

TARGA RESOURCES, INC.
FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010

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CONFIDENTIAL

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As generally used in the energy industry and in these Financial Statements, the identified terms have the following meanings:

NGL(s)	Natural Gas Liquid(s)
MMBtu	Million British thermal units
Bbl	Barrels
/d	per day

Price Index Definitions

IF-WAHA	Inside FERC Gas Market Report, West Texas Waha
NY-HH	New York Mercantile Exchange (NYMEX), Henry Hub
NY-WTI	NYMEX, West Texas Intermediate Crude Oil

TARGA RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

	March 31,	December 31,
	2010	2009
	(Unaudited)	
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 305.6	\$ 252.4
Trade receivables, net of allowances of \$7.9 and \$8.0 million	332.4	404.3
Inventory	25.2	39.4
Assets from risk management activities	47.3	32.9
Other current assets	<u>7.7</u>	<u>16.0</u>
Total current assets	<u>718.2</u>	<u>745.0</u>
Property, plant and equipment, at cost	3,210.5	3,193.3
Accumulated depreciation	<u>(687.9)</u>	<u>(645.2)</u>
Property, plant and equipment, net	2,522.6	2,548.1
Long-term assets from risk management activities	23.7	13.8
Investment in debt obligations of Targa Resources Investments Inc.	208.0	70.9
Other long-term assets	<u>65.0</u>	<u>57.7</u>
Total assets	<u>\$ 3,537.5</u>	<u>\$ 3,435.5</u>
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 165.1	\$ 206.6
Accrued liabilities	264.5	305.2
Current maturities of debt	152.5	12.5
Liabilities from risk management activities	22.9	29.2
Deferred income taxes	<u>10.5</u>	<u>1.4</u>
Total current liabilities	<u>615.5</u>	<u>554.9</u>
Long-term debt, less current maturities	1,088.8	1,208.1
Long-term liabilities from risk management activities	23.4	43.8
Deferred income taxes	77.5	71.2
Other long-term liabilities	66.5	63.1
Commitments and contingencies (see Note 11)		
Owners' equity:		
Targa Resources, Inc. stockholder's equity:		
Common stock (\$0.001 par value, 1,000 shares authorized, issued, and outstanding at March 31, 2010 and December 31, 2009, collateral for Targa Resources Investments Inc. debt, see Note 7)	-	-
Additional paid-in capital	419.9	419.9
Retained earnings	164.2	163.2
Accumulated other comprehensive income (loss)	<u>6.5</u>	<u>(15.6)</u>
Total Targa Resources, Inc. stockholders' equity	590.6	567.5
Noncontrolling interest in subsidiaries	<u>1,075.2</u>	<u>926.9</u>
Total owners' equity	<u>1,665.8</u>	<u>1,494.4</u>
Total liabilities and owners' equity	<u>\$ 3,537.5</u>	<u>\$ 3,435.5</u>

See notes to consolidated financial statements

TARGA RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 31,	
	2010	2009
	(Unaudited)	
	(In millions)	
Revenues	\$ 1,483.6	\$ 1,005.6
Costs and expenses:		
Product purchases	1,297.7	849.7
Operating expenses	62.3	65.0
Depreciation and amortization expenses	42.8	41.6
General and administrative expenses	25.9	23.8
	<u>1,428.7</u>	<u>980.1</u>
Income from operations	54.9	25.5
Other income (expense):		
Interest expense, net	(18.4)	(25.7)
Equity in earnings of unconsolidated investments	0.3	0.1
Loss on debt repurchases (see Note 7)	(17.4)	-
Loss on early debt extinguishment (see Note 7)	(2.7)	-
Loss on mark-to-market derivative instruments	(0.3)	-
Other income	-	1.0
	<u>16.4</u>	<u>0.9</u>
Income before income taxes	16.4	0.9
Income tax (expense) benefit:		
Current	(0.5)	-
Deferred	(0.9)	0.1
	<u>(1.4)</u>	<u>0.1</u>
Net income	15.0	1.0
Less: Net income (loss) attributable to noncontrolling interest	14.0	(1.6)
Net income attributable to Targa Resources, Inc.	<u>\$ 1.0</u>	<u>\$ 2.6</u>

TARGA RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	March 31,	
	2010	2009
	(Unaudited)	
	(In millions)	
Net income	\$ 15.0	\$ 1.0
Other comprehensive income:		
Commodity hedging contracts:		
Change in fair value	35.4	19.4
Reclassification adjustment for settled periods	2.7	(11.3)
Interest rate swaps:		
Change in fair value	(1.8)	(3.8)
Reclassification adjustment for settled periods	0.5	0.7
Available for sale securities:		
Amortization of unrealized gain	(0.3)	-
Change in fair value	-	0.9
Foreign currency translation adjustment	-	(0.2)
Related income taxes	(14.4)	1.0
Other comprehensive income	22.1	6.7
Comprehensive income	37.1	7.7
Net income (loss) attributable to noncontrolling interest	14.0	(1.6)
Other comprehensive income attributable to noncontrolling interest:		
Commodity hedging contracts:		
Change in fair value	22.5	10.5
Reclassification adjustment for settled periods	2.1	(4.9)
Interest rate swaps:		
Change in fair value	(4.9)	(2.8)
Reclassification adjustment for settled periods	1.1	1.9
Other comprehensive income attributable to noncontrolling interest	20.8	4.7
Comprehensive income attributable to noncontrolling interest	34.8	3.1
Comprehensive income attributable to Targa Resources, Inc.	\$ 2.3	\$ 4.6

See notes to consolidated financial statements

TARGA RESOURCES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

	Additional		Accumulated		
	Paid-in	Retained	Other	Noncontrolling	
	Capital	Earnings	Comprehensive	Interest	Total
			Income (Loss)		
			(Unaudited)		
			(In millions)		
Balance, December 31, 2009	\$ 419.9	\$ 163.2	\$ (15.6)	\$ 926.9	\$ 1,494.4
Contributions	-	-	-	140.1	140.1
Distributions	-	-	-	(26.7)	(26.7)
Amortization of equity awards	-	-	-	0.1	0.1
Other comprehensive income	-	-	22.1	20.8	42.9
Net income	-	1.0	-	14.0	15.0
Balance, March 31, 2010	<u>\$ 419.9</u>	<u>\$ 164.2</u>	<u>\$ 6.5</u>	<u>\$ 1,075.2</u>	<u>\$ 1,665.8</u>

