

OFFICE OF THE GOVERNOR
GOVERNOR GREG ABBOTT
STATE APPOINTMENT DISCLOSURE FORM

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JAN 05 2016
Appointments

[Note: This form should be completed and signed by the appointee no later than the 14th day after the date the public official is appointed or confirmed by the Senate, if nominated during a legislative session.]

Kelcy Warren
(Print Name)

Commissioner, TPWC
(Board Appointment)

The Public Information Act allows employees, public officials and former employees and officials to elect whether to keep certain information about them confidential. Unless you choose to keep it confidential, the following information about you may be subject to public release if requested under the Texas Public Information Act. Therefore, please indicate whether you wish to allow public release of the following information.

Public Access?

Home Address: No Yes _____

Home Telephone Number: No Yes _____

Social Security Number: No Yes _____

Information that reveals whether you have family members: No Yes _____

Kelcy Warren
(Signature)

12.17.15
(Date)

Please return form to:
Governor's Appointments Office
P.O. Box 12428
Austin, Texas 78711

V10.19.15



GOVERNOR GREG ABBOTT OFFICE OF THE GOVERNOR APPOINTMENT APPLICATION

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Appointments

1. Personal Information

2. Photograph

Full Legal Name Kelcy Lee Warren			
Preferred Name Kelcy			
Spouse's Name [REDACTED]			
Physical Home Address [REDACTED]			
City, State Zip [REDACTED]			
Mailing Address 3738 Oak Lawn Ave.			
City, State Zip Dallas, TX 75219			
County Dallas	Work Telephone 214-981-0700		Home Telephone [REDACTED]
Cellular [REDACTED]	Preferred E-mail Address [REDACTED]		
Secondary E-Mail Address (if applicable) [REDACTED]			State Senator Don Huffines
		State Representative Jason Villalba	

3. State Board(s), Commission(s), or Task Force(s) of Interest to You:

The list of all entities to which the Governor makes appointments may be found at:

<http://www.gov.texas.gov/appointments/positions>

4. Employment Information

Employer Energy Transfer Partners	Employer's Address 3738 Oak Lawn Ave. Dallas, TX 75219	Present Job Title Chairman & CEO
		Profession Executive
Present Job Description Chairman and CEO		

Name _____

5. Education/Training

Type of School	Name and Location of School	Year Graduated	Degree and Field of Study
High School	White Oak High School, White Oak, TX	1974	
Undergraduate	The University of Texas at Arlington	1978	BSCE
Graduate			
Other			

6. Employment History

Employer	Position	Dates	Location
Lone Star Gas	Engineer	78-81	Dallas, TX
Endevco	Engineer/ VP/ President	81-91	Dallas, TX
Comerstone Natural Gas	President- COO	91-95	Dallas, TX
Energy Transfer Partners	CEO Chairman	95-present	Dallas, TX

7. References

Name	Employer	City	Telephone	Relationship
Ray Davis		Dallas	214-378-7500	Business Assoc.
Cliff Harris	Energy Transfer	Dallas	469-484-5343	Business Assoc.
			- -	
			- -	
			- -	

8. Professional Memberships (including any state bar memberships)

Organization	Title/Position	Current/Former

9. Volunteer Participation

Organization	Title/Position	Current/Former
Cherokee Crossroads, Inc.	Fundraising Organizer	Current
Klyde Warren Park	Fundraising Organizer	Current
The Lamplighter School	Fundraising Organizer	Current
Roatan Hospital	Fundraising Organizer	Current
Dallas Children's Advocacy Center	Fundraising Organizer	Current

10. Military Service

Are you or have you ever been a member of the Armed Forces of the United States: Yes No

Branch	Dates of Service	Type of Discharge

Name _____

11. Social Media Information

Do you use, or have you ever used, any of the following? If "yes," provide additional information.

Facebook	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Username
Twitter	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Handle @
Instagram	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Username
LinkedIn	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Profile
Google+	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Username

12. Spouse Information **This Section Not Applicable**

Spouse's Employer	Job Title/Position
Does your spouse conduct any business with or before the Texas Legislature or any other state entity? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	If yes, please list agencies:

13. Miscellaneous Information

Note: "Material interest" is defined as (a) serving on the governing board of directors or (b) a ten (10) percent or greater ownership. This does not apply to any mutual funds in which you do not exercise authority in investment decisions.

Have you filed federal income tax returns for the past five (5) years? If no, give details. Yes No

Are you, your spouse, or any company in which you have a material interest currently delinquent in any local, state or federal taxes? If yes, give details. Yes No

Have you ever defaulted on a personal, business or student loan? If yes, give details. Yes No

Type of Loan	Date	Details

Have you, your spouse, or any company in which you have a material interest or of which you have been an officer or principal been involved in any bankruptcy proceeding? If yes, give details including dates. Yes No

Do you currently serve, or have you ever served, on any local, state or federal government board, commission or committee or in any elected or appointed office? Yes No

Entity	Position	Dates	Compensated (Y/N)	Reimbursed (Y/N)

Name

13. Miscellaneous Information (Continued)

Are you or your spouse related to a local, state, or federal public official?		<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Name of Official and Title		Relationship	

Do you or your spouse have any material interest in, or are either of you employed by, any company that does business with or receives funds from the State of Texas? If yes, give full name and details:		<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Name of Company	Details		
	Not that I am aware of		

Are you or your spouse an officer, director, employee or paid consultant of a trade association? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Self
If yes, please list association and position:	Spouse

Have you or your spouse ever been registered as a lobbyist or received compensation to represent someone before a local, state, or federal government?			<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Self or Spouse	Entity Represented	Entity Lobbied	Dates

Have you, your spouse, or any company in which you or your spouse have a material interest been party to litigation? If yes, give details.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Multiple issues over 35 years in career. Happy to discuss further, please call should you need additional detail.	

In the last five years, have you, or any company in which you have a material interest, been licensed by a Texas state agency? If yes, give details.			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Agency	Type of License	License #	Expiration
Texas Railroad Commission	Multiple through Energy Transfer		
Secretary of State	Multiple through Energy Transfer		

Have you ever been delinquent in child support payments? If yes, give details.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Not Applicable
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Name

13. Miscellaneous Information (Continued)

To the best of your knowledge, has any federal, state or local law enforcement or regulatory agency (on behalf of itself or any other person or entity) filed or investigated any grievance or complaint against you, your spouse, or an entity in which you have a material interest? If yes, give details and disposition (investigated, dismissed, reprimanded)		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Agency	Date	Details and Disposition
FERC	2007-2008	Market Manipulation/ Case dropped with minor fine

To the best of your knowledge, have you, your spouse, or any company in which you have a material interest been investigated, reprimanded, fined or suspended from doing business with any state or federal agency? If yes, give details and disposition (investigated, reprimanded, fined, suspended)		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Agency	Date	Details and Disposition

Have you ever been convicted in a criminal proceeding (excluding traffic violations), placed on probation, required to perform community service, or had a criminal proceeding disposed of by pre-trial diversion, deferred prosecution, deferred adjudication, or some similar proceeding?		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If yes, list the charge, the date of the offense, the city and/or county and state in which it allegedly occurred, and the disposition thereof.		

