounts of associated gas high in NGL content, adding economic value for both the producers and processors like us. We deliver and/or sell natural gas to various parties, including marketing companies and pipelines, at the tailgate of the Waynoka, Chester and Chaney Dell facilities and sell NGL production to ONEOK.

WestTX. The WestTX system processes natural gas through four separate plants at the Consolidator, Driver, Midkiff and Benedum processing facilities. The Consolidator plant is a 150 MMCFD cryogenic plant in Reagan County, Texas, which started operations in 2009. The Driver plant is a 200 MMCFD cryogenic plant in Midland County, Texas, which started operations in April 2013. The Benedum plant is a 45 MMCFD cryogenic plant in Upton County, Texas. The Midkiff plant is a 60 MMCFD cryogenic plant located at the same site as our Consolidator plant. Our WestTX processing operations have an aggregate processing name-plate capacity of approximately 455 MMCFD. To facilitate increased Spraberry production, we are constructing a new 200 MMCFD cryogenic processing plant, known as the Edward plant, which is expected to be in service in the second half of 2014. The additional plant will increase the WestTX aggregate processing name-plate capacity to approximately 655 MMCFD. We deliver and/or sell natural gas to various parties, including marketing companies and pipelines, at the tailgate of the WestTX facilities and sell NGL production to DCP.

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Natural Gas Supply

We have natural gas purchase, gathering and processing agreements with approximately 600 producers. These agreements provide for the purchase or gathering of natural gas under Fee-Based, POP or Keep-Whole arrangements. Many of the agreements provide for compression, processing and/or low volume fees. Producers generally provide, in-kind, their proportionate share of compressor and plant fuel required to gather the natural gas and to operate our processing plants. In addition, the producers generally bear their proportionate share of gathering system line loss and, except for Keep-Whole arrangements, bear natural gas plant shrinkage for the gas consumed in the production of NGLs.

We have long-term, service-driven relationships with our producing customers, who comprise some of the largest producers in our areas. Several of our top producers have contracts with primary terms running into 2020 and beyond. At the end of the primary terms, most of the contracts with producers on our gathering systems have evergreen term extensions. On our WestTX system, we have a gas sales and purchase agreement with Pioneer with a term extending into 2022. The gas sales and purchase agreement requires all Pioneer wells within an area of mutual interest be dedicated to that system s gathering and processing operations in return for specified natural gas processing rates. Through this agreement, we anticipate we will continue to provide gathering and processing for the majority of Pioneer s wells in the Spraberry Trend of the Permian Basin. On our WestOK system, we have a contract with SandRidge with a term currently extending through 2017. As part of the agreement, SandRidge has agreed to dedicate the majority of its developed acreage covering the Mississippian Lime formation. On our SouthTX system, our primary producers, Talisman and Statoil, both have fixed-fee long term agreements with volume commitments extending into 2022. We believe that our relationships with these key producers will provide us with a competitive advantage in adding new natural gas supplies, retaining previously connected volumes and continuing to increase our scale and presence in our operating areas.

Natural Gas and NGL Marketing

We typically sell natural gas to purchasers downstream of our processing plants priced at various first-of-month indices as published in *Inside FERC*. Additionally we sell swing gas, which is natural gas sold on a daily basis at various *Platt s Gas Daily* midpoint prices. The SouthOK system has access to Enogex, LLC; MarkWest Energy Partners, LP s Arkoma Connector Pipeline; Natural Gas Pipeline Company of America; ONEOK Gas Transportation, LLC; and Southern Star Central Gas Pipeline, Inc. Through its Section 311 intrastate transmission pipeline, the SouthTX system has access to Enterprise Intrastate, LLC; Kinder Morgan Tejas Pipeline LLC; Natural Gas Pipeline Company of America; Tennessee Gas Pipeline Company, LLC; Texas Eastern Transmission, LLC; and Transcontinental Gas Pipe Line. The WestOK system has access to Enogex LLC; Panhandle Eastern Pipe Line Company, LP; and Southern Star Central Gas Pipeline, Inc. The WestTX system has access to Atmos Energy Corporation; El Paso Natural Gas Company; Kinder Morgan Tejas Pipeline, LLC; and Northern Natural Gas Company.

We sell our NGL production at SouthOK and WestOK, to ONEOK under three separate agreements. The WestOK agreement has a term expiring in 2014; the Velma agreement within SouthOK has a term expiring at the end of 2016; and the Arkoma agreement within SouthOK has a term expiring in 2024. We sell our NGL production at SouthTX, WestTX and the Chaney Dell plant in WestOK to DCP. We also sell our NGL production at SouthTX to Crosstex Energy Services, L.P. We have signed agreements with DCP to sell our NGL production from our WestOK and Velma processing facilities upon

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the expiration of each of the ONEOK agreements. The DCP agreements each have a term of fifteen years. All NGL agreements are priced at the average daily Oil Price Information Service (or OPIS) price for the month for the selected market, subject to reduction by a Base Differential for transportation and fractionation fees and, if applicable, quality adjustment fees.