See notes to consolidated financial statements

	Three Months Ended	
	March 31,	
	2010	2009
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income	\$ 15.0	\$ 1.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization in interest expense	(0.1)	1.9
Interest income on paid-in-kind investment	(3.2)	(0.6)
Amortization in general and other administrative expense	0.1	0.2
Amortization of unrealized gain	(0.3)	-
Depreciation and amortization expense	42.8	41.6
Accretion of asset retirement obligations	0.8	0.7
Deferred income tax expense (benefit)	0.9	(0.1)
Equity in earnings of unconsolidated investments, net of distributions	0.5	(0.1)
Risk management activities	6.8	17.3
Loss on sale of assets	0.1	-
Loss on debt repurchases	17.4	-
Loss on early debt extinguishment	2.7	-
Changes in operating assets and liabilities:		
Accounts receivable and other assets	80.5	43.6
Inventory	14.2	33.1
Accounts payable and other liabilities	<u>(79.5)</u>	<u>(64.6)</u>
Net cash provided by operating activities	<u>98.7</u>	<u>74.0</u>
Cash flows from investing activities		
Outlays for property, plant and equipment	(19.5)	(31.2)
Investment in debt obligations of Targa Resources Investments Inc.	(131.4)	(6.8)
Other	<u>1.9</u>	<u>0.1</u>
Net cash used in investing activities	<u>(149.0)</u>	<u>(37.9)</u>
Cash flows from financing activities		
Senior secured term loan facility:		
Borrowings	495.0	-
Repayments	(63.4)	(3.1)
Repurchases of senior notes	(260.9)	-
Senior secured credit facility of the Partnership:		
Borrowings	63.9	-
Repayments	(225.2)	-
Distributions to noncontrolling interest	(26.7)	(26.5)
Contributions from noncontrolling interest	140.1	1.1
Costs incurred in connection with financing arrangements	<u>(19.3)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>103.5</u>	<u>(28.5)</u>
Net change in cash and cash equivalents	53.2	7.6
Cash and cash equivalents, beginning of period	<u>252.4</u>	<u>362.7</u>
Cash and cash equivalents, end of period	<u>\$ 305.6</u>	<u>\$ 370.3</u>

See notes to consolidated financial statements

TARGA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Note 1—Organization and Operations

Organization and Operations

Targa Resources, Inc. is a Delaware corporation formed on February 26, 2004. Unless the context requires otherwise, references to “we,” “us,” “our,” “the Company” or “Targa” are intended to mean the consolidated business and operations of Targa Resources, Inc.

We are a second-tier, wholly owned subsidiary of our parent holding company, Targa Resources Investments Inc. (“Targa Investments”). The only significant asset of Targa Investments is its ownership of 100% of the outstanding capital stock of an intermediate holding company, whose sole asset is its ownership of 100% of our outstanding capital stock, which consists of one thousand shares of common stock.

Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end balance sheet data was derived from audited financial statements but does not include disclosures required by GAAP. The unaudited consolidated financial statements for the three months ended March 31, 2010 and 2009 include all adjustments, both normal and recurring, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the previous period to conform to the 2010 presentation. These reclassifications do not affect net income. Our financial results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010. These unaudited consolidated financial statements and other information included in this Quarterly Report should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report for the year ended December 31, 2009.

As of March 31, 2010, we currently own approximately 30.9% of Targa Resources Partners LP (the “Partnership”), including our 2% general partner interest. Targa Resources GP LLC (“TRGP”), the general partner of the Partnership, is wholly owned by us. The Partnership is consolidated within our financial statements under the presumption, as well as presence, of general partner control in accordance with GAAP.

The noncontrolling interest in our consolidated balance sheets consists primarily of the investment by partners other than Targa Resources, Inc., including those partners’ share of the net income, distributions and accumulated other comprehensive income (loss) of the Partnership. Noncontrolling interest in net income on our consolidated statements of operations consists primarily of those partners’ share of the net income of the Partnership.

In preparing the accompanying consolidated financial statements, the Company has reviewed, as determined necessary by the Company, events that have occurred after March 31, 2010, up until the issuance of the financial statements, which occurred on May 6, 2010. See Note 5.

Note 2—Accounting Policies and Related Matters

Accounting Policy Updates/Revisions

The accounting policies followed by the Company are set forth in Note 3 of the Notes to Consolidated Financial Statements in our Annual Report for the year ended December 31, 2009, and are supplemented by the notes to these consolidated financial statements. There have been no significant changes to these policies and it is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in our Annual Report.

Accounting Pronouncements Recently Adopted

In December 2009, the FASB amended consolidation guidance for variable interest entities (“VIEs”) by issuing Accounting Standards Update No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (“ASU 2009-17”). The new guidance, eliminates the scope exception for qualifying special-purpose entities, amends certain guidance for determining whether an entity is a VIE, expands the list of events that trigger reconsideration of whether an entity is a VIE, requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE, requires continuous assessments of whether a company is the primary beneficiary of a VIE and requires enhanced disclosures about a company’s involvement with a VIE. Prior to adoption, we did not have any interests in a VIE. We adopted the amended guidance on January 1, 2010 and our adoption of this new guidance did not result in any interests being identified as VIEs.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, “Improving Disclosures About Fair Value Measurements” (“ASU 2010-06”), which provides amendments to fair value disclosures. ASU 2010-06 requires additional disclosures and clarifications of existing disclosures for recurring and nonrecurring fair value measurements. The revised guidance for transfers into and out of Level 1 and Level 2 categories, as well as increased disclosures around inputs to fair value measurement, was adopted January 1, 2010. The amendments to Level 3 disclosures were delayed until periods beginning after December 15, 2010 and are not anticipated to have a material impact on our financial statements upon adoption.