14. Certification

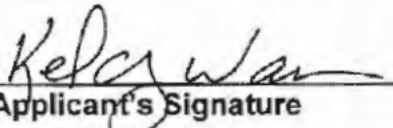
Full Legal Name Kelcy Lee Warren	
Date of Birth [REDACTED]	Driver License or DPS ID# [REDACTED]
Are you a U.S. Citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Place of Birth Gladewater, TX
Date of naturalization (if not a citizen upon birth) / /	
Ethnicity: (optional; check all that apply) <input checked="" type="checkbox"/> White <input type="checkbox"/> African American	
<input type="checkbox"/> Hispanic <input type="checkbox"/> Asian American <input type="checkbox"/> Native American <input type="checkbox"/> Other	

Notes:

- Appointment to a Board or Commission may require the annual filing of a Personal Financial Statement (PFS) Form with the Texas Ethics Commission.
- A resume must be attached in order for this application to be considered complete.
- Judicial candidates must also complete a Judicial Questionnaire.
- Any information provided on the application or attached may be subject to the Texas Public Information Act. This means that an individual requesting copies of the information in your file may be provided access to that information.

CERTIFICATION OF APPLICANT

I hereby certify that the foregoing and any attached statements are true, accurate and complete. I agree that any misstatement, misrepresentation, or omission of a fact may result in my disqualification for appointment. I assign and hereby give the Office of the Governor full authority to conduct background investigations pertinent to this application. I specifically authorize the Texas Department of Public Safety to conduct a background investigation and to disclose the results of that investigation to the Governor or his authorized representative.


Applicant's Signature

10.14.15
Date

Submit to:

Appointments Staff (512) 463-1828
Office of the Governor (512) 475-2576 fax
PO Box 12428 www.gov.texas.gov
Austin, Texas 78711

ServingTexas@gov.texas.gov (with scanned signature page)

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Addendum to question 13- Litigation

Energy Transfer Partners, L.P. v. Enterprise Products Partners, L.P., Cause No. 11-12667, in the 298th Judicial District Court of Dallas County, Texas: In September 2011, ETP filed a lawsuit against Enterprise Products Partners, L.P. ("Enterprise") to recover damages from Enterprise with respect to breach of fiduciary duty in connection with the joint venture formed by ETP and Enterprise (the Double E Crude Pipeline, LLC) to jointly pursue the construction of a crude oil pipeline connecting the major oil hub at Cushing, Oklahoma, to Gulf Coast markets. The jury returned a verdict in ETP's favor for \$319,375,000 in compensatory damages and \$595,257,433 in disgorgement. On July 29, 2014, the Judge entered an order in favor of ETP and awarded it \$535,794,777.40. Enterprise has appealed the verdict.

Enterprise Texas Pipeline LLC v. Energy Transfer Fuel, L.P., Cause No. 2013-28613, in the 164th Judicial District Court of Harris County, Texas: on May 14, 2013, Enterprise Texas Pipeline LLC ("Enterprise") filed suit against Energy Transfer Fuel ("ETF") related to an April 1, 1980 agreement that grants Enterprise certain rights to flow gas on the Old Ocean Pipeline. Enterprise claimed approximately \$350 million in damages, the majority of this amount (\$315MM) were unsubstantiated lost profits. Of the almost \$350 million sought by Enterprise, the jury awarded Enterprise approximately \$2.24 million, which is half of the past monthly payments Enterprise made to ETP since ETP lowered the pressure on the Old Ocean Pipeline. The parties have agreed to mediate the case.

In re: MTBE Products Liability Litigation (MDL No. 1358): Sunoco is one of many petrochemical company defendants, including manufacturers, refiners, formulators, distributors, suppliers, sellers and/or marketers, of MTBE and/or gasoline containing MTBE, that has been sued in lawsuits throughout the United States. The pending cases have been brought on behalf of the States of New Jersey, Vermont, Pennsylvania, the Commonwealth of Puerto Rico and one case by the City of Breaux Bridge in the United States District Court for the Western District of Louisiana. The complaints contain substantially similar allegations and involve claims related to allegedly contaminated ground and surface water, including waters that serve as drinking water supplies. Litigation is ongoing. We are defending Sunoco's interests through extensive discovery and motion practice.

As the largest Texas pipeline company we occasionally deal with right away issues

Multiple issues over 35 years in career. Happy to discuss further, please call should you need additional detail.

Addendum to question 13- Agency Licenses

Texas Department of Agriculture- multiple licenses under multiple entities

Texas Commission on Environmental Quality- multiple licenses under multiple entities

Texas Lottery Commission

Texas Department of State Health Services- multiple licenses under multiple entities

Texas Parks & Wildlife- multiple licenses under multiple entities

Texas Department of Banking

Texas Railroad Commission- multiple licenses under multiple entities
Texas Department of Public Safety- multiple licenses under multiple entities
Texas Workforce Commission- multiple licenses under multiple entities
Texas General Land Office- multiple licenses under multiple entities
Texas Comptroller of Public Accounts
Texas Forest Service
Ethics Commission of Texas – our political action committee.
Historical Commission of Texas – for grassroots pipeline approvals
Texas Department of Insurance
Texas Board of Professional Land Surveying
One Call Board of Texas
Public Utility Commission of Texas
Texas Department of Transportation – pipeline road crossings, etc.
Water Development Board of Texas

Note: There are numerous Texas River Authorities and Water Districts where we likely have permits for river crossings and water districts during and after construction:

- Angelina and Neches River Authority
- Brazos River Authority
- Canadian River Municipal Water Authority
- Central Colorado River Authority
- Coastal Water Authority
- Edwards Aquifer Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley Authority
- Neches River Authority
- Pecos River Compact Commission
- Red River Authority
- Sabine River Authority
- San Antonio River Authority
- San Jacinto River Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches River Municipal Water Authority

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KELCY L. WARREN

October 14, 2015

Mr. Luis J. Saenz
Director of Appointments
Office of Governor Greg Abbott
P.O. Box 12428
Austin, Texas 78711

Dear Mr. Saenz,

The purpose of this letter is to provide supplementary information related to Question 13 on the attached "Appointment Application".

