INERGY MIDSTREAM, LLC (Form: S-1, Received: 08/24/2011 07:30 PM... http://ipo.nasdaq.com/edgar_convt_html/2011/08/24/0001193125-11-2... NYSDEC OHMS Document No. 201166576-00005

Table of Contents

Index to Financial Statements

BUSINESS

Overview

We are a fee-based, growth-oriented Delaware limited partnership formed by NRGY to own, operate, develop and acquire midstream energy assets. Our current asset base consists of natural gas and NGL storage and transportation assets located in the Northeast region of the United States. We own and operate four natural gas storage facilities located in New York and Pennsylvania that have an aggregate working gas storage capacity of 41.0 Bcf with high peak injection and withdrawal capabilities. We also own natural gas pipelines located in New York and Pennsylvania with 30 MMcf/d of intrastate transportation capacity and, upon completion of two pipeline projects that are currently under development, we will own 875 MMcf/d of interstate transportation capacity. In addition, we own and operate a 1.5 million barrel NGL storage facility located near Bath, New York. Our near-term strategy is to continue to develop a platform of interconnected natural gas assets that can be operated as an integrated Northeast storage and transportation hub.

Our business has expanded rapidly through internal growth initiatives and acquisitions since its inception in 2005. We have grown our natural gas storage capacity from 13.0 Bcf as of September 30, 2005 to 41.0 Bcf as of August 23, 2011, which does not include 38.4 Bcf of natural gas storage capacity owned by NRGY on the Texas Gulf Coast. We believe that our current asset base enables us to significantly expand our storage and transportation capacity through continued investment in attractive growth projects. We expect these growth projects will further increase connectivity among our natural gas facilities and with third-party pipelines, thereby resulting in increased demand for our services.

Our significant growth projects include:

- construction of the MARC I pipeline, a fully contracted natural gas transmission pipeline with 550 MMcf/d of interstate transportation service, which we expect to complete and place into service in July 2012 with contracts extending to 2022;
- completion of our North/South expansion project, which involves the installation of additional compression facilities that will enable us to provide approximately 325 MMcf/d of interstate transportation service on a fully contracted basis, which we expect to complete and place into service in October 2011 with contracts extending to 2016;
- development of a 2.1 million barrel NGL storage facility located near Watkins Glen, New York, which is approximately 95% contracted and which we expect to complete and place into service by April 2012 with a contract extending to 2016; and
- expansion of our Seneca Lake natural gas storage facility by an additional 0.6 Bcf of working gas storage capacity, which we expect to complete and place into service by December 2012.

Through our current assets, growth projects and potential acquisitions from NRGY and third parties, we believe we are well-positioned to benefit from the anticipated long-term growth in demand for natural gas and NGL storage and transportation services in the United States.

For the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, we generated pro forma net income of approximately $29.3 million and $30.0 million, respectively. For the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, we generated approximately $70.4 million and $59.2 million of pro forma Adjusted EBITDA, respectively. Please read "Summary—Non-GAAP Financial Measures" for our definition of Adjusted EBITDA and our reconciliation of Adjusted EBITDA to its most directly comparable financial measures calculated and presented in accordance with GAAP.

Our Assets

Our assets are strategically located close to or within demand-based market areas in the Northeast region of the United States, with access to multiple natural gas and NGL supply points, including Marcellus shale production volumes. We believe that our geographic location provides us with a competitive advantage for the services we offer.

95
Natural Gas Storage

We own and operate four natural gas storage facilities regulated by the FERC, which have low maintenance costs, long useful lives and comparatively high injection and withdrawal (or “cycling”) capabilities. The facilities also require low amounts of cushion gas, meaning that a relatively small amount of gas is required to remain inside our facilities in order to maintain a minimum facility pressure supporting the working gas. Our natural gas storage facilities include:

- **Stagecoach**, a high performance, multi-cycle natural gas storage facility located approximately 150 miles northwest of New York City in Tioga County, New York and Bradford County, Pennsylvania. Stagecoach generates fee-based revenues under a market-based rate structure and is currently 95% committed primarily with investment-grade customers under term contracts that have a weighted average maturity extending to 2015. Stagecoach is the closest natural gas storage facility to the northeastern United States demand market and is an integral part of the Northeast gas storage and transportation system. Stagecoach’s 24-mile, 30-inch diameter south pipeline lateral connects the facility to TGP’s 300 Line, and its 10-mile, 20-inch diameter north pipeline lateral connects the facility to the Millennium Pipeline. We have also requested FERC authorization to interconnect the south lateral to Transco’s Leidy Line as part of our MARC I pipeline project. The Stagecoach laterals diversify our supply sources and provide wheeling and other transportation opportunities to shippers.

- **Thomas Corners**, a high performance, multi-cycle natural gas storage facility located in Steuben County, New York. Thomas Corners generates fee-based revenues under a market-based rate structure and is fully contracted with primarily investment-grade customers under long-term agreements that have a weighted average maturity extending to 2015. Thomas Corners is connected with TGP’s 400 Line and the Millennium Pipeline, and we intend to request FERC authorization to connect Thomas Corners to Dominion through Steuben’s existing laterals.