Condensate collected at the SouthOK gas plants and gathering systems is currently sold to EnerWest Trading Company, LLC and Enterprise Products Partners, L.P. Condensate collected at the SouthTX gas plant and gathering systems is currently sold to High Sierra Energy, L.P. and Superior Crude Gathering, Inc. Condensate collected at the WestOK plants and gathering systems is currently sold to JP Energy Partners, L.P. and Plains Marketing, L.P. Condensate collected at the WestTX plants and gathering systems is currently sold to Occidental Energy Marketing, Inc. and Plains Marketing, L.P.

Commodity Risk Management

Our gathering and processing operations are exposed to certain commodity price risks. These risks result from either taking title to natural gas, NGLs and condensate, or being obligated to purchase natural gas to satisfy contractual obligations with certain producers. We attempt to mitigate a portion of these risks through a commodity price risk management program, which employs a variety of financial tools. The resulting combination of the underlying physical business and the commodity price risk management program attempts to convert the physical price environment that consists of floating prices to a risk-managed environment characterized by (1) fixed prices; (2) floor prices on products where we are long the commodity; and (3) ceiling prices on products where we are short the commodity. There are also risks inherent within risk management programs, including, among others, deterioration of the price relationship between the physical and financial instrument; and changes in projected physical volumes.

We are exposed to commodity price risks when natural gas is purchased for processing. The amount and character of this price risk is a function of our contractual relationships with natural gas producers or, alternatively, a function of cost of sales. We are therefore exposed to price risk at a gross profit level rather than at a revenue level. These cost-of-sales or contractual relationships are generally of two types:

POP: requires us to pay a percentage of revenue to the producer. This generally results in our having a net long physical position for natural gas and NGLs.

Keep-Whole: generally requires us to deliver the same quantity of natural gas (measured in BTU s) at the delivery point as we received at the receipt point; any resulting NGLs produced belong to us, resulting in having a net long physical position for NGLs and a net short physical position for natural gas.

We manage the positions for natural gas on a net basis, netting our physical long positions against our physical short positions. Normally we are in a net long position on our natural gas.

We manage a portion of these risks by using fixed-for-floating swaps, which result in a fixed price for the products we buy or sell; or by utilizing the purchase of put or call options, which result in floor prices or ceiling prices for the products we buy or sell. We utilize natural gas swaps and options to manage our natural gas price risks. We utilize NGL and crude oil swaps and options to manage our NGL and condensate price risks.

We generally realize gains and losses from the settlement of our derivative instruments at the same time we sell the associated physical residue gas or NGLs. We also record the unrealized gains and losses for the mark-to-market

valuation of derivative instruments prior to settlement. We determine gains

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or losses on open and closed derivative transactions as the difference between the derivative contract price and the physical price. This mark-to-market methodology uses (1) daily closing New York Mercantile Exchange (NYMEX) prices; (2) third party sources; and/or (3) an internally-generated algorithm, utilizing third party sources, for commodities not traded on an open market. To ensure these derivative instruments will be used solely for managing price risks and not for speculative purposes, we have established a committee to review our derivative instruments for compliance with our policies and procedures.

For additional information on our derivative activities, please see Item 7A: Quantitative and Qualitative Disclosures About Market Risk.

Our Transportation, Treating and Other Operations

Our Transportation and Treating operations consist of a 20% interest in WTLPG and seventeen contract gas treating facilities located in Arkansas, Louisiana, Oklahoma and Texas.

West Texas LPG. WTLPG owns an approximately 2,200 mile common-carrier pipeline system that transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. WTLPG is operated by Chevron Pipeline Company, an affiliate of Chevron, which owns the remaining 80% interest. Revenues are derived from fee-based transportation services and are a function of the volume of NGLs transported. Revenues are not directly dependent upon the value of NGLs, thus commodity price risk is limited.

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Gas Treating. Our gas treating facilities include fifteen skid-mounted amine treating plants of various sizes with total capacity of 1,262 GPM and two propane refrigeration plants with total capacity of 27 MMCFD. The plants are currently operating in the Delaware Basin, Granite Wash, Haynesville, Eagle Ford, Woodford and Fayetteville Shale, or are in inventory awaiting deployment. Key customers include Crestwood Arkansas Pipeline, LLC; TPF II East Texas Gathering, LLC; and XTO. Revenues are derived from fee-based contract services and are a function of the capacity of the treating plant. Revenues are not directly dependent upon the value of the natural gas that is treated and thus commodity price risk is limited.