As I believe that you are aware, I am the Chief Executive Officer and Chairman of the Board of Directors of Energy Transfer Partners, L.P. (NYSE: ETP) and the Chairman of the Board of Directors of the General Partner of Energy Transfer Equity, L.P. (NYSE: ETE, and along with ETP may be collectively referred to herein as "Energy Transfer"). On a consolidated basis, the Energy Transfer family of companies owns and operates approximately 71,000 miles of pipelines consisting of one of the largest and most diversified portfolios of energy assets in the United States.

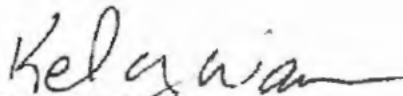
Energy Transfer owns and operates significant pipeline assets within the State of Texas for the gathering, transportation, storage and fractionation of natural gas, natural gas liquids refined products and crude oil pipelines. These assets are highly regulated by various federal and state agencies, and (as is typical) Energy Transfer has been subjected to various reviews, proceedings, investigations, administrative matters, fines and claims by federal, state or local law enforcement or regulatory agencies, including FERC, OSHA, EPA, PHMSA, TXDOT, TCEQ and the Texas Railroad Commission among others. These reviews, proceedings, investigations, administrative matters, fines and claims have all come in the ordinary course of doing business and have generally been resolved without penalty or in an immaterial manner. From time to time, however, subsidiaries of Energy Transfer have been the subject of such investigations and incurred penalties the largest of

which was related to claims made by the FERC and CFTC related to alleged manipulation or improper trading activities in the Houston Ship Channel on two dates during the Fall of 2005 following the occurrences of Hurricanes Katrina and Rita as well as eight other occasions from December 2003 through August 2005. I have attached the public statements filed with the Securities and Exchange Commission (specifically "FERC/CFTC and Related Matters" at pages 144-147 (ETP's 2009 10-K); "FERC/CFTC and Related Matters" at pages 146-149 (ETP's 2010 10-K); and "FERC and Related Matters" at pages F-36 to F-36 (ETP's 2011 10-K), that more fully describes the claims and the resolution. I have also attached an addendum to question 13-Litigation and Agency Licenses, that describes certain material litigation and state agency licenses related to Energy Transfer.

I have not personally been investigated, reprimanded, fined or suspended as a result of the reviews, proceedings, investigations, or administrative matters of the referenced federal, state or local law enforcement or regulatory agencies.

I hope that this provides your office with sufficient information to process the Appointment Application. Should you need additional information or if you would like to discuss any matter please do not hesitate to contact me.

Best regards,



Kelcy L. Warren
CEO and Chairman

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ETP 2011 10-K

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We have certain non-cancelable leases for property and equipment, which require fixed monthly rental payments and expire at various dates through 2034. Rental expense under these operating leases has been included in operating expenses in the accompanying statements of operations and totaled approximately \$21.1 million, \$19.8 million and \$17.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Future minimum lease commitments for such leases are:

Years Ending December 31:

2011	\$	23,670
2012		20,732
2013		19,384
2014		17,222
2015		16,777
Thereafter		165,403

Our propane operations have an agreement with Enterprise Products Partners L.P. (together with its subsidiaries "Enterprise") (see Note 12) to supply a portion of our propane requirements. The agreement will continue until March 2015 and includes an option to extend the agreement for an additional year.

In connection with the sale of our investment in M-P Energy in October 2007, we executed a propane purchase agreement for approximately 90.0 million gallons per year through 2015 at market prices plus a nominal fee.

We have commitments to make capital contributions to our joint ventures and expect that capital contributions for 2011 will be between \$200 million and \$230 million.

Litigation and Contingencies

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. Natural gas and propane are flammable, combustible gases. Serious personal injury and significant property damage can arise in connection with their transportation, storage or use. In the ordinary course of business, we are sometimes threatened with or named as a defendant in various lawsuits seeking actual and punitive damages for product liability, personal injury and property damage. We maintain liability insurance with insurers in amounts and with coverage and deductibles management believes are reasonable and prudent, and which are generally accepted in the industry. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect us from material expenses related to product liability, personal injury or property damage in the future.

FERC and Related Matters. On July 26, 2007, the FERC issued to us an Order to Show Cause and Notice of Proposed Penalties (the "Order and Notice") that contains allegations that we violated FERC rules and regulations. The FERC alleged that we engaged in manipulative or improper trading activities in the Houston Ship Channel, primarily on two dates during the fall of 2005 following the occurrence of Hurricanes Katrina and Rita, as well as on eight other occasions from December 2003 through August 2005, in order to benefit financially from our commodities derivatives positions and from certain of our index-priced physical gas purchases in the Houston Ship Channel. The FERC alleged that during these periods we violated the FERC's then-effective Market Behavior Rule 2, an anti-market manipulation rule promulgated by the FERC under authority of the NGA. The FERC alleged that we violated this rule by artificially suppressing prices that were included in the Platts *Inside FERC* Houston Ship Channel index, published by McGraw-Hill Companies, on which the pricing of many physical natural gas contracts and financial

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derivatives are based. The FERC also alleged that one of our intrastate pipelines violated various FERC regulations by, among other things, granting undue preferences in favor of an affiliate. In its Order and Notice, the FERC specified that it was seeking \$69.9 million in disgorgement of profits, plus interest, and \$82.0 million in civil penalties relating to these market manipulation claims. In February 2008, the FERC's Enforcement Staff also recommended that the FERC pursue market manipulation claims related to ETP's trading activities in October 2005 for November 2005 monthly deliveries, a period not previously covered by the FERC's allegations in the Order and Notice, and that ETP be assessed an additional civil penalty of \$25.0 million and be required to disgorge approximately \$7.3 million of alleged unjust profits related to this additional month.

On August 26, 2009, we entered into a settlement agreement with the FERC's Enforcement Staff with respect to the pending FERC claims against us and, on September 21, 2009, the FERC approved the settlement agreement without modification. The agreement resolves all outstanding FERC claims against us and required that we make a \$5.0 million payment to the federal government and establish a \$25.0 million fund for the purpose of settling related third-party claims based on or arising out of the market manipulation allegation against us by those third parties that elect to make a claim against this fund, including existing litigation claims as well as any new claims that may be asserted against this fund. Pursuant to the settlement agreement, the FERC made no findings of fact or conclusions of law. In addition, the settlement agreement specifies that by executing the settlement agreement we do not admit or concede to the FERC or any third party any actual or potential fault, wrongdoing or liability in connection with our alleged conduct related to the FERC claims. The settlement agreement also requires us to maintain specified compliance programs and to conduct independent annual audits of such programs for a two-year period.