- **Seneca Lake**, a high performance, multi-cycle natural gas storage facility located in Schuyler County, New York. Seneca Lake generates fee-based revenues under a market-based rate structure. The capacity at Seneca Lake is contracted with investment-grade customers under long-term agreements that have a weighted average maturity extending to 2018. Seneca Lake is connected to Dominion’s system via the 20-mile, 16-inch diameter Seneca West pipeline lateral, and crosses both the Millennium Pipeline and the Empire Pipeline. We intend to interconnect Seneca Lake with the Millennium Pipeline under our existing blanket FERC authority by December 2011. We expect this additional interconnect to increase the market demand for storage service at Seneca Lake.

- **Steuben**, a single-turn natural gas storage facility located in Steuben County, New York. Steuben generates fee-based revenues under a cost-of-service rate structure and is fully contracted with primarily investment-grade customers with term contracts having a weighted average maturity extending to 2013. Steuben is connected to Dominion and to our Thomas Corners facility.
The following table provides additional information about our natural gas storage facilities:

<table>
<thead>
<tr>
<th>Facility Name/ Location</th>
<th>Facility Type</th>
<th>Percentage Contractually Committed</th>
<th>Working Gas Storage Capacity (Bcf)</th>
<th>Maximum Injection Rate (MMcf/d)</th>
<th>Maximum Withdrawal Rate (MMcf/d)</th>
<th>Pipeline Connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stagecoach</td>
<td>High Performance, Multi-Cycle, Depleted Reservoir</td>
<td>95%</td>
<td>26.3</td>
<td>250</td>
<td>500</td>
<td>TGP’s 300 Line; Millennium Pipeline (1)</td>
</tr>
<tr>
<td>Tioga County, New York; Bradford County, Pennsylvania</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thomas Corners</td>
<td>High Performance, Multi-Cycle, Depleted Reservoir</td>
<td>100% (2)</td>
<td>7.0</td>
<td>70</td>
<td>140</td>
<td>TGP’s 400 Line; Millennium Pipeline; Dominion (3)</td>
</tr>
<tr>
<td>Steuben County, New York</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seneca Lake</td>
<td>High Performance, Multi-Cycle, Salt Cavern</td>
<td>59% (4)</td>
<td>1.5</td>
<td>72.5</td>
<td>145</td>
<td>Dominion (5)</td>
</tr>
<tr>
<td>Schuyler County, New York</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steuben</td>
<td>Single-Turn, Depleted Reservoir</td>
<td>100%</td>
<td>6.2</td>
<td>30</td>
<td>60</td>
<td>TGP’s 400 Line; Millennium Pipeline; Dominion (6)</td>
</tr>
<tr>
<td>Steuben County, New York</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>41.0</td>
<td>422.5</td>
<td>845</td>
<td></td>
</tr>
</tbody>
</table>

(1) We have requested FERC authorization to interconnect Stagecoach’s south lateral to Transco’s Leidy Line as part of our MARC I pipeline project.

(2) Thomas Corners has 7.0 Bcf of certificated capacity and currently has 5.7 Bcf of operational capacity available, all of which has been sold under firm storage contracts. Therefore, 100% of Thomas Corners’ operationally-available capacity is committed. Please read "—Contracts."

(3) Thomas Corners is indirectly connected to Dominion through our Steuben facility.

(4) We did not acquire Seneca Lake until July 2011 and are currently in the process of leasing out the remaining storage capacity at the facility.

(5) In addition to our Dominion interconnect, we intend to interconnect Seneca Lake to the Millennium Pipeline under our existing blanket FERC authority.

(6) Steuben is indirectly connected to TGP and the Millennium Pipeline through our Thomas Corners facility.

**Natural Gas Transportation**

*Interstate Transportation.* We are authorized under our FERC tariffs to provide certain interstate natural gas transportation services. In connection with our MARC I pipeline and North/South expansion project, we have contracted to provide 875 MMcf/d of interstate transportation services upon the completion of these two FERC-regulated pipeline projects. Please read "—Our Growth Projects—Natural Gas Transportation" for a more detailed description of these projects.

*Intrastate Transportation.* We own and operate a 37.5-mile, 12-inch diameter intrastate pipeline, which we acquired in July 2011, that is located in New York and runs within approximately four miles of our Stagecoach north lateral’s point of interconnection with the Millennium Pipeline. The pipeline, formerly known as the Seneca Lake east lateral pipeline, is subject to regulation by the NYPSC.
Table of Contents

Index to Financial Statements

NGL Storage

We own and operate a 1.5 million barrel NGL storage facility located near Bath, New York. The Bath storage facility is located approximately 210 miles northwest of New York City and 60 miles from our Stagecoach facility. It is supported by both rail and truck terminal facilities capable of loading and unloading 23 railcars per day and 17 truck transports per day.

Our Growth Projects

Natural Gas Transportation

Our proposed MARC I pipeline is a 39-mile, 30-inch diameter bi-directional natural gas pipeline that will connect the Stagecoach south lateral and TGP’s 300 Line in Bradford County, Pennsylvania, with Transco’s Leidy Line in Lycoming County, Pennsylvania. The project involves the installation of a 16,360 horsepower gas-fired compression facility in the vicinity of the Transco interconnect, a 15,000 horsepower electric-powered compression facility at the proposed interconnect between the Stagecoach south lateral and TGP’s 300 Line, and related metering, flow control and appurtenant facilities. We have entered into binding agreements with shippers to provide approximately 550 MMcf/d of firm interstate transportation service on the MARC I pipeline after its completion. We requested FERC authorization for the project in August 2010 and currently expect to receive approval in September 2011 and to place the pipeline into service in July 2012.