Note 3— Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation were as follows as of the dates indicated:

	March 31, 2010	December 31, 2009
Natural gas gathering systems	\$ 1,587.5	\$ 1,578.0
Processing and fractionation facilities	956.7	956.0
Terminalling and natural gas liquids storage facilities	246.8	246.6
Transportation assets	272.7	271.6
Other property and equipment	67.2	66.2
Land	52.8	52.7
Construction in progress	26.8	22.2
	<u>3,210.5</u>	<u>3,193.3</u>
Accumulated depreciation	<u>(687.9)</u>	<u>(645.2)</u>
	<u>\$ 2,522.6</u>	<u>\$ 2,548.1</u>

Note 4—Unconsolidated Investment

As of March 31, 2010 and December 31, 2009, the Partnership’s unconsolidated investment consisted of a 38.75% ownership interest in Gulf Coast Fractionators LP (“GCF”), a venture that fractionates natural gas liquids on the Gulf Coast. As of March 31, 2010 and December 31, 2009, the Partnership’s investment in GCF was \$18.0 million and \$18.5 million.

The Partnership’s equity in the net assets of GCF exceeded its acquisition date investment account by \$5.2 million. This amount is being amortized over the estimated remaining life of the net assets on a straight-line basis, and is included as a component of the Partnership’s equity in earnings of unconsolidated investments.

During the three months ended March 31, 2010 and 2009 the Partnership’s equity in earnings from GCF were \$0.3 million and \$0.1 million. During the three months ended March 31, 2010 the Partnership received \$0.8 million in distributions from GCF. During the three months ended March 31, 2009 there were no distributions to the Partnership from GCF.

Note 5—Partnership Units and Related Matters

On January 19, 2010, the Partnership completed a public offering of 5,500,000 common units representing limited partner interests in the Partnership (“common units”) under its existing shelf registration statement on Form S-3 at a price of \$23.14 per common unit (\$22.17 per common unit, net of underwriting discounts), providing net proceeds of \$121.9 million. Pursuant to the exercise of the underwriters’ overallotment option, the Partnership sold an additional 825,000 common units at \$23.14 per common unit, providing net proceeds of

\$18.3 million. The partnership used the net proceeds from the offering for general partnership purposes, which included reducing borrowings under its senior secured credit facility.

The following table lists the Partnership's distributions declared and paid in the three months ended March 31, 2010 and 2009:

<u>Date Paid</u>	<u>For the Three Months Ended</u>	<u>Distributions Paid</u>					<u>Distributions per limited partner unit</u>
		<u>Limited Partners</u>		<u>General Partner</u>			
		<u>Common</u>	<u>Subordinated</u>	<u>Incentive</u>	<u>2%</u>	<u>Total</u>	
2010							
February 12, 2010	December 31, 2009	35.2	-	2.8	0.8	38.8	0.5175
2009							
February 13, 2009	December 31, 2008	18.0	6.0	1.9	0.5	26.4	0.5175

(In millions, except per unit amounts)

Subsequent Events

On April 14, 2010, Targa LP Inc., a wholly-owned subsidiary of ours, closed on a secondary public offering of 8,500,000 common units of the Partnership. The underwriters were also granted a 30-day option to purchase up to 1,275,000 additional common units of the Partnership from Targa LP, Inc. Proceeds from this offering were \$224.4 million before expenses associated with the offering. This offering also triggered a mandatory prepayment on our senior secured credit agreement of \$3.2 million related to our senior secured revolving credit facility and \$105.6 million on our senior secured term loan facility. These amounts were paid on April 27, 2010.

On April 19, 2010, we announced a cash distribution of \$0.5175 per unit on our outstanding common units. The distribution will be paid on May 14, 2010 to unitholders of record on May 7, 2010, for the three months ended March 31, 2010. The total distribution to be paid is \$38.8 million.

On March 31, 2010, the Partnership entered into a Purchase and Sale Agreement to acquire our interests in certain of our natural gas gathering and processing businesses located in West Texas and the Gulf Coast region of Louisiana. These assets include (i) all of the limited partner interests in Targa Midstream Services Limited Partnership, (ii) all of the limited liability company interests in Targa Gas Marketing LLC, (iii) all of the limited and general partner interests in Targa Permian LP, (iv) all of the limited partner interests in Targa Straddle LP and (v) all of the limited liability company interests in Targa Straddle GP LLC, (collectively referred to as "Permian/Straddle"), for aggregate consideration of \$420 million, subject to certain adjustments. The Permian/Straddle sale and related transactions closed on April 27, 2010.

As part of the closing of the sale of our Permian/Straddle interests, we amended our Omnibus Agreement with the Partnership through April 2013, to continue to provide general and administrative and other services to the Partnership associated with the Permian/Straddle interests and any additional assets, operations or businesses that may be sold by us to the Partnership and if the Partnership and we agree, additional assets, operations or businesses that the Partnership may acquire from third parties.

Under the terms of our senior secured term credit agreement (see Note 7), in conjunction with the receipt of cash from the sale of our interests in Permian /Straddle, we were required to repay as a mandatory prepayment \$152.5 million on our senior secured term loan facility, which was paid on April 27, 2010. This amount has been recorded as current maturities of debt in these consolidated financial statements as of March 31, 2010.

Note 6— Investment in Debt Obligations of Targa Investments

During the three months ended March 31, 2009, we paid \$6.8 million to acquire from a third party \$16.2 million of Targa Investments' variable rate indebtedness ("Holdco Notes") which, at the time of purchase, were classified as an available-for-sale security. During the three months ended March 31, 2009, we also recognized an unrealized gain of \$0.9 million in accumulated other comprehensive income ("OCI"), based on an indicative valuation supplied by a bank.

On December 31, 2009, the investment was transferred from the available-for-sale category into the held-to-maturity category at a fair value of \$70.9 million, a \$17.8 million discount to par value, which is being amortized into interest income over the term of the notes. Additionally, the \$7.2 million unrealized gain on the investment recorded in OCI is being recognized to interest income over the term of the notes.