In September 2009, the FERC appointed an administrative law judge, or ALJ, to establish a process of potential claimants to make claims against the \$25.0 million fund, to determine the validity of any such claims and to make a recommendation to the FERC relating to the application of this fund to any potential claimants. Pursuant to the process established by the ALJ, a number of parties submitted claims against this fund and, subsequent thereto, the ALJ made various determinations with respect to the validity of these claims, solely for purposes of participation in this fund allocation process, and the methodology for making payments from the fund to claimants. In June 2010, each claimant that had been allocated a payment amount from the fund by the ALJ was required to make a determination as to whether to accept the ALJ's recommended payment amount from the fund, and all such claimants accepted their allocated payment amounts. In connection with accepting the allocated payment amount, each such claimant was required to waive and release all claims against ETP related to this matter.

In addition to the claims that were settled pursuant to the ALJ fund allocation process discussed above, ETP was a party in three legal proceedings that asserted contract and tort claims relating to alleged manipulation of natural gas prices at the Houston Ship Channel and the Waha Hub in West Texas, as well as the natural gas price indices related to these markets and the Permian Basin natural gas price indices during the period from December 2003 through December 2006. In all three of these legal proceedings, we have received favorable rulings at the lower court and appellate court levels that have resulted in the dismissal of all claims made in these proceedings, and no further appeals or motions for rehearing may be pursued by the plaintiffs in these proceedings.

We are expensing the legal fees, consultants' fees and other expenses relating to these matters in the periods in which such costs are incurred. We record accruals for litigation and other contingencies whenever required by applicable accounting standards. Based on the terms of the settlement agreement with the FERC described above, we made the \$5.0 million payment and established the \$25.0 million fund in October 2009. The after-tax impact of the settlement was less than \$30.0 million due to tax benefits resulting from the portion of the payment that is used to satisfy third party claims.

Houston Pipeline Cushion Gas Litigation. At the time of the HPL System acquisition, AEP Energy Services Gas Holding Company II, L.L.C., HPL Consolidation LP and its subsidiaries (the "HPL Entities"), their

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was entitled to receive additional fees for the difference between actual volumes transported by TXU Shipper on the ET Fuel System and the minimum amount as stated above during the twelve-month periods ended each May 31st. As a result, the Partnership recognized approximately \$11.7 million, \$10.7 million and \$10.8 million in additional fees during the second quarters of 2009 and 2008 and the third fiscal quarter of 2007, respectively.

We have signed long-term agreements with several parties committing firm transportation volumes into the East Texas pipeline. Those commitments include an agreement with XTO Energy Inc. ("XTO") to deliver approximately 200,000 MMBtu/d of natural gas into the pipeline that expires in June 2012. Exxon Mobil Corporation ("ExxonMobil") and XTO announced an agreement whereby ExxonMobil will acquire XTO. The pending acquisition, expected to be completed in the second quarter of 2010, is not expected to result in any changes to these commitments.

We also have two long-term agreements committing firm transportation volumes on certain of our transportation pipelines. The two contracts require an aggregated capacity of approximately 238,000 MMBtu/d of natural gas and extend through 2011.

Titan has a purchase contract with Enterprise (see Note 14) to purchase the majority of Titan's propane requirements. The contract continues until March 2010 and contains renewal and extension options. The contract contains various service level agreements between the parties.

In connection with the sale of our investment in M-P Energy in October 2007, we executed a propane purchase agreement for approximately 90.0 million gallons per year through 2015 at market prices plus a nominal fee.

We have commitments to make capital contributions to our joint ventures, for which we expect to make capital contributions of between \$90 million and \$105 million during 2010.

Litigation and Contingencies

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. Natural gas and propane are flammable, combustible gases. Serious personal injury and significant property damage can arise in connection with their transportation, storage or use. In the ordinary course of business, we are sometimes threatened with or named as a defendant in various lawsuits seeking actual and punitive damages for product liability, personal injury and property damage. We maintain liability insurance with insurers in amounts and with coverage and deductibles management believes are reasonable and prudent, and which are generally accepted in the industry. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect us from material expenses related to product liability, personal injury or property damage in the future.

FERC/CFRC and Related Matters. On July 26, 2007, the FERC issued to us an Order to Show Cause and Notice of Proposed Penalties (the "Order and Notice") that contains allegations that we violated FERC rules and regulations. The FERC alleged that we engaged in manipulative or improper trading activities in the Houston Ship Channel, primarily on two dates during the fall of 2005 following the occurrence of Hurricanes Katrina and Rita, as well as on eight other occasions from December 2003 through August 2005, in order to benefit financially from our commodities derivatives positions and from certain of our index-priced physical gas purchases in the Houston Ship Channel. The FERC alleged that during these periods we violated the FERC's then-effective Market Behavior Rule 2, an anti-market manipulation rule promulgated by the FERC under authority of the NGA. The FERC alleged that we violated this rule by artificially suppressing prices that were included in the Platts Inside FERC Houston Ship Channel index, published by McGraw-Hill Companies, on which the pricing of many physical natural gas contracts and financial derivatives are based. In its Order and Notice, the FERC also alleged that we manipulated daily prices at the

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Waha and Permian Hubs in west Texas on two dates. The FERC also alleged that one of our intrastate pipelines violated various FERC regulations by, among other things, granting undue preferences in favor of an affiliate. In its Order and Notice, the FERC specified that it was seeking \$69.9 million in disgorgement of profits, plus interest, and \$82.0 million in civil penalties relating to these market manipulation claims. The FERC specified that it was also seeking to revoke, for a period of 12 months, our blanket marketing authority for sales of natural gas in interstate commerce at market-based prices. In February 2008, the FERC's Enforcement Staff also recommended that the FERC pursue market manipulation claims related to ETP's trading activities in October 2005 for November 2005 monthly deliveries, a period not previously covered by the FERC's allegations in the Order and Notice, and that ETP be assessed an additional civil penalty of \$25.0 million and be required to disgorge approximately \$7.3 million of alleged unjust profits related to this additional month.

On August 26, 2009, we entered into a settlement agreement with the FERC's Enforcement Staff with respect to the pending FERC claims against us and, on September 21, 2009, the FERC approved the settlement agreement without modification. The agreement settles all outstanding FERC claims against us and provides that we make a \$5.0 million payment to the federal government and establish a \$25.0 million fund for the purpose of settling related third-party claims against us, including existing litigation claims as well as any new claims that may be asserted against this fund. An administrative law judge appointed by the FERC will determine the validity of any third party claim against this fund. Any party who receives money from this fund will be required to waive all claims against us related to this matter. Pursuant to the settlement agreement, the FERC made no findings of fact or conclusions of law. In addition, the settlement agreement specifies that by exceeding the settlement agreement we do not admit or concede to the FERC or any third party any actual or potential fault, wrongdoing or liability in connection with our alleged conduct related to the FERC claims. The settlement agreement also requires us to maintain specified compliance programs and to conduct independent annual audits of such programs for a two-year period.