Our North/South expansion project entails the installation of additional compression facilities to increase throughput capacity on Stagecoach’s existing north and south laterals, which will enable our contracted shippers to wheel gas bi-directionally, from the Millennium Pipeline to TGP, or from points in between, on a firm basis. We are installing a 13,400 horsepower electric-powered centrifugal compressor near the interconnect between Stagecoach’s north lateral and the Millennium Pipeline in Tioga, New York, and a 15,300 horsepower electric-powered compressor near the interconnect between Stagecoach’s south lateral and TGP in Bradford County, Pennsylvania. We have entered into binding agreements with shippers to provide up to 325 MMcf/d of firm wheeling capacity between receipt and delivery points at the existing interconnects with the Millennium Pipeline and TGP. We received FERC authorization for the project in January 2011, commenced construction in February 2011 and expect to complete the project in October 2011.

NGL Storage

The Watkins Glen brine field is located in Schuyler County, New York along the west shore of Seneca Lake in south central New York. The land comprising the brine field is owned by our affiliate, US Salt, a wholly owned subsidiary of NRGY. US Salt and its predecessors have developed numerous salt caverns on their property since the late 1800s, mainly by solution mining brine for US Salt’s salt production plant in Watkins Glen, New York. The salt caverns created from the solution-mining process can be efficiently converted into usable natural gas and NGL storage capacity.

We are developing a 2.1 million barrel NGL storage facility located near Watkins Glen, New York. The NGL storage facility will utilize existing salt caverns solution mined by US Salt. Propane and butane will be stored in these caverns seasonally, and during storage operations, displaced brine will be stored in a 14-acre lined brine pond with a capacity of 2.2 million barrels. The storage facility will be supported by both rail and truck terminal facilities capable of loading and unloading 32 railcars per day and 45 truck transports per day. The Watkins Glen facility will also connect with TEPPCO LPG’s interstate pipeline and, upon receipt of regulatory approvals, we believe it can be expanded by up to five million barrels of capacity. In connection with this project, we entered into a binding storage contract with an anchor customer. We plan to operate the Bath and Watkins Glen facilities as one NGL storage complex.
**Natural Gas Storage**

We plan to convert three existing wells (known as Gallery 2) located at the Seneca Lake storage facility into natural gas storage, thus expanding Seneca Lake’s authorized working gas storage capacity to approximately 2.0 Bcf. Since our acquisition of Seneca Lake in July 2011, the New York Department of Environmental Conservation, or NYSDEC, has begun to review our application requesting approval to expand Seneca Lake’s authorized storage capacity by 0.6 Bcf, with a maximum daily storage withdrawal of 50,000 Mcf. As part of this project, we will also interconnect Gallery 2 with Seneca Lake’s existing compression station. We expect to complete the expansion and place the additional capacity into service by December 2012.

We also plan to jointly develop with NRGY an approximate 10.0 Bcf natural gas storage facility by 2014, subject to market conditions. NRGY has identified existing salt caverns located on US Salt’s property for this project and has informed us that it intends to convert these solution-mined salt caverns into natural gas storage by 2014, at an estimated cost of approximately $120 million. Multiple regulatory approvals, including NYSDEC and FERC approvals, will be required to develop and place into service this storage capacity. Assuming this project is completed, we expect to evaluate acquiring it over time.

**Our Operations**

**Natural Gas Storage Services**

We generate revenue in our natural gas storage business almost exclusively through the provision of fee-based natural gas storage services to our customers. Our storage rates are regulated under FERC rate-making policies, which currently permit our Stagecoach, Thomas Corners and Seneca Lake facilities to charge market-based rates for our storage services. Market-based rate authority for storage services allows us to negotiate rates with customers based on market demand. Our Steuben facility provides services at cost-based rates; however, we intend to request FERC authorization by the end of calendar year 2011 to allow Steuben to provide storage services at market-based rates. With the exception of our Seneca Lake facility, which we acquired in July 2011, all of our facilities were at least 95% contracted under fixed-fee arrangements as of June 30, 2011. For the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, approximately 79% and 80%, respectively, of our total revenue was derived from fee-based storage activities, including firm storage services and hub services.

**Firm Storage Services**. Firm storage services include storage services pursuant to which customers receive an assured, or “firm,” right to store natural gas in our facilities over a defined period, typically three to five years. Under our firm storage contracts, we receive fixed monthly capacity reservation fees regardless of whether or not the storage capacity is used. The amount of the monthly reservation fees is determined based on the number of cycles a customer can fill and empty its contracted storage capacity. Under our firm storage contracts, we also typically collect a cycling fee based on the volume of natural gas nominated for injection and/or withdrawal and retain a small portion of natural gas nominated for injection as compensation for our fuel use. For the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, approximately 77% and 76%, respectively, of our total revenue was derived from firm storage services.

**Hub Services**. Hub services include:

- interruptible storage services, under which customers receive only limited assurances regarding the availability of capacity and deliverability in our storage facilities and pay fees based on their actual utilization of our assets;
- firm and interruptible park and loan services, under which customers receive the right to store gas in (park), or borrow gas from (loan), our facilities on a seasonal basis;
- interruptible wheeling services, under which customers pay fees for the limited right to move a volume of natural gas from one interconnection point through storage and redelivering the natural gas to another interconnection point; and
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NYSDEC OHMS Document No. 201166576-00005

Table of Contents

Index to Financial Statements

- balancing services, under which customers pay us fees to help balance and true up their deliveries of natural gas to, or takeaways of natural gas from, our facilities.