During the three months ended March 31, 2010, we purchased \$164.2 million in face value of the Holdco Notes for \$131.4 million. See Note 7. The purchase price was recorded as an addition to the unamortized cost basis and the \$32.8 million discount is being amortized over the term of the notes. During the three months ended March 31, 2010, we recognized \$2.4 million of amortized discount and \$0.3 million of unrealized gain from OCI into interest income.

As of March 31, 2010, we held an investment of \$208 million in Holdco Notes classified as a held-to-maturity security. As of March 31, 2010 we also had \$48.1 million of unamortized discount and \$6.9 million of unrealized gain related to the investment.

Note 7— Debt Obligations

Consolidated debt obligations consisted of the following as of the dates indicated:

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Long-term debt:		
Obligations of Targa:		
Senior secured revolving credit facility, variable rate, due July 2014 (1)	\$ -	\$ -
Senior secured term loan facility, variable rate, due July 2016 (2)	494.0	-
Senior secured term loan facility, variable rate, due October 2012	-	62.2
Senior unsecured notes, 8½% fixed rate, due November 2013	-	250.0
Obligations of the Partnership: (3)		
Senior secured revolving credit facility, variable rate, due February 2012 (4)	317.9	479.2
Senior unsecured notes, 8¼% fixed rate, due July 2016	209.1	209.1
Senior unsecured notes, 11¼% fixed rate, due July 2017 (5)	220.3	220.1
Total debt	1,241.3	1,220.6
Current maturities of debt	(152.5)	(12.5)
Total long-term debt	<u>\$ 1,088.8</u>	<u>\$ 1,208.1</u>
Irrevocable standby letters of credit:		
Letters of credit outstanding under senior secured credit agreement	\$ 49.7	\$ -
Letters of credit outstanding under senior secured synthetic letter of credit facility	-	48.7
Letters of credit outstanding under senior secured revolving credit facility of the Partnership	76.9	69.2
	<u>\$ 126.6</u>	<u>\$ 117.9</u>

- (1) As of March 31, 2010, availability under our senior secured revolving credit facility was \$50.3 million, after giving effect to \$49.7 million in outstanding letters of credit.
- (2) The carrying amount of the term loan includes \$4.8 million of unamortized discount as of March 31, 2010.
- (3) We consolidate the debt of the Partnership with that of our own; however, we do not have the obligation to make interest payments or debt payments with respect to the debt of the Partnership.
- (4) As of March 31, 2010, availability under the Partnership's senior secured revolving credit facility was \$563.7 million.
- (5) The carrying amount of the notes includes \$11 million of unamortized discount as of March 31, 2010.

The following table shows the range of interest rates paid and weighted-average interest rate paid on our variable-rate debt obligations during the three months ended March 31, 2010:

	<u>Range of interest</u> <u>rates paid</u>	<u>Weighted average</u> <u>interest rate paid</u>
Senior secured term loan facility, due 2016	6.0% to 6.0%	6.0%
Senior secured revolving credit facility of the Partnership	1.2% to 3.5%	1.4%

Senior Secured Credit Agreement

On January 5, 2010 we entered into a senior secured credit agreement (the “credit agreement”) providing senior secured financing of \$600 million, consisting of:

- \$500 million senior secured term loan facility; and
- \$100 million senior secured revolving credit facility (the “credit facility”).

The entire amount of our credit facility is available for letters of credit and includes a limited borrowing capacity for borrowings on same-day notice referred to as swing line loans.

We may increase the commitments under our credit facility in an aggregate amount up to \$75 million, subject to the satisfaction of certain conditions and lender approval.

Borrowings under the credit agreement will bear interest at a rate equal to an applicable margin, plus at our option, either (a) a based rate determined by reference to the higher of (1) the prime rate of Deutsche Bank, (2) the federal funds rate plus 0.5%, and (3) solely in the case of term loans, 3%, or (b) LIBOR as determined by reference to the higher of (1) the British Bankers Association LIBOR Rate and (2) solely in the case of term loans, 2%.

In addition to paying interest on outstanding principal under the senior secured credit facilities, we are required to pay other fees. We are required to pay a commitment fee equal to 0.75% of the currently unutilized commitments thereunder. The commitment fee rate may fluctuate based upon the Company’s leverage ratios. We are also required to pay a fronting fee equal to 0.25% on outstanding letters of credit.

The credit agreement requires us to prepay loans outstanding under the senior secured term loan facility, subject to certain exceptions, with:

- 50% of our annual excess cash flow (which percentage will be reduced to 25% if our total leverage ratio is no more than 3.00 to 1.00 and to 0% if our total leverage ratio is no more than 2.50 to 1.00);
- 100% of the net cash proceeds of all non-ordinary course asset sales, transfers or other dispositions of property, subject to certain exceptions;
- 100% of the net cash proceeds of any incurrence of debt, other than debt permitted under the credit agreement.

We are required to repay the term loan facility in quarterly principal amounts of 0.25% of the original principal amount, with the remaining amount payable July 5, 2016.

Principal amounts outstanding under our credit facility are due and payable in full on July 3, 2014. As of March 31, 2010, we had availability under this facility of \$50.3 million.

Events occurring subsequent to March 31, 2010 which trigger the prepayment provisions of the term loan facility and the credit facility have been disclosed in Note 5.

All obligations under the credit agreement and certain secured hedging arrangements are unconditionally guaranteed, subject to certain exceptions, by each of our existing and future domestic restricted subsidiaries, referred to, collectively, as the guarantors. We have pledged the following assets, subject to certain exceptions, as collateral:

- the capital stock and other equity interests held by us or any guarantor; and
- a security interest in, and mortgages on, our and our guarantors’ tangible and intangible assets.

The credit agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to incur additional indebtedness (including guarantees and hedging obligations); create liens on assets; enter into sale and leaseback transactions; engage in mergers or consolidations; sell assets; pay dividends and make distributions or repurchase capital stock and other equity interests; make investments, loans or advances; make capital expenditures; repay, redeem or repurchase certain indebtedness; make certain acquisitions; engage in certain transactions with affiliates; amend certain debt and other material agreements;

change our lines of business; and impose certain restrictions on restricted subsidiaries that are not guarantors, including restrictions on the ability of such subsidiaries that are not guarantors to pay dividends.