We made the \$5.0 million payment and established the \$25.0 million fund in October 2009. The allocation of the \$25.0 million fund is expected to be determined in 2010.

In addition to the FERC legal action, third parties have asserted claims and may assert additional claims against us and ETE alleging damages related to these matters. In this regard, several natural gas producers and a natural gas marketing company have initiated legal proceedings in Texas state courts against us and ETE for claims related to the FERC claims. These suits contain contract and tort claims relating to alleged manipulation of natural gas prices at the Houston Ship Channel and the Waha Hub in West Texas, as well as the natural gas price indices related to these markets and the Permian Basin natural gas price index during the period from December 2003 through December 2006, and seek unspecified direct, indirect, consequential and exemplary damages. One of the suits against us and ETE contains an additional allegation that we and ETE transported gas in a manner that favored our affiliates and discriminated against the plaintiff, and otherwise artificially affected the market price of gas to other parties in the market. We have moved to compel arbitration and/or contested subject-matter jurisdiction in some of these cases. In one of these cases, the Texas Supreme Court ruled on July 3, 2009 that the state district court erred in ruling that a plaintiff was entitled to pre-arbitration discovery and therefore remanded to the state district court with a direction to rule on our original motion to compel arbitration pursuant to the terms of the arbitration clause in a natural gas contract between us and the plaintiff. This plaintiff has filed a motion with the Texas Supreme Court requesting a rehearing of the ruling.

We have also been served with a complaint from an owner of royalty interests in natural gas producing properties, individually and on behalf of a putative class of similarly situated royalty owners, working interest owners and producer/operators, seeking arbitration to recover damages based on alleged manipulation of natural gas prices at the Houston Ship Channel. We filed an original action in Harris County state court seeking a stay of the arbitration on the ground that the action is not arbitrable, and the state court granted our motion for summary judgment on that issue. This action is currently on appeal before the First Court of Appeals, Houston, Texas.

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A consolidated class action complaint has been filed against us in the United States District Court for the Southern District of Texas. This action alleges that we engaged in intentional and unlawful manipulation of the price of natural gas futures and options contracts on the NYMEX in violation of the Commodity Exchange Act ("CEA"). It is further alleged that during the class period December 29, 2003 to December 31, 2005, we had the market power to manipulate index prices, and that we used this market power to artificially depress the index prices at major natural gas trading hubs, including the Houston Ship Channel, in order to benefit our natural gas physical and financial trading positions, and that we intentionally submitted price and volume trade information to trade publications. This complaint also alleges that we violated the CEA by knowingly aiding and abetting violations of the CEA. The plaintiffs state that this allegedly unlawful depression of index prices by us manipulated the NYMEX prices for natural gas futures and options contracts to artificial levels during the class period, causing unspecified damages to the plaintiffs and all other members of the putative class who sold natural gas futures or who purchased and/or sold natural gas options contracts on NYMEX during the class period. The plaintiffs have requested certification of their suit as a class action and seek unspecified damages, court costs and other appropriate relief. On January 14, 2008, we filed a motion to dismiss this suit on the grounds of failure to allege facts sufficient to state a claim. On March 20, 2008, the plaintiffs filed a second consolidated class action complaint. In response to this new pleading, on May 5, 2008, we filed a motion to dismiss the complaint. On March 26, 2009, the court issued an order dismissing the complaint, with prejudice, for failure to state a claim. On April 9, 2009, the plaintiffs moved for reconsideration of the order dismissing the complaint, and on August 26, 2009, the court denied the plaintiffs' motion for reconsideration. On September 28, 2009, these decisions were appealed by the plaintiffs to the United States Court of Appeals for the Fifth Circuit.

On March 17, 2008, a second class action complaint was filed against us in the United States District Court for the Southern District of Texas. This action alleges that we engaged in unlawful restraint of trade and intentional monopolization and attempted monopolization of the market for fixed-price natural gas baseload transactions at the Houston Ship Channel from December 2003 through December 2005 in violation of federal antitrust law. The complaint further alleges that during this period we exerted monopoly power to suppress the price for these transactions to non-competitive levels in order to benefit our own physical natural gas positions. The plaintiff has, individually and on behalf of all other similarly situated sellers of physical natural gas, requested certification of its suit as a class action and seeks unspecified treble damages, court costs and other appropriate relief. On May 19, 2008, we filed a motion to dismiss this complaint. On March 26, 2009, the court issued an order dismissing the complaint. The court found that the plaintiffs failed to state a claim on all causes of action and for anti-trust injury, but granted leave to amend. On April 23, 2009, the plaintiffs filed a motion for leave to amend to assert a claim for common law fraud, and attached a proposed amended complaint as an exhibit. We opposed the motion and cross-moved to dismiss. On August 7, 2009, the court denied the plaintiff's motion and granted our motion to dismiss the complaint. On September 10, 2009, this decision was appealed by the plaintiff to the United States Court of Appeals for the Fifth Circuit.

We are expensing the legal fees, consultants' fees and other expenses relating to these matters in the periods in which such costs are incurred. We record accruals for litigation and other contingencies whenever required by applicable accounting standards. Based on the terms of the settlement agreement with the FERC described above, we made the \$5.0 million payment and established the \$25.0 million fund in October 2009. We expect the after-tax cash impact of the settlement to be less than \$30.0 million due to tax benefits resulting from the portion of the payment that is used to satisfy third party claims, which we expect to realize in future periods. Although this payment covers the \$25.0 million required by the settlement agreement to be applied to resolve third party claims, including the existing third party litigation described above, it is possible that the amount we become obliged to pay to resolve third party litigation related to these matters, whether on a negotiated settlement basis or otherwise, will exceed the amount of the payment related to these matters. In accordance with applicable accounting standards, we will review the amount of our accrual related to these matters as developments related to these matters occur and we will adjust our accrual if we determine that it is probable that the amount we may ultimately become obliged to pay as a

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result of the final resolution of these matters is greater than the amount of our accrual for these matters. As our accrual amounts are non-cash, any cash payment of an amount in resolution of these matters would likely be made from cash from operations or borrowings, which payments would reduce our cash available to service our indebtedness either directly or as a result of increased principal and interest payments necessary to service any borrowings incurred to finance such payments. If these payments are substantial, we may experience a material adverse impact on our results of operations and our liquidity.