For the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, approximately 2% and 4%, respectively, of our total revenue was derived from hub services.

We believe that the high percentage of our revenues derived from fixed reservation fees under multi-year contracts with a diverse portfolio of customers stabilizes our cash flow profile and substantially mitigates the risk to us of significant negative cash flow fluctuations caused by changing supply and demand conditions and other market factors. For additional information about our contracts, please read “—Contracts.”

Natural Gas Transportation Services

We generate transportation revenue by providing fee-based transportation services to our customers. Our transportation services and rates have been authorized by the FERC or, if applicable, the NYPSC. The transportation services authorized under, or requested for authorization under, our FERC tariffs for the MARC I pipeline and for the North/South expansion project will be provided to our customers at negotiated rates subject to cost-of-service recourse rate options. Negotiated-rate authority for transportation services allows us to negotiate rates with customers based on market demand.

Interstate Transportation Services. Our interstate transportation services include firm wheeled services and firm and interruptible transportation services provided under our FERC tariffs. We have requested FERC authorization to provide firm and interruptible transportation services to shippers at negotiated rates on the 39-mile MARC I pipeline. We have entered into binding agreements with three shippers pursuant to which each shipper has agreed to enter into a firm transportation service agreement with us. Upon completion of the MARC I pipeline, we expect to provide approximately 550 MMcf/d of firm interstate transportation service on the pipeline to these shippers for an initial 10-year period under CNYOG’s FERC tariff. Our North/South expansion project is currently under development and entails the installation of additional compression facilities to increase throughput capacity on Stagecoach’s existing north and south laterals, which will enable CNYOG to permit contracted shippers to wheel gas bi-directionally, from the Millennium Pipeline to TGP, or from points in between, on a firm basis. As part of the North/South expansion project, we entered into binding agreements with five shippers pursuant to which each shipper has agreed to enter into a firm wheeled agreement with us. Upon completion of the project, we expect to provide 325 MMcf/d of firm wheeled service at negotiated rates on Stagecoach’s north and south laterals to these shippers for an initial five-year period under CNYOG’s FERC tariff. Please read “—Our Growth Projects—Natural Gas Transportation.”

We also generate interstate transportation revenue by releasing interstate pipeline transportation capacity to certain Stagecoach customers. At the time we acquired Stagecoach, we reserved 490 MMcf/day of pipeline transportation capacity on TGP’s interstate natural gas pipeline for a 10-year period to aid storage customers’ ability to transfer gas to and from the Stagecoach facility. Based on TGP’s recent rate case filings, commencing January 1, 2012, we expect our capacity reservation costs to equal our revenues generated by these capacity releases.

For the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, approximately 13% and 12%, respectively, of our total revenue was derived from interstate transportation services.

Intrastate Transportation Services. We provide intrastate transportation service to NYSEG under a firm transportation service agreement approved by the NYPSC. Under this agreement, we make 30 MMcf/d of transportation capacity available to NYSEG on our 37-mile intrastate natural gas pipeline for the purpose of transporting natural gas from our interconnect with Dominion’s system to certain NYSEG city gates within its service territory. The initial term of the contract is 10 years, and NYSEG has the right to extend the term for incremental five-year periods during the life of the pipeline. We acquired our intrastate pipeline in July 2011.
The integrated and interconnected nature of our natural gas facilities enables us to offer customers a combination of services tailored to meet their specific needs. The table below indicates the types of storage and transportation services that we propose to provide to customers under our FERC tariffs, as of August 23, 2011:

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Facility (FERC-Certificated Operator)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stagecoach (CNYOG)</td>
</tr>
<tr>
<td>Firm Storage Service</td>
<td>ü</td>
</tr>
<tr>
<td>Interruptible Storage Service</td>
<td>ü</td>
</tr>
<tr>
<td>No-Notice Storage Service</td>
<td></td>
</tr>
<tr>
<td>Firm Parking Service</td>
<td>ü</td>
</tr>
<tr>
<td>Interruptible Parking Service</td>
<td>ü</td>
</tr>
<tr>
<td>Firm Loan Service</td>
<td>ü</td>
</tr>
<tr>
<td>Interruptible Loan Service</td>
<td>ü</td>
</tr>
<tr>
<td>Firm Wheeling Service</td>
<td></td>
</tr>
<tr>
<td>Interruptible Wheeling Service</td>
<td>ü</td>
</tr>
<tr>
<td>Firm Transportation Service</td>
<td></td>
</tr>
<tr>
<td>Interruptible Transportation Service</td>
<td>ü</td>
</tr>
<tr>
<td>Interruptible Hourly Balancing Service</td>
<td>ü</td>
</tr>
</tbody>
</table>

(1) Assumes the North/South expansion project is placed into service.
(2) Assumes the MARC I pipeline is authorized by the FERC and placed into service.

**NGL Storage Operations**

We provide NGL storage and related terminaling services at our Bath storage facility under market rates. We make cavern storage space available for a fixed monthly reservation fee that must be paid regardless of customer usage. We provide loading and unloading services and receive fees for such services. For both the fiscal year ended September 30, 2010 and the nine months ended June 30, 2011, approximately 8% of our total revenue was derived from NGL storage services.

We are also developing a 2.1 million barrel NGL storage facility located near Watkins Glen, New York, which we believe can be expanded to five million barrels of capacity upon receipt of regulatory approvals. Please read "—Our Growth Projects—NGL Storage" for a more detailed description of this project.