Competition

Acquisitions. We have encountered competition in acquiring midstream assets owned by third parties. In several instances, we submitted bids in auction situations and in direct negotiations for the acquisition of such assets and we were either outbid by others or we were unwilling to meet the sellers expectations. In the future, we expect to encounter equal, if not greater, competition for the acquisition of midstream assets.

Gathering and Processing. In our Gathering and Processing segment, we compete for the acquisition of well connections with several other gathering/processing operations. These operations include plants and gathering systems operated by Access Midstream Partners, LP; Caballo Energy, LLC; Carrera Gas Company; Crosstex Energy Services, L.P.; DCP; Devon Energy Corporation; Duke Energy Corporation; Energy Transfer Partners, L.P.; Enable Midstream Partners, L.P.; Enterprise Products Partners, L.P.; Howard Energy Partners, LLC; Kinder Morgan Energy Partners, L.P.; Lumen Midstream Partners, LLC; Mustang Fuel Corporation; ONEOK Field Services Company, LLC; Regency Energy Partners, L.P.; SemGas, L.P.; Southcross Energy Partners, L.P.; Superior Pipeline Company, LLC; Targa Resources Partners LP; TexStar Midstream Services, L.P.; and West Texas Gas, Inc.

We believe the principal factors upon which competition for new well connections is based are:

- the price received by an operator or producer for its production after deduction of allocable charges, principally the use of the natural gas to operate compressors;
- the quality and efficiency of the gathering systems and processing plants that will be utilized in delivering the gas to market;
- the access to various residue markets that provides flexibility for producers and ensures the gas will make it to market; and
- the responsiveness to a well operator s needs, particularly the speed at which a new well is connected by the gatherer to its system.

We believe that we have good relationships with operators connected to our system and that we present an attractive alternative for producers. However, if we cannot compete successfully through pricing or services offered, we may be unable to obtain new well connections.

Transportation, Treating and Other. In our Transportation and Treating segment, we compete with other intrastate and interstate pipeline companies that transport NGLs in the southwestern region of the United States. These

operations include NGL pipelines operated by DCP; Enterprise Partners, L.P.; Lonestar NGL, LLC; and ONEOK Partners, L.P. We also compete for gas treating services provided on gas gathering lines, including gas treating services provided by Allied Equipment, Inc.; Kinder Morgan Energy Partners, L.P.; Spartan Energy Partners LLC; TransTex Hunter, LLC; and Zephyr Gas Services LLC.

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The factors that typically affect our ability to compete for NGL supplies and/or gas treating services are:

- fees charged under our contracts;
- the quality and efficiency of our operations;
- our responsiveness to a customer s needs; and
- with respect to transportation services, location of our transportation systems relative to our competitors.

Seasonality

Our business is affected by seasonal fluctuations in commodity prices. Sales volumes are also affected by various factors such as fluctuating and seasonal demands for products and variations in weather patterns from year to year. Generally, natural gas demand increases during the winter months and decreases during the summer months. Freezing conditions can disrupt our gathering process, which could adversely affect our operating results.

Environmental Matters and Regulations

The operation of pipelines, plant and other facilities for gathering, compressing, treating, processing, or transporting natural gas, NGLs and other products is subject to stringent and complex laws and regulations pertaining to health, safety and the environment. As an owner or operator of these facilities, we must comply with these laws and regulations at the federal, state and local levels. These laws and regulations can restrict or impact our business activities in many ways, such as by:

- restricting the way waste disposal is handled;
- limiting or prohibiting construction and operating activities in sensitive areas such as wetlands, coastal regions, non-attainment areas, tribal lands or areas inhabited by endangered species;
- requiring the installation of expensive pollution control equipment;
- requiring remedial measures to reduce, and/or respond to releases of pollutants or hazardous substances by our operations or attributable to former operators;
- enjoining some or all of the operations of facilities deemed in non-compliance with permits issued pursuant to such environmental laws and regulations; and

imposing substantial liabilities for pollution resulting from operations.

Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint and several liability for costs required to clean up and restore sites where pollutants or wastes have been disposed or otherwise released. Neighboring landowners and other third parties can file claims for personal injury or property damage allegedly caused by noise and/or the release of pollutants or wastes into the environment. The regulatory burden on the natural gas and oil industry increases the cost of doing business in the industry and consequently affects profitability. Additionally, Congress, federal and state agencies frequently enact new, and revise existing, environmental laws and regulations, and any new laws or changes to existing laws that result in more stringent and costly waste handling, disposal and clean-up requirements for the natural gas and oil industry could have a significant impact on our operating costs.

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We believe our operations are in substantial compliance with applicable environmental laws and regulations and compliance with existing federal, state and local environmental laws and regulations will not have a material adverse effect on our business, financial position or results of operations. Nevertheless, the trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. As a result, there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. Moreover, we cannot ensure that future events, such as changes in existing laws, the promulgation of new laws, or the development or discovery of new facts or conditions, will not cause us to incur significant costs.