In re Natural Gas Royalties Qui Tam Litigation. MDL Docket No. 1293 (D. WY), Jack Grynberg, an individual, has filed actions against a number of companies, including Transwestern, now transferred to the U.S. District Court for the District of Wyoming, for damages for mis-measurement of gas volumes and Btu content, resulting in lower royalties to mineral interest owners. On October 20, 2006, the District Judge adopted in part the earlier recommendation of the Special Master in the case and ordered the dismissal of the case against Transwestern. Transwestern believes that its measurement practices conformed to the terms of its FERC Gas Tariff, which were filed with and approved by the FERC. As a result, Transwestern believes that it has meritorious defenses to these lawsuits (including FERC-related affirmative defenses, such as the filed rate/tariff doctrine, the primary/exclusive jurisdiction of the FERC, and the defense that Transwestern complied with the terms of its tariffs) and will continue to vigorously defend against them, including any appeal which may be taken from the dismissal of the Grynberg case. A hearing was held on April 24, 2007 regarding Transwestern's Supplemental Brief for Attorneys' fees which was filed on January 8, 2007 and the issues are submitted and are awaiting a decision. Grynberg moved to have the cases he appealed remanded to the district court for consideration in light of a recently-issued Supreme Court case. The defendants/appellees opposed the motion. The Tenth Circuit motions panel referred the remand motion to the merits panel to be carried with the appeals. Grynberg's opening brief was filed on or about July 31, 2007. Appellee's opposition brief was filed on or about November 21, 2007. Appellee Transwestern filed its separate response brief on January 11, 2008 and Grynberg's reply brief was filed in June 2008 and the hearing on all briefs was held in September 2008. On March 17, 2009, the Tenth Circuit affirmed the District Court's dismissal. Appellant sought appellate rehearing on the matter and the petition for rehearing was denied on May 4, 2009. A petition for writ of certiorari was filed by the Appellant on August 3, 2009, and the Supreme Court denied the petition for writ of certiorari on October 5, 2009. We do not believe the outcome of this case will have a material adverse effect on our financial position, results of operations or cash flows.

Houston Pipeline Cushion Gas Litigation. At the time of the HPL System acquisition, AEP Energy Services Gas Holding Company II, L.L.C., HPL Consolidation LP and its subsidiaries (the "HPL Entities"), their parent companies and American Electric Power Corporation ("AEP"), were engaged in ongoing litigation with Bank of America ("B of A") that related to AEP's acquisition of HPL in the Enron bankruptcy and B of A's financing of cushion gas stored in the Bammel storage facility ("Cushion Gas"). This litigation is referred to as the ("Cushion Gas Litigation"). Under the terms of the Purchase and Sale Agreement and the related Cushion Gas Litigation Agreement, AEP and its subsidiaries that were the sellers of the HPL Entities retained control of the Cushion Gas Litigation and have agreed to indemnify ETC OLP and the HPL Entities for any damages arising from the Cushion Gas Litigation and the loss of use of the Cushion Gas, up to a maximum of the amount paid by ETC OLP for the HPL Entities and the working gas inventory (approximately \$1.00 billion in the aggregate). The Cushion Gas Litigation Agreement terminates upon final resolution of the Cushion Gas Litigation. In addition, under the terms of the Purchase and Sale Agreement, AEP retained control of additional matters relating to ongoing litigation and environmental remediation and agreed to bear the costs of or indemnify ETC OLP and the HPL Entities for the costs related to such matters. On December 18, 2007, the United States District Court for the Southern District of New York held that B of A is entitled to receive monetary damages from AEP and the HPL Entities of approximately \$347.3 million less the monetary amount B of A would have incurred to remove 55 Bcf of natural gas from the Bammel storage facility. AEP is appealing the court decision. Based on the indemnification provisions of the Cushion Gas Litigation Agreement, ETP does not expect that it will be liable for any portion of this court award.

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Appointments

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We have forward commodity contracts which are expected to be settled by physical delivery. Short-term contracts which expire in less than one year require delivery of up to 488,097 MMBtu/d. Long-term contracts require delivery of up to 15,878 MMBtu/d and extend through July 2018.

During fiscal year 2007, we entered into a long-term agreement with CenterPoint Energy Resources Corp ("CenterPoint") to provide the natural gas utility with firm transportation and storage services on our HPL System located along the Texas gulf coast region. Under the terms of the agreements, CenterPoint has contracted for 129 Bcf per year of firm transportation capacity combined with 10 Bcf of working gas storage capacity in our Bammel Storage facility.

We have an eight year transportation agreement with TXU Portfolio Management Company, LP ("TXU Shipper") to transport a minimum of 100,000 MMBtu per year. We also have two eight-year natural gas storage agreements with TXU Shipper to store gas at two natural gas facilities that are part of the ET Fuel System. As of December 31, 2008, August 31, 2007 and 2006, respectively, the Partnership was entitled to receive additional fees for the difference between actual volumes transported by TXU Shipper on the ET Fuel System and the minimum amount as stated above during the twelve-month periods ended each May 31st. As a result, the Partnership recognized approximately \$10.7 million, \$10.8 million and \$13.4 million in additional fees during the second quarter of 2008 and the third fiscal quarters of 2007 and 2006, respectively.

We have signed long-term agreements with several parties committing firm transportation volumes into the East Texas pipeline. Those commitments include an agreement with XTO Energy Inc. ("XTO") to deliver approximately 200,000 MMBtu/d of natural gas into the pipeline. The term of the XTO agreement began in June 2004 when the pipeline became operational and expires in June 2012.

We also have two new long-term agreements committing firm transportation volumes on certain of our transportation pipelines. The two contracts require an aggregated capacity of approximately 238,000 MMBtu/d of natural gas and extend through 2011.

Titan has a long-term purchase contract with Enterprise (see Note 13) to purchase substantially all of Titan's propane requirements. The contract continues until March 31, 2010 and contains renewal and extension options. The contract contains various service level agreements between the parties.

In connection with the sale of our investment in M-P Energy in October 2007, we executed a seven-year propane purchase agreement for approximately 90.0 million gallons per year at market prices plus a nominal fee.

We previously had a percentage guaranty with a financial institution whereby we would be liable for our 50% of any defaulted payments not made by MEP, plus interest. The reimbursable agreement which had a commitment up to \$197.0 million expired in September 2008.