**Our Business Strategies**

Our primary business strategy is to increase the cash distributions that we pay to our common unitholders by capitalizing on the anticipated long-term growth in the production of and demand for natural gas by owning, reliably operating and expanding interconnected natural gas and NGL storage and transportation assets in and around major North American production and demand centers. In executing this strategy, we intend to increase the scale and improve the functionality of our facilities to best serve our current and future customers' needs, thereby increasing our cash flow and profitability over time. Our plan for executing this strategy includes the following key components:

**Expand our existing Northeast facilities through internal growth projects to create an integrated storage and transportation hub.**

Our current asset base enables us to significantly expand storage capacity and improve our facilities' connectivity through continued investment in attractive growth projects. Our growth projects include (i) increasing transportation functionality and interconnectivity through our MARC I pipeline and North/South expansion project, which we also believe will facilitate greater interconnectivity between our natural gas storage assets in general, (ii) increasing NGL storage capacity by up to five million barrels of incremental NGL storage.
at our proposed Watkins Glen facility and (iii) adding 0.6 Bcf of natural gas storage capacity at our Seneca Lake facility. Our capital budget supports ongoing growth initiatives that leverage the market positioning of our existing facilities and management’s experience in the Northeast storage and transportation business. We intend to use our assets and NRGY’s assets to lower the cost, accelerate the timing and increase the commercial value of our new build activities. For example, the planned improved functionality at Stagecoach, combined with our proposed MARC I pipeline, will allow customers to efficiently move gas on a firm basis through an integrated system of north and south pipelines, and to take advantage of opportunities created through interconnectivity between Marcellus shale producing fields and multiple long-haul, third-party pipelines in the area. Additionally, we have identified smaller-scale capital projects at our facilities that we expect will provide incremental growth, enhance the functionality of our asset base and improve our ability to obtain contracts for the use of our assets. These projects include connecting our Thomas Corners facility to Dominion’s Woodhull Pipeline and connecting our Seneca Lake facility to the Millennium Pipeline.

Provide an unparalleled level of commitment and service to our customers through the ownership and development of critical energy infrastructure.

We intend to maximize the profitability and utilization of our current facilities by continually enhancing our storage and transportation services and increasing our facilities’ connectivity in response to market demand. We intend to serve as an integrated and fully functional Northeast storage and transportation hub, providing our customers with a single source for all of their storage and transportation needs and delivering our services reliably and efficiently through effective asset operation. We believe that our diversity of product offerings combined with our commitment to superior customer service will cultivate valuable and stable customer relationships over the long term.

Acquire facilities from NRGY and third parties.

In addition to our ongoing investment in existing facilities, we will continually evaluate opportunities to acquire assets or businesses that are strategic to our long-term growth plan. We frequently monitor the marketplace to identify and pursue complementary acquisitions, with a particular focus on assets that would strengthen our franchise position in the Northeast or facilitate our entry into attractive new geographic or product markets. In addition, our strategy includes assessing acquisitions from NRGY. Although NRGY is under no obligation to make acquisition opportunities available to us, NRGY has a significant economic stake in us and a strong incentive to support our growth. NRGY currently owns geographically-diverse midstream assets that are operationally similar to our existing asset base, including:

- the Tres Palacios natural gas storage facility located in Texas, which has 38.4 Bcf of existing storage capacity with potential expansion to 48.0 Bcf upon the development of a fourth storage cavern. The facility is strategically located in close proximity to the Eagle Ford shale and the Houston and San Antonio markets. NRGY also recently secured the right to store NGLs at the facility and in other caverns located on the Markham salt dome;
- US Salt, a solution-mining and salt production business located in close proximity to our natural gas and NGL storage facilities. US Salt produces and sells over 300,000 tons of salt each year and owns salt caverns that can be developed into natural gas and NGL storage capacity. NRGY has identified for potential development certain salt caverns having approximately 10.0 Bcf of natural gas storage capacity by 2014; and
- a West Coast NGL business located near Bakersfield, California, which includes a 24 million gallon NGL storage facility, a 25.0 MMcf/d natural gas processing plant, a 12,000 barrels per day NGL fractionation plant and an 8,000 barrels per day butane isomerization plant.

In evaluating the acquisition of other businesses or assets, whether from NRGY or unaffiliated third parties, we will use our knowledge of the midstream industry, our network of customers and our existing asset base to
Table of Contents

Index to Financial Statements

gauge the attractiveness of the acquisition to our long-term growth and to determine whether (and how) to efficiently finance acquisitions. Upon integration of any acquired assets or businesses, we intend to use our extensive industry knowledge to maximize synergies with our existing assets and to operate the acquired assets or businesses more efficiently and competitively, thereby increasing our revenue and cash flow.

Maintain stable cash flows supported by long-term, fee-based contracts.

We will seek to minimize our direct commodity price exposure and maintain stable cash flows by generating substantially all of our revenues pursuant to multi-year, firm storage and transportation contracts with strong, creditworthy customers. As of June 30, 2011, approximately 95% of our storage capacity was committed under firm storage contracts with a weighted average remaining contract life of approximately 3.6 years. As of August 23, 2011, approximately 100% of our pipeline transportation capacity was committed under agreements with a weighted average remaining life of approximately 5 years. We plan to maintain our focus on providing storage and transportation services on a long-term, fixed-fee basis as we grow our business.

Maintain a conservative and flexible capital structure and target investment grade credit metrics in order to lower our overall cost of capital.