The credit agreement requires us to maintain certain specified maximum total leverage ratios and certain specified minimum interest coverage ratios. In each case we are required to comply with certain limitations, including minimum cash consideration requirements.

On January 5, 2010, concurrent with the execution of the credit agreement, we borrowed \$500 million on the term loan facility net of a \$5 million discount. There was no initial funding on the revolving credit line. The proceeds from the term loan were used to:

- complete the cash tender offer and consent solicitation for all \$250.0 million of our outstanding 8 ½% senior notes due 2013;
- repay the outstanding balance of \$62.2 million on our existing senior secured term loan due 2012;
- purchase \$164.2 million in face value of the Holdco Notes for \$131.4 million. (See Note 6); and
- fund working capital and pay fees and expenses under the credit agreement.

During the three months ended March 31, 2010, we incurred a loss on early debt extinguishments of \$2.7 million from the write-off of debt issue costs related to the repayments of our term loan, and terminations of our synthetic letter of credit and revolving credit facilities on January 5, 2010 discussed above.

During the three months ended March 31, 2010, we also incurred a loss on debt repurchases of \$17.4 million comprising \$10.9 million of premiums paid and \$6.5 million from the write-off of debt issue costs related to the repurchase of our 8 ½% senior notes discussed above. The premiums paid were included as a cash outflow from a financing activity on our Statement of Cash Flows.

Holdco Loan Facility of Targa Investments

During 2007, Targa Investments executed a credit agreement. Principal amounts outstanding under the credit agreement are due and payable in full on February 9, 2015. In connection with the agreement, Targa Investments pledged its indirect 100% ownership of our capital stock as collateral for amounts due under the agreement. Neither we, nor any of our subsidiaries, guaranty Targa Investments' obligations under the credit agreement, our assets are not pledged as collateral under the credit agreement, nor do we have an obligation to repay the amounts borrowed under the credit agreement.

Note 8—Insurance Claims

Certain of our Louisiana and Texas facilities sustained damage and had disruption to their operations during the 2008 hurricane season from two Gulf Coast hurricanes—Gustav and Ike. During 2008, we recorded a \$19.3 million loss provision (net of estimated insurance reimbursements) related to the hurricanes. During 2009, the estimate was reduced by \$3.7 million.

During the three months ended March 31, 2009, expenditures related to the hurricanes included \$17.5 million for repairs and \$4.3 million for improvements. In addition, we executed a proof of loss for \$5.9 million, comprising \$4.7 million for property damage insurance claims and \$1.2 million for business interruption insurance claims.

During the three months ended March 31, 2010, expenditures related to the hurricanes included \$0.4 million for repairs and less than \$0.1 million for improvements. In addition, we executed a proof of loss for \$2.6 million, comprising \$1.0 million for property damage insurance claims and \$1.6 million for business interruption insurance claims.

Note 9—Derivative Instruments and Hedging Activities

Our principal market risks are our exposure to changes in commodity prices, particularly to the prices of natural gas and NGLs, changes in interest rates, as well as nonperformance by our counterparties.

Commodity Price Risk. A majority of our revenues are derived from percent-of-proceeds contracts under which we receive a portion of the natural gas and/or NGLs, or equity volumes, as payment for services. The

prices of natural gas and NGLs are subject to market fluctuations in response to changes in supply, demand, market uncertainty and a variety of additional factors beyond our control. We monitor these risks and enter into commodity derivative transactions designed to mitigate the impact of commodity price fluctuations on our business. Cash flows from a derivative instrument designated as a hedge are classified in the same category as the cash flows from the item being hedged.

The primary purpose of our commodity risk management activities is to hedge our exposure to commodity price risk and reduce fluctuations in our operating cash flow despite fluctuations in commodity prices. In an effort to reduce the variability of our cash flows, as of March 31, 2010, we have hedged the commodity price associated with a significant portion of our expected natural gas, NGL and condensate equity volumes for the years 2010 through 2013 by entering into derivative financial instruments including swaps and purchased puts (or floors). The percentages of our expected equity volumes that are hedged decrease over time. With swaps, we typically receive an agreed upon fixed price for a specified notional quantity of natural gas or NGLs and we pay the hedge counterparty a floating price for that same quantity based upon published index prices. Since we receive from our customers substantially the same floating index price from the sale of the underlying physical commodity, these transactions are designed to effectively lock-in the agreed fixed price in advance for the volumes hedged. In order to avoid having a greater volume hedged than our actual equity volumes, we typically limit our use of swaps to hedge the prices of less than our expected natural gas and NGL equity volumes. We utilize purchased puts (or floors) to hedge additional expected equity commodity volumes without creating volumetric risk. Our commodity hedges may expose us to the risk of financial loss in certain circumstances. Our hedging arrangements provide us protection on the hedged volumes if market prices decline below the prices at which these hedges are set. If market prices rise above the prices at which we have hedged, we will receive less revenue on the hedged volumes than we would receive in the absence of hedges.