Litigation and Contingencies

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. Natural gas and propane are flammable, combustible gases. Serious personal injury and significant property damage can arise in connection with their transportation, storage or use. In the ordinary course of business, we are sometimes threatened with or named as a defendant in various lawsuits seeking actual and punitive damages for product liability, personal injury and property damage. We maintain liability insurance with insurers in amounts and with coverages and deductibles management believes are reasonable and prudent, and which are generally accepted in the industry. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect us from material expenses related to product liability, personal injury or property damage in the future.

FERC/CFTC and Related Matters On July 26, 2007, the FERC issued to us an Order to Show Cause and Notice of Proposed Penalties (the "Order and Notice") that contains allegations that we violated FERC rules and regulations. The FERC has alleged that we engaged in manipulative or improper trading activities in the Houston Ship Channel, primarily on two dates during the fall of 2005 following the occurrence of Hurricanes Katrina and Rita, as well as on eight other occasions from December 2003 through August 2005, in order to benefit financially from our commodities derivatives positions and from certain of our index-priced physical gas purchases in the Houston Ship Channel. The FERC has alleged that during these periods we violated the

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FERC's then-effective Market Behavior Rule 2, an anti-market manipulation rule promulgated by the FERC under authority of the Natural Gas Act ("NGA"). We allegedly violated this rule by artificially suppressing prices that were included in the Platts *Inside FERC* Houston Ship Channel index, published by McGraw-Hill Companies, on which the pricing of many physical natural gas contracts and financial derivatives are based. Additionally, the FERC has alleged that we manipulated daily prices at the Waha and Permian Hubs in west Texas on two dates. Our Oasis pipeline transports interstate natural gas pursuant to Natural Gas Policy Act ("NGPA") Section 311 authority and is subject to the FERC-approved rates, terms and conditions of service. The allegations related to the Oasis pipeline include claims that the Oasis pipeline violated NGPA regulations from January 26, 2004 through June 30, 2006 by granting undue preference to its affiliates for interstate NGPA Section 311 pipeline service to the detriment of similarly situated non-affiliated shippers and by charging in excess of the FERC-approved maximum lawful rate for interstate NGPA Section 311 transportation. On October 29, 2008, we moved for summary disposition of the claim that Oasis unduly discriminated against non-affiliated shippers and unduly preferred affiliated shippers. The presiding administrative law judge granted this motion on November 18, 2008, holding that FERC Staff had failed to make a prima facie case in support of this claim. This ruling, if allowed to stand, significantly narrows the FERC's Oasis-related claims in the Order and Notice proceeding. The FERC also seeks to revoke, for a period of 12 months, our blanket marketing authority for sales of natural gas in interstate commerce at market-based prices, which activity is expected to account for approximately 1.0% of our operating income for our 2008 year. If the FERC is successful in revoking our blanket marketing authority, our sales of natural gas at market-based prices would be limited to sales to retail customers (such as utilities and other end-users) and sales from our own production, and any other sales of natural gas by us would be required to be made at contract prices that would be subject to individual FERC approval.

In its Order and Notice, the FERC specified that it was seeking \$70.1 million in disgorgement of profits, plus interest, and \$97.5 million in civil penalties relating to these matters. The FERC has taken the position that, once it receives our response, it has several options as to how to proceed, including issuing an order on the merits, requesting briefs, or setting specified issues for a trial-type hearing before an administrative law judge. On August 27, 2007, ETP filed a request for rehearing of the Order and Notice. On December 20, 2007, the FERC issued an order denying rehearing and directed the FERC Enforcement Staff to file a brief recommending disposition of issues by order or by evidentiary hearing. ETP filed its response to the Order and Notice with the FERC on October 9, 2007, which response refuted the FERC's claims and requested a dismissal of the FERC proceeding. On February 14, 2008, the Enforcement Staff of the FERC filed a brief recommending that the FERC refer various matters relating to its market manipulation allegations for an evidentiary hearing before a FERC administrative law judge. The Enforcement Staff also recommended that the FERC issue an order assessing the \$15.5 million portion of the above-referenced penalty against ETP with respect to the allegations related to ETP's Oasis pipeline and that the Oasis-related penalty assessment, if not paid, then be referred by the FERC to a federal district court for de novo review. The Enforcement Staff also recommended that the FERC impose certain changes in Oasis's business operations and refunds to certain Oasis customers as previously proposed in the Order and Notice. Finally, the Enforcement Staff recommended that the FERC pursue market manipulation claims related to ETP's trading activities in October 2005, for November 2005 monthly deliveries, a period not previously covered by FERC's allegations in the Order and Notice, and that ETP be assessed an additional civil penalty of \$25.0 million and be required to disgorge approximately \$7.3 million of alleged unjust profits related to this additional month. If the FERC pursues the claims related to this additional month, the total amount of civil penalties and disgorgement of profits sought by the FERC would be approximately \$200.0 million. On March 31, 2008, we responded to the Enforcement Staff's brief. On May 15, 2008, the FERC ordered hearings to be conducted by FERC administrative law judges with respect to the FERC's Oasis claims and market manipulation claims. The hearing related to the Oasis claims was scheduled to commence in December 2008 with the administrative law judges' initial decisions due by May 11, 2009, however, as discussed below, we entered into a settlement agreement with FERC Enforcement Staff and that agreement was approved by the FERC in its entirety and without modification on February 27, 2009. The hearing related to the market manipulation claims is now scheduled to commence in June 2009 with the administrative law judge's initial decision due by December 3, 2009. The FERC also ordered that, following the completion of the hearings, the administrative law judge's make initial findings with respect to whether we engaged in market manipulation in violation of the NGA and FERC regulations and whether Oasis violated the NGPA and FERC regulations. The FERC reserved for itself the issues of possible civil penalties, revocation of our blanket market certificate, the method by which we and Oasis would disgorge any unjust profits and whether any conditions should be placed on Oasis's Section 311 authorization. Following the issuance of each of the administrative law judges' initial decisions, the FERC would then issue an order with respect to each of these matters. On May 23, 2008, we requested rehearing and stay of the FERC's May 15, 2008 order establishing hearing, and we renewed those requests on June 26, 2008. On August 7, 2008, FERC denied rehearing of its May 15, 2008 order. On August 8, 2008, we filed a petition with the U.S. Court of Appeals for the Fifth

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Circuit to review and set aside FERC's May 15 and August 7, 2008 orders on the grounds that we are entitled to adjudicate FERC's claims in federal district court pursuant to the NGA and the NGPA. On August 28, 2008, we filed an amended petition seeking review of the Order and Notice and the December 20, 2007 order denying rehearing.