We intend to maintain a balanced capital structure which, when combined with our stable fee-based cash flows, will afford us efficient access to the capital markets at a competitive cost of capital. We plan to maintain debt-to-capitalization, debt-to-EBITDA and other key credit metrics that are consistent with investment grade businesses in our industry, with the goal of ultimately obtaining investment grade credit ratings. In connection with this offering, we expect to assume from NRGY a $1 million revolving credit facility that will be used to fund near-term growth and provide liquidity. We intend to finance growth projects and acquisitions in the markets with a balanced combination of debt and equity in conjunction with our target capital structure and our approach to managing our balance sheet to ensure the long-term stability of our business. We believe that this conservative approach to financial management is in the best interests of our common unitholders as we expect that it will provide us with a lower cost of capital and a more competitive operating position than more highly levered peers.

Our Competitive Strengths

We believe we are well positioned to execute our business strategies successfully because of the following competitive strengths:

Strategically located assets proximate to prolific shale plays (including the Marcellus shale) and high demand metropolitan markets in the Northeast.

Our assets are strategically located in and around the Marcellus shale and within 200 miles of the New York metropolitan market. We believe that our pipeline connectivity to major U.S. and Canadian natural gas supply sources provides us with a distinct competitive advantage. The strategic location of our assets and lack of a viable storage substitute in the region drives the high utilization of our facilities. We believe that the anticipated future increase in East Coast natural gas demand and the significant near-term gas production growth expected from the neighboring Marcellus and Utica shale plays makes regional natural gas storage and transportation services in the Northeast an increasingly attractive business.

Inventory of internal growth projects in the attractive Northeast market.

We are developing approximately $380 million in internal growth projects around our existing Northeast natural gas and NGL assets designed to enhance our profitability and increase our operating scale. Approximately $315 million of this investment forecast is budgeted for our MARC I pipeline and North/South
expansion project, which we believe will improve the supply and transportation capabilities of our Northeast natural gas business and will add significant fee-based interstate transportation revenues to our business. We plan to complete and place into service the North/South expansion project and MARC I pipeline in October 2011 and July 2012, respectively. Approximately $65 million of this investment forecast is budgeted for our Watkins Glen NGL storage development project, which will expand our NGL storage capabilities in the Northeast. We expect to complete and place into service the proposed 2.1 million barrel NGL storage facility by April 2012.

We currently have 41.0 Bcf of in-service Northeast natural gas storage capacity. We plan to expand this capacity by 0.6 Bcf at our Seneca Lake facility by December 2012. In addition, NRGY has identified salt caverns on US Salt’s property for potential development into approximately 10.0 Bcf of natural gas storage capacity by 2014, subject to market conditions. NRGY estimates the total capital cost of this storage development project to be approximately $120 million. We expect to jointly develop this approximate 10.0 Bcf project with NRGY and to evaluate acquiring it over time.

We anticipate that these projects will allow us to better serve our customers’ storage and transportation needs, increase margins and enhance our ability to obtain contracts for the use of our assets. We believe these projects will be accretive to our common unitholders and increase the scale and stability of our business.

**Affiliation with NRGY, a leading propane and midstream master limited partnership.**

NRGY owns and operates a growing, geographically diverse retail and wholesale propane supply, marketing and distribution business and is the fourth largest national propane retailer based on retail gallons sold. By virtue of NRGY’s ownership of our general partner, all of our incentive distribution rights and approximately % of our common units upon the closing of this offering, NRGY has a vested interest in our success. NRGY intends for us to operate and develop midstream storage and transportation assets in the United States, and it will be incentivized to support our growth and development in ways that enhance the value of our business. In addition to the potential to benefit from NRGY’s asset acquisition and integration expertise as well as its deep industry knowledge, NRGY also retains and operates a geographically diverse set of midstream assets, including the Tres Palacios natural gas storage facility located in Texas, the US Salt solution-mining and salt production business located in New York, and a West Coast NGL business located near Bakersfield, California. NRGY has also identified salt caverns on US Salt’s property for potential development into approximately 10.0 Bcf of natural gas storage capacity by 2014, subject to market conditions. NRGY’s retained midstream business and expansion opportunities are of strategic interest to us and would complement our existing asset base by diversifying our cash flow sources. While no obligation exists to sell these assets to us or to jointly develop them with us, NRGY’s significant ownership interest provides a strong incentive to support our growth.

**High quality assets with multiple sources of supply and connectivity to service growing demand markets.**

Our storage assets include high quality depleted natural gas reservoirs and salt cavern storage facilities. Our infrastructure is generally newly constructed and has high injection and withdrawal capabilities, which facilitate our ability to deliver natural gas in a timely and reliable manner on behalf of our customers. Our assets are connected to diverse sources of supply, including production from Canada, the Rocky Mountains, the Gulf Coast and the Marcellus shale. We also have connectivity to key long-haul natural gas pipelines that deliver natural gas to East Coast demand markets, including the Millennium Pipeline, TGP, National Fuel Gas Supply Corporation’s pipeline, the Empire Pipeline, Transco’s Leidy Line and Dominion’s Woodhull Pipeline. The combination of high quality storage assets, ample supply sources and efficient and widespread deliverability make our Northeast storage and transportation platform valuable to our customers.