We have tailored our hedges to generally match the NGL product composition and the NGL and natural gas delivery points to those of our physical equity volumes. Our NGL hedges cover baskets of ethane, propane, normal butane, iso-butane and natural gasoline based upon our expected equity NGL composition. We believe this strategy avoids uncorrelated risks resulting from employing hedges on crude oil or other petroleum products as “proxy” hedges of NGL prices. Additionally, our NGL hedges are based on published index prices for delivery at Mont Belvieu and our natural gas hedges are based on published index prices for delivery at Columbia Gulf, Houston Ship Channel, Permian Basin, Mid-Continent and Waha, which closely approximate our actual NGL and natural gas delivery points. We hedge a portion of our condensate sales using crude oil hedges that are based on the NYMEX futures contracts for West Texas Intermediate light, sweet crude. At March 31, 2010, the notional volumes of our commodity hedges were:

<u>Commodity</u>	<u>Instrument</u>	<u>Unit</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Natural Gas	Swaps	MMBtu/d	36,792	30,100	23,100	8,000
NGL	Swaps	Bbl/d	8,858	7,000	4,650	-
NGL	Floors	Bbl/d	-	253	294	-
Condensate	Swaps	Bbl/d	851	750	400	400

Interest Rate Risk. We are exposed to changes in interest rates, primarily as a result of variable rate borrowings under our and the Partnership’s credit facilities. To the extent that interest rates increase, interest expense for our revolving debt will also increase. As of March 31, 2010, we had outstanding variable rate borrowings of \$494.0 million and the Partnership had outstanding variable rate borrowings of \$317.9 million. In an effort to reduce the variability of its cash flows, the Partnership has entered into several interest rate swap and interest rate basis swap agreements. Under these agreements, which are accounted for as cash flow hedges, the base interest rate on the specified notional amount of our variable rate debt is effectively fixed for the term of each agreement and ineffectiveness is required to be measured each reporting period. The fair values of the interest rate swap agreements, which are adjusted regularly, have been aggregated by counterparty for classification in our consolidated balance sheets. Accordingly, unrealized gains and losses relating to the interest rate swaps are recorded in OCI until the interest expense on the related debt is recognized in earnings.

Credit Risk. Our credit exposure related to commodity derivative instruments is represented by the fair value of contracts with a net positive fair value to us at the reporting date. At such times, these outstanding instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. Should the creditworthiness of one or more of our counterparties decline, our ability to mitigate nonperformance risk is limited to a counterparty agreeing to either a voluntary termination and subsequent cash settlement or a novation of the derivative contract to a third party. In the event of a counterparty default, we may sustain a loss and our cash receipts could be negatively impacted.

As of March 31, 2010, affiliates of Goldman Sachs, Barclays Bank and BP p.l.c. (“BP”) accounted for 43%, 28% and 17% of our counterparty credit exposure related to commodity derivative instruments. Goldman Sachs,

Barclays Bank and BP are major financial institutions or corporations, each possessing investment grade credit ratings based upon minimum credit ratings assigned by Standard & Poor's Ratings Services.

The following schedules reflect the fair values of derivative instruments in our financial statements:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value as of		Balance Sheet Location	Fair Value as of	
		March 31, 2010	December 31, 2009		March 31, 2010	December 31, 2009
Derivatives designated as hedging instruments						
Commodity contracts	Current assets	\$ 45.8	\$ 31.6	Current liabilities	\$ 13.8	\$ 20.7
	Long-term assets	23.3	11.7	Long-term liabilities	16.9	39.1
Interest rate contracts	Current assets	0.2	0.2	Current liabilities	8.3	8.0
	Long-term assets	0.4	1.9	Long-term liabilities	6.5	4.7
Total derivatives designated as hedging instruments		<u>69.7</u>	<u>45.4</u>		<u>45.5</u>	<u>72.5</u>
Derivatives not designated as hedging instruments						
Commodity contracts	Current assets	0.5	1.1	Current liabilities	0.5	0.5
	Long-term assets	-	0.2	Long-term liabilities	-	-
Total derivatives not designated as hedging instruments		<u>0.5</u>	<u>1.3</u>		<u>0.5</u>	<u>0.5</u>
Total derivatives		<u>\$ 70.2</u>	<u>\$ 46.7</u>		<u>\$ 46.0</u>	<u>\$ 73.0</u>

The fair value of derivative instruments, depending on the type of instrument, was determined by the use of present value methods or standard option valuation models with assumptions about commodity prices and interest rates based on those observed in underlying markets. These contracts may expose us to the risk of financial loss in certain circumstances. Our hedging arrangements provide us protection on the hedged volumes if prices decline below the prices at which these hedges are set. If prices rise above the prices at which we have hedged, we will receive less revenue on the hedged volumes than we would receive in the absence of hedges.

Our earnings are also affected by use of the mark-to-market method of accounting for derivative financial instruments that do not qualify for hedge accounting or that have not been designated as hedges. The changes in fair value of these instruments are recorded on the balance sheets and through earnings (i.e., using the "mark-to-market" method) rather than being deferred until the anticipated transaction affects earnings. The use of mark-to-market accounting for financial instruments can cause non-cash earnings volatility due to changes in the underlying commodity price indices. During the three months ended March 31, 2010 we recognized mark-to-market losses of \$0.3 million. No mark-to-market gains or losses were recorded during the three months ended March 31, 2009.

The following table reflects the gain (loss) recognized in OCI on the consolidated balance sheet and Other income (expense) on the Income Statement:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31,	
	2010	2009
	Interest rate contracts	\$ (6.7)
Commodity contracts	57.8	29.9
	<u>\$ 51.1</u>	<u>\$ 23.3</u>

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31,	
		2010	2009
		Commodity contracts	Other income (expense)

The following tables reflect amounts reclassified from OCI to revenues and expense:

Location of Gain (Loss)	Amount of Gain (Loss)	
	Reclassified from OCI into	
	Income (Ineffective Portion)	
Reclassified from	Three Months Ended March 31,	
OCI into Income	2010	2009
Revenues	(0.3)	0.4
	<u>\$ (0.3)</u>	<u>\$ 0.4</u>

Location of Gain (Loss)	Amount of Gain (Loss)	
	Reclassified from OCI into	
	Income (Effective Portion)	
Reclassified from	Three Months Ended March 31,	
OCI into Income	2010	2009
Interest expense, net	\$ (1.6)	\$ (2.5)
Revenues	(4.4)	15.8
	<u>\$ (6.0)</u>	<u>\$ 13.3</u>

As of December 31, 2009, OCI consisted of \$29.4 million (\$18.3 million, net of tax) of unrealized net losses on commodity hedges, and \$3.1 million (\$1.9 million, net of tax) of unrealized net losses on interest rate hedges.