On November 18, 2008, the administrative law judge presiding over the Oasis claims granted our motion for summary disposition of the claim that Oasis unduly discriminated in favor of affiliates regarding the provision of Section 311(a)(2) interstate transportation service. We subsequently entered into an agreement with the Enforcement Staff to settle all of the claims related to Oasis. On January 5, 2009, this agreement was submitted under seal to FERC by the presiding administrative law judge, for FERC's approval as an uncontested settlement of all Oasis claims. On February 27, 2009, the settlement agreement was approved by the FERC in its entirety and without modification and the terms of the settlement were made public. If no person seeks rehearing of the order approving the settlement within 30 days of such order, the FERC's order will become final and non-appealable. We do not believe the Oasis settlement, as approved by the FERC, will have a material adverse effect on our business, financial condition or results of operations.

It is our position that our trading and transportation activities during the periods at issue complied in all material aspects with applicable law and regulations, and we intend to contest these cases vigorously. However, the laws and regulations related to alleged market manipulation are vague, subject to broad interpretation, and offer little guiding precedent, while at the same time the FERC holds substantial enforcement authority. At this time, we are unable to predict the final outcome of these matters.

On July 26, 2007, the United States Commodity Futures Trading Commission (the "CFTC") filed suit in United States District Court for the Northern District of Texas alleging that we violated provisions of the Commodity Exchange Act ("CEA") by attempting to manipulate natural gas prices in the Houston Ship Channel. On March 17, 2008, we entered into a consent order with the CFTC (the "Consent Order"). Pursuant to the Consent Order, we agreed to pay the CFTC \$10.0 million and the CFTC agreed to release us and our affiliates, directors and employees from all claims or causes of action asserted by the CFTC in this proceeding. The Consent Order provides that we are permanently enjoined from attempting to manipulate the price of any commodity in interstate commerce in violation of the CEA. By consenting to the entry of the Consent Order, we neither admitted nor denied the allegations made by the CFTC in this proceeding. The settlement reduced our existing accrual and was paid from cash flow from operations in March 2008.

In addition to the FERC legal action, third parties have asserted claims and may assert additional claims against us and ETE for damages related to these matters. In this regard, several natural gas producers and a natural gas marketing company have initiated legal proceedings in Texas state courts against us and ETE for claims related to the FERC claims. These suits contain contract and tort claims relating to alleged manipulation of natural gas prices at the Houston Ship Channel and the Waha Hub in West Texas, as well as the natural gas price indices related to these markets and the Permian Basin natural gas price index during the period from December 2003 through December 2006, and seek unspecified direct, indirect, consequential and exemplary damages. One of the suits against us and ETE contains an additional allegation that we and ETE transported gas in a manner that favored our affiliates and discriminated against the plaintiff, and otherwise artificially affected the market price of gas to other parties in the market. We have moved to compel arbitration and/or contested subject-matter jurisdiction in some of these cases. One such case currently is on appeal before the Texas Supreme Court on, among other things, the issue of whether the dispute is arbitrable.

We have also been served with a complaint from an owner of royalty interests in natural gas producing properties, individually and on behalf of a putative class of similarly situated royalty owners, working interest owners and producer/operators, seeking arbitration to recover damages based on alleged manipulation of natural gas prices at the Houston Ship Channel. We filed an original action in Harris County state court seeking a stay of the arbitration on the ground that the action is not arbitrable, and the state court granted our motion for summary judgment on that issue. The claimants have filed a notice of appeal.

A consolidated class action complaint has been filed against us in the United States District Court for the Southern District of Texas. This action alleges that we engaged in intentional and unlawful manipulation of the price of natural gas futures and options contracts on the New York Mercantile Exchange, or NYMEX, in violation of the CEA. It is further alleged that during the class period December 29, 2003 to December 31, 2005, we had the market power to manipulate index prices, and that we used this market power to artificially depress the index prices at major natural gas trading hubs, including the Houston Ship Channel, in order to benefit our natural gas physical and financial trading positions, and that we intentionally submitted price and volume trade information to trade publications. This complaint also alleges that we violated the CEA by knowingly aiding

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and abetting violations of the CEA. The plaintiffs state that this allegedly unlawful depression of index prices by us manipulated the NYMEX prices for natural gas futures and options contracts to artificial levels during the class period, causing unspecified damages to the plaintiffs and all other members of the putative class who sold natural gas futures or who purchased and/or sold natural gas options contracts on NYMEX during the class period. The plaintiffs have requested certification of their suit as a class action and seek unspecified damages, court costs and other appropriate relief. On January 14, 2008, we filed a motion to dismiss this suit on the grounds of failure to allege facts sufficient to state a claim. On March 20, 2008, the plaintiffs filed a second consolidated class action complaint. In response to this new pleading, on May 5, 2008, we filed a motion to dismiss the complaint. On June 19, 2008, the plaintiffs filed a response opposing our motion to dismiss. We filed a reply in support of our motion on July 9, 2008.

On March 17, 2008, a second class action complaint was filed against us in the United States District Court for the Southern District of Texas. This action alleges that we engaged in unlawful restraint of trade and intentional monopolization and attempted monopolization of the market for fixed-price natural gas baseload transactions at the Houston Ship Channel from December 2003 through December 2005 in violation of federal antitrust law. The complaint further alleges that during this period we exerted monopoly power to suppress the price for these transactions to non-competitive levels in order to benefit our own physical natural gas positions. The plaintiff has, individually and on behalf of all other similarly situated sellers of physical natural gas, requested certification of its suit as a class action and seeks unspecified treble damages, court costs and other appropriate relief. On May 19, 2008, we filed a motion to dismiss this complaint. On July 2, 2008 the plaintiffs filed a response opposing our motion to dismiss. We filed a reply in support of our motion on August 18, 2008.

We are expensing the legal fees, consultants' fees and other expenses relating to these matters in the periods in which such expenses are incurred. In addition, our existing accruals for litigation and contingencies include an accrual related to these matters. At this time, we are unable to predict the outcome of these matters. However, it is possible that the amount we become obliged to pay as a result of the final resolution of these matters, whether on a negotiated settlement basis or otherwise, will exceed the amount of our existing accrual related to these matters. In accordance with applicable accounting standards, we will review the amount of our accrual related to these matters as developments related to these matters occur and we will adjust our accrual if we determine that it is probable that the amount we may ultimately become obliged to pay as a result of the final resolution of these matters is greater than the amount of our existing accrual for these matters. As our accrual amounts are non-cash, any cash payment of an amount in resolution of these matters would likely be made from cash from operations or borrowings, which payments would reduce our cash available to service our indebtedness either directly or as a result of increased principal and interest payments necessary to service any borrowings incurred to finance such payments. If these payments are substantial, we may experience a material adverse impact on our results of operations and our liquidity.

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