**Stable, fee-based cash flows with long-term contracts and high quality customer base.**

Our operations consist predominantly of fee-based services that generate stable cash flows. As of June 30, 2011, approximately 95% of our storage revenue was obtained from fixed reservation fees under long-term
storage agreements with strong, creditworthy customers, such as large East Coast utilities and major natural gas marketing firms. Assuming completion of our natural gas transportation projects in 2012, approximately 100% of our firm storage and transportation revenue is expected to be contracted under long-term contracts with strong, creditworthy customers. Additionally, we do not take title to the natural gas and NGL that we store and transport for our customers and, as a result, our business is generally not exposed to commodity price fluctuations or other related risks. We believe that the resulting stable cash flow profile enhances the predictability of our performance and facilitates our access to the capital markets.

**Significant barriers to entry.**

Competitors who seek to add substantial capacity in the markets in which we currently operate may face significant geographical, marketing, financial, regulatory and logistical difficulties. In particular, there is a scarcity of unexploited reservoirs located near pipeline infrastructure, natural gas and NGL supply sources and end-user markets that have the capacity necessary to store natural gas and NGLs economically. Operational challenges and high upfront capital costs associated with the development of natural gas and NGL storage and transportation assets also exist. They include obtaining title to land and permits to operate, constructing facilities for injecting, storing and withdrawing natural gas and NGLs and meeting high cushion gas requirements. Moreover, significant industry skills are required to identify, construct and operate successful natural gas and NGL infrastructure, and many of these skills are uncommon.

**Experienced management team.**

Our management team has significant expertise owning, developing and operating storage and transportation assets, as well as significant relationships with participants across the natural gas supply chain, and has a proven track record of successfully building, enhancing, acquiring, integrating and managing midstream storage and transportation assets in a reliable and cost-effective manner. Our senior management team includes the most senior officers of NRGY, a group with an average of 20 years of experience in all phases of the propane and midstream industries. We intend to leverage this experience to continue to grow and manage our business in order to increase cash distributions to our common unitholders over time.

**Our Relationship with Inergy, L.P.**

NRGY and its predecessor have been active participants in the energy industry since the mid-1990s. NRGY has a long history of successfully expanding its energy businesses through complementary acquisitions of retail propane operations, midstream operations and, to a lesser extent, through internal growth projects. Since its predecessor's inception in November 1996 through July 31, 2011, NRGY has acquired 90 businesses. Since NRGY's initial public offering in 2001, NRGY has grown its asset base from approximately $150 million to over $3.3 billion and increased the annualized distribution on its limited partner units by over 100%, from $1.20 per unit (adjusted for unit splits) as of NRGY's initial public offering to $2.82 per unit for the distribution paid on August 12, 2011.

We believe NRGY’s significant presence in the energy sector, its successful track record of growth and its significant investment in, and sponsorship and support of, our business will enhance our ability to increase cash distributions. Through our relationship with NRGY, we will have access to a significant pool of management talent and strong commercial relationships throughout the energy industry. In addition, upon completion of this offering, NRGY will have a significant economic stake in us through its ownership of approximately % of our outstanding common units and an indirect interest in 100% of our incentive distribution rights. This retained economic stake provides NRGY with a strong incentive to promote and support the successful execution of our growth plan and strategy. Although we expect to have the opportunity to make additional acquisitions directly from NRGY in the future, NRGY is under no obligation to make acquisition opportunities available to us. Accordingly, we are unable to predict which, if any, acquisition opportunities NRGY may make available to us or whether we will elect to pursue any such opportunity. While our relationship with NRGY and its subsidiaries may provide significant benefits, it may also become a source of potential conflicts. For example,
NRGY is not restricted from competing with us. NRGY may also acquire, construct or dispose of natural gas or NGL facilities or other midstream assets in the future without any obligation to offer us the opportunity to purchase or construct those assets. Please read “Conflicts of Interest and Fiduciary Duties.”

In connection with the closing of this offering, we will enter into an omnibus agreement with NRGY and certain of its affiliates, pursuant to which we will agree upon certain aspects of our relationship with them, including the provision by NRGY to us of certain administrative services and employees, our agreement to reimburse NRGY for the cost of such services and employees, certain indemnification obligations, the use by us of the name “Inergy” and related marks, and other matters. In addition, we have entered into or will enter into various other agreements with NRGY that will affect the transactions relating to our formation and this offering, including the vesting of assets in, and the assumption of liabilities by, us and our subsidiaries and the application of the net proceeds of this offering. We believe the terms of these agreements are or will be no less favorable to either party than those that could have been negotiated with an unaffiliated party; however, these agreements have been or will be negotiated among affiliated parties. Please read “Certain Relationships and Related Party Transactions.”

Customers

We provide natural gas storage and transportation services predominantly to creditworthy utilities (LDCs and electric utilities), marketers, producers, industrial users, pipelines and refiners. In addition to our customers in the Northeastern markets, we have access to customers in the Mid-Atlantic, Midwest and Southeastern regions of the United States through our interconnections with major pipelines, including TGP and Transco.

We provide storage services to an affiliate pursuant to which it utilizes all of the storage capacity at our underground NGL storage facility located near Bath, New York. Please read “Certain Relationships and Related Party Transactions.”

For the fiscal years ended September 30, 2010 and 2009, ConEdison accounted for approximately 28% and 29%, respectively, of our total revenue. For the fiscal year ended September 30, 2008, ConEdison, NJR Energy Services and its affiliates and TGP accounted for approximately 19%, 15% and 12%, respectively, of our total revenue. Other than as described above, no other customer accounted for 10% or more of our total revenue for the fiscal years ended September 30, 2010, 2009 or 2008.