Environmental laws and regulations that could have a material impact on our operations include the following:

Endangered Species Act. The federal Endangered Species Act (ESA) restricts activities that may affect endangered or threatened species or their habitats. Endangered species, including without limitation, the American Burying Beetle, which are located in various states in which we operate. If endangered species are located in areas where we propose to construct new gathering or processing facilities, such work could be prohibited or delayed or expensive mitigation may be required. Existing laws, regulations, policies and guidance relating to protected species may also be revised or reinterpreted in a manner that further increases our construction and mitigation costs or restricts our construction activities. Additionally, construction and operational activities could result in inadvertent impact to habitats of listed species and could result in alleged takings under the ESA, exposing us to civil or criminal enforcement actions and fines or penalties. Moreover, as a result of a settlement approved by the U.S. District Court for the District of Columbia in September 2011, the U.S. Fish and Wildlife Service is required to make a determination on listing of more than 250 species as endangered or threatened under the ESA by completion of the agency s 2017 fiscal year. The designation of previously unprotected species as threatened or endangered in areas where we conduct operations or plan to construct pipelines or facilities could cause us to incur increased costs arising from species protection measures or could result in delays in the construction of our facilities or limitations on our customer s exploration and production activities, which could have an adverse impact on demand for our midstream operations.

Hazardous Waste. The Solid Waste Disposal Act, including the Resource Conservation and Recovery Act, or RCRA, and comparable state statutes regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous wastes and the disposal of non-hazardous wastes. Under the auspices of the EPA, individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own more stringent requirements. Drilling fluids, produced waters, and most of the other wastes associated with the exploration, development, and production of crude oil and natural gas constitute solid wastes , which are regulated under the less stringent non-hazardous waste provisions, but there is no guarantee that the EPA or individual states will not adopt more stringent requirements for the handling of non-hazardous wastes or categorize some non-hazardous wastes as hazardous for future regulation. Moreover, ordinary industrial wastes such as paint wastes, waste solvents, laboratory wastes, and waste compressor oils may be regulated as solid waste. The transportation of natural gas in pipelines may also generate some hazardous wastes that are subject to RCRA or comparable state law requirements.

We believe our operations are currently in substantial compliance with the requirements of RCRA and related state and local laws and regulations, and that we hold all necessary and up-to-date permits, registrations and other authorizations to the extent our operations require them under such laws and regulations. Although we do not believe the current costs of managing our wastes to be significant, any more stringent regulation of natural gas and oil exploration and production wastes could increase our costs to manage and dispose of such wastes.

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Site Remediation. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, on persons who are considered under the statute to be responsible for the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substance at the site. Under CERCLA, such persons may be liable for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We currently own or lease, and have in the past owned or leased, numerous properties that for many years were used for the measurement, gathering, field compression and processing of natural gas. Although we believe that we utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes or hydrocarbons may have been released on or under the properties owned or leased by them or on or under other locations, including off-site locations, where such substances have been taken for disposal. There may be evidence that petroleum spills or releases have occurred at some of the properties owned or leased by us. However, none of these spills or releases appear to be material to our financial condition and we believe all of them have been or will be appropriately remediated. In addition, some of these properties have been operated by third parties or by previous owners or operators whose treatment and disposal of hazardous substances, wastes or hydrocarbons were not under our control. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove previously disposed substances and wastes (including waste disposed of by prior owners or operators), remediate contaminated property (including groundwater contamination, whether from prior owners or operators or other historic activities or spills), or perform operations to prevent future contamination.

Air Emissions. Our operations are subject to the federal Clean Air Act, as amended and comparable state laws and regulations. These laws and regulations regulate emissions of air pollutants from various industrial sources, including our processing plants, certain storage vessels and compressor stations, and also impose various monitoring and reporting requirements. Such laws and regulations may require us to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce air emissions or result in the increase of existing air emissions, obtain and comply with air permits containing various emissions and operational limitations, or utilize specific emission control technologies to limit emissions. These laws and regulations also apply to entities that use natural gas as fuel, and may increase the costs of customer compliance to the point where demand for natural gas is affected. Various air quality regulations are periodically reviewed by the EPA and are amended as deemed necessary. The EPA may also issue new regulations based on changing environmental concerns.

In 2012, specific federal regulations applicable to the natural gas industry were finalized under the New Source Performance Standards (NSPS) program along with National Emissions Standards for Hazardous Air Pollutants (NESHAP). These new regulations impose additional emissions control requirements and practices on our operations. Some of our facilities may incur additional capital costs in order to comply with new emission limitations. These regulations may increase the costs of compliance for some facilities. Our failure to comply with these requirements could subject us to monetary penalties, injunctions, conditions or restrictions on operations, and potentially criminal enforcement actions. We believe that our operations are in substantial compliance with the req