As of March 31, 2010, OCI consisted of \$8.8 million (\$5.0 million, net of tax) of unrealized net gains on commodity hedges, and \$4.4 million (\$2.5 million, net of tax) of unrealized net losses on interest rate hedges. Deferred net gains of \$54.9 million on commodity hedges and deferred net losses of \$7.5 million on interest rate hedges recorded in OCI are expected to be reclassified to revenues from third parties and interest expense during the next twelve months.

During the three months ended March 31, 2010 and 2009 deferred net losses of \$7.6 million and \$17.5 million were reclassified from OCI as a non-cash reduction of revenue. These deferred losses are primarily related to the Partnership's 2008 termination of certain out-of-the-money natural gas and NGL commodity swaps.

Interest Rate Swaps

As of March 31, 2010, the Partnership had \$317.9 million outstanding under its senior secured revolving credit facility, with interest accruing at a base rate plus an applicable margin. In order to mitigate the risk of changes in cash flows attributable to changes in market interest rates the Partnership entered into interest rate swaps and interest rate basis swaps that effectively fix the base rate on \$300 million in borrowings as shown below:

Period	Fixed Rate	Notional Amount	Fair Value
2010	3.67%	300 million	\$ (7.8)
2011	3.52%	300 million	(5.2)
2012	3.40%	300 million	(2.7)
2013	3.39%	300 million	0.5
01/01 - 4/24/2014	3.39%	300 million	0.9
			<u>\$ (14.3)</u>

The Partnership has designated all interest rate swaps and interest rate basis swaps as cash flow hedges of variable rate interest payments on borrowings under its senior secured revolving credit facility.

See Note 10 and Note 14 for additional disclosures related to derivative instruments and hedging activity.

Note 10—Fair Value Measurements

We account for the fair value of our financial assets and liabilities using the three-tier fair value hierarchy, which prioritizes the significant inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our derivative instruments consist of financially settled commodity and interest rate swap and option contracts and fixed price commodity contracts with certain customers. We determine the value of our derivative contracts utilizing a discounted cash flow model for swaps and a standard option pricing model for options, based on inputs that are readily available in public markets. We have consistently applied these valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivative contracts we hold. We have categorized the inputs for these contracts as Level 2 or Level 3.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2010. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value assets and liabilities and their placement within the fair value hierarchy levels.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets from commodity derivative contracts	\$ 70.4	\$ -	\$ 68.8	\$ 1.6
Assets from interest rate derivatives	0.6	-	0.6	-
Total assets	<u>\$ 71.0</u>	<u>\$ -</u>	<u>\$ 69.4</u>	<u>\$ 1.6</u>
Liabilities from commodity derivative contracts	\$ 31.5	\$ -	\$ 26.2	\$ 5.3
Liabilities from interest rate derivatives	14.8	-	14.8	-
Total liabilities	<u>\$ 46.3</u>	<u>\$ -</u>	<u>\$ 41.0</u>	<u>\$ 5.3</u>

The following table sets forth a reconciliation of the changes in the fair value of our financial instruments classified as Level 3 in the fair value hierarchy:

	<u>Derivatives Contracts</u>
Balance, December 31, 2009	\$ (13.7)
Unrealized gains included in OCI	10.6
Settlements	<u>(0.6)</u>
Balance, March 31, 2010	<u>\$ (3.7)</u>

Note 11—Commitments and Contingencies

Environmental

For environmental matters, we record liabilities when remedial efforts are probable and the costs can be reasonably estimated. Environmental reserves do not reflect management's assessment of the insurance coverage that may be applicable to the matters at issue. Management has assessed each of the matters based on current information and made a judgment concerning its potential outcome, considering the nature of the claim, the amount and nature of damages sought and the probability of success.

Our environmental liability at March 31, 2010 and December 31, 2009 was \$1.9 million and \$3.2 million. Our March 31, 2010 liability consisted of \$0.2 million for gathering system leaks, \$1.6 million for ground water assessment and remediation, and \$0.1 million for the gas processing plant environmental violations.

In May 2007, the New Mexico Environment Department (“NMED”) alleged air emissions violations at the Eunice, Monument and Saunders gas processing plants operated by Targa Midstream Services Limited Partnership and owned by Versado Gas Processors, LLC (“Versado”), which were identified in the course of an inspection of the Eunice plant conducted by the NMED in August 2005.

In January 2010, Versado settled the alleged violations with NMED for a penalty of approximately \$1.5 million. As part of the settlement, Versado agreed to install two acid gas injection wells, additional emission control equipment and monitoring equipment, the cost of which we estimate to be approximately \$33.4 million.

Legal Proceedings

We are a party to various legal proceedings and/or regulatory proceedings and certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against us. We believe all such matters are without merit or involve amounts which, if resolved unfavorably, would not have a material effect on our financial position, results of operations, or cash flows, except for the items more fully described below.

On December 8, 2005, WTG Gas Processing (“WTG”) filed suit in the 333rd District Court of Harris County, Texas against several defendants, including us and three other Targa entities and private equity funds affiliated with Warburg Pincus LLC, seeking damages from the defendants. The suit alleges that Targa and private equity funds affiliated with Warburg Pincus, along with ConocoPhillips Company (“ConocoPhillips”) and Morgan Stanley, tortiously interfered with (i) a contract WTG claims to have had to purchase the SAOU System from ConocoPhillips and (ii) prospective business relations of WTG. WTG claims the alleged interference resulted from Targa’s competition to purchase the ConocoPhillips’ assets and its successful acquisition of those assets in 2004. On October 2, 2007, the District Court granted defendants’ motions for summary judgment on all of WTG’s claims. On February 23, 2010, the 14th Court of Appeals affirmed the District Court’s final judgment in favor of defendants in its entirety. On April 16, 2010, WTG filed a petition for review with the Texas Supreme Court. If the petition for review is granted, we intend to contest the appeal, but can give no assurances regarding the outcome of the proceeding. We have agreed to indemnify the Partnership for any claim or liability arising out of the WTG suit.

Note 12—Fair Value of Financial Instruments

The estimated fair values of our assets and liabilities classified as financial instruments have been determined using available market information and valuation methodologies described below. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying value of our and the Partnership’s credit facilities approximates their fair values, as the interest rates are based on prevailing market rates. The fair value of the senior secured term loan facility and the senior unsecured notes are based on quoted market prices based on trades of such debt.

The carrying values of items comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. Derivative financial instruments included in our financial statements are stated at fair value. The carrying amounts and fair values of our other financial instruments are as follows as of the dates indicated:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior secured term loan facility, due 2016 (1)	\$ 494.0	\$ 498.8	\$ -	\$ -
Senior secured term loan facility, due 2012	-	-	62.2	61.9
Senior unsecured notes, 8½% fixed rate (2)	-	-	250.0	259.2
Senior unsecured notes of the Partnership, 8¼% fixed rate	209.1	214.3	209.1	206.5
Senior unsecured notes of the Partnership, 11¼% fixed rate (3)	220.3	263.7	220.1	253.5

(1) The carrying amount of the term loan facility includes \$4.8 million of unamortized discount as of March 31, 2010. The face value of the term loan outstanding approximates its fair value as we were not able to obtain an indicative quote from a third party financial institution.

(2) The fair value as of December 31, 2009 represents the value of the last trade of the year which occurred on December 9, 2009. On January 5, 2010 we paid \$264.7 million to complete a cash tender offer for all outstanding

- aggregate principal amount plus accrued interest of \$3.8 million.
- (3) The carrying amount of the notes includes \$11 million of unamortized original issue discount as of March 31, 2010.

Note 13—Noncontrolling Interest in Subsidiaries

The following is a reconciliation of our noncontrolling interest for the three months ended March 31, 2010 and 2009:

	<u>Noncontrolling Interest</u>
Balance, December 31, 2008	\$ 949.6
Contributions	1.1
Distributions	(26.5)
Other comprehensive income	4.7
Net income	<u>(1.6)</u>
Balance, March 31, 2009	<u>\$ 927.3</u>
Balance, December 31, 2009	\$ 926.9
Contributions	140.1
Distributions	(26.7)
Amortization of equity awards	0.1
Tax expense on vesting of common stock	-
Other comprehensive income	20.8
Net income	<u>14.0</u>
Balance, March 31, 2010	<u>\$ 1,075.2</u>

Note 14—Related-Party Transactions

Relationship with Warburg Pincus LLC

Two of the directors of Targa are Managing Directors of Warburg Pincus LLC and are also directors of Broad Oak Energy, Inc. (“Broad Oak”) from whom we buy natural gas and NGL products. Affiliates of Warburg Pincus LLC own a controlling interest in Broad Oak. During the three months ended March 31, 2010 and 2009, we purchased \$6.5 million and \$1.4 million of product from Broad Oak.

Relationship with Maritech Resources, Inc.

William D. Sullivan, one of the directors of the General Partner of the Partnership, is also a director of Tetra Technologies, Inc. (“Tetra”). Maritech Resources, Inc. (“Maritech”) is a subsidiary of Tetra. During the three months ended March 31, 2010, we purchased less than \$0.6 million of product from Maritech. During the three months ended March 31, 2009, we purchased \$0.2 million of product from Maritech. These transactions were at market prices consistent with similar transactions with nonaffiliated entities.

Relationships with Bank of America

Equity

An affiliate of BofA holds a non-voting equity interest in the general partner of Warburg Pincus Private Equity VIII, L.P. and Warburg Pincus Private Equity IX, L.P., the principal shareholders of Targa Investments.

Financial Services

BofA is a lender and an agent under our existing senior secured credit facilities. Additionally, BofA is a lender and an administrative agent under the Partnership’s senior secured credit facility.

Hedging Arrangements

We have previously entered into various commodity derivative transactions with BofA. As of March 31, 2010, we have no open positions with BofA. For the three months ended March 31, 2010 we had no settlements with BofA. For the three months ended March 31, 2009, we received \$7.1 million from BofA for commodity derivative settlements.

The Partnership had the following open commodity derivatives with BofA as of March 31, 2010:

<u>Period</u>	<u>Commodity</u>	<u>Daily Volumes</u>	<u>Average Price</u>	<u>Index</u>
Apr 2010 - Dec 2010	Natural Gas	3,289 MMBtu	7.39 per MMBtu	IF-WAHA
Apr 2010 - Jun 2010	Natural Gas	1,319 MMBtu	8.11 per MMBtu	NY_HH
Apr 2010 - Dec 2010	Condensate	167 Bbl	69.29 per Bbl	NY-WTI

As of March 31, 2010 the fair value of these Partnership open positions was an asset of \$1.7 million. During the three months ended March 31, 2010 and 2009 the Partnership received from BofA \$0.5 million and \$8.5 million in commodity derivative settlements.

Commercial Relationships

In April 2004, we entered into a base agreement for the purchase and sale of natural gas with Entergy-Koch Trading, LP, pursuant to which Entergy-Koch Trading, LP typically purchases natural gas for fuel at its affiliated cogeneration facility in Lake Charles. On November 1, 2004, BofA acquired Entergy-Koch Trading, LP and became a successor to this agreement. Pricing terms under the agreement are governed by reference to specified index prices plus a premium. During the three months ended March 31, 2010 and 2009, we had product sales to BofA, which are included in revenues, of \$8.4 million and \$14.8 million. For the same periods, we had natural gas and NGL product purchases of \$0.1 million and \$1.0 million from BofA.

Transactions with Unconsolidated Affiliates

For the years indicated, our natural gas and NGL sales and purchases with our unconsolidated affiliates were:

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
<u>Included in revenues</u>		
GCF	\$ 0.1	\$ 0.1
<u>Included in costs and expenses</u>		
GCF	\$ 0.7	\$ 1.2

These transactions were at market prices consistent with similar transactions with nonaffiliated entities.

Note 15—Supplemental Cash Flow Information

Supplemental cash flow information was as follows for the periods indicated: **[to be updated]**

	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash:		
Interest paid	\$ 37.7	\$ 16.2
Income taxes paid (refunded)	(0.4)	5.9
Non-cash:		
Inventory line-fill transferred to property, plant and equipment	-	10.1