Contracts

The terms and conditions of the agreements under which we provide interstate storage and transportation services to customers are governed by our FERC-authorized tariffs. The general terms and conditions of our FERC gas tariffs address customary matters such as creditworthiness, extension and termination rights, force majeure, fuel reimbursement and capacity releases. Non-conforming service agreements must be submitted to the FERC for approval. The terms and conditions vary between the FERC-authorized gas tariffs of CNYOG, ASC and Steuben Gas.

The table below provides additional information on contracts relating to our natural gas storage facilities:

<table>
<thead>
<tr>
<th>Facility (FERC-Certificated Operator)</th>
<th>% of Operationally-Available Capacity Subscribed under Firm Contracts</th>
<th>% of Physical Deliverability Subscribed under Firm Contracts</th>
<th>Weighted Average Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stagecoach (CNYOG)</td>
<td>82%</td>
<td>95%</td>
<td>December 2015</td>
</tr>
<tr>
<td>Thomas Corners (ASC)</td>
<td>100%</td>
<td>100%</td>
<td>March 2015</td>
</tr>
<tr>
<td>Seneca Lake (ASC)</td>
<td>59%</td>
<td>59%</td>
<td>August 2018</td>
</tr>
<tr>
<td>Steuben (Steuben Gas)</td>
<td>100%</td>
<td>100%</td>
<td>March 2013</td>
</tr>
</tbody>
</table>
Table of Contents

Index to Financial Statements

Capacity, injection and withdrawal characteristics are metrics used to define a reservoir and monitor customer commitments. The percentage of capacity subscribed indicates the percent of available capacity that has been contracted for firm storage service, and the percentage of deliverability subscribed indicates the percent of contracted capacity that can be delivered to firm storage customers. For an underground depleted reservoir storage facility, injection and withdrawal capability generally varies inversely with a reservoir’s physical inventory at any given point in time, and by adjusting the reservoir’s inventory levels a storage operator can modify injection and withdrawal rates. Certificated capacity (the maximum amount of storage capacity authorized) can be higher than operationally available capacity when a storage operator has reduced physical inventory levels to increase injection and/or withdrawal rates. Although this reduction will result in a lower amount of operationally available storage capacity, it normally enables a firm storage customer to cycle capacity more frequently and thus increases the value of the storage for both the storage operator and the customer.

We provide intrastate transportation service to NYSEG under a firm transportation service agreement approved by the NYPSC. Under this agreement, we make 30 MMcf/d of transportation capacity available to NYSEG on our 37-mile intrastate natural gas pipeline for the purpose of transporting natural gas from our interconnect with Dominion’s system to certain NYSEG city gates within its service territory. The initial term of the contract is 10 years, and NYSEG has the right to extend the term for incremental five-year periods during the life of the pipeline. We did not generate any revenue from intrastate transportation services during the fiscal year ended September 30, 2010, as we did not acquire the pipeline until July 2011.

Competition

The principal elements of competition among storage and transportation assets are rates, terms of service, types of service, supply and market access, and flexibility and reliability of service. An increase in competition in our markets could arise from new ventures or expanded operations from existing competitors.

Our principal competitors in our natural gas storage market include other independent storage providers and major natural gas pipelines, such as Dominion Resources, Inc., NiSource Inc. and El Paso Corporation. These major pipeline natural gas transmission companies have existing storage facilities connected to their systems that compete with certain of our facilities. The FERC has adopted a policy that favors authorization of new storage projects, and there are numerous natural gas storage options in the New York/Peninsula/Vania geographic market. Pending and future construction projects, if and when brought on line, may also compete with our natural gas storage operations. These projects may include FERC-certificated storage expansions and greenfield construction projects. We also compete with the numerous alternatives to storage available to customers, including pipeline balancing/no-notice services, seasonal/swing services provided by pipelines and marketers and on-system LNG facilities.

Our primary competitors in the NGL storage business include integrated major oil companies, refiners and processors, and other pipeline and storage companies.

Regulation

Our operations are subject to extensive laws and regulations. We are subject to regulatory oversight by numerous federal, state, and local regulatory agencies, many of which are authorized by statute to issue, and have issued, rules and regulations binding on the natural gas storage and pipeline industry, related businesses and individual participants. The failure to comply with such laws and regulations can result in substantial penalties. The regulatory burden on our operations increases our cost of doing business and, consequently, affects our profitability. Except for certain exemptions that apply to smaller companies, however, we do not believe that we are affected by these laws and regulations in a significantly different manner than are our competitors.

Following is a discussion of certain laws and regulations affecting us. However, our common unitholders should not rely on such discussion as an exhaustive review of all regulatory considerations affecting our operations.

107
Table of Contents

Index to Financial Statements

Our natural gas storage and transportation assets are subject to several kinds of regulation. Our historical and projected operating costs reflect the recurring costs resulting from compliance with these regulations, and we do not anticipate material expenditures in excess of these amounts in the absence of future acquisitions or changes in regulation, or discovery of existing but unknown compliance issues. The following is a summary of the kinds of regulation that may impact our operations.

Natural Gas Storage and Transportation Regulation

Interstate Regulation . Our subsidiaries that own natural gas storage and transportation pipeline facilities, including CNYOG, ASC and Steuben Gas, are classified as “natural-gas companies” under the NGA and are therefore subject to regulation by the FERC. The NGA requires that tariff rates and terms and conditions of service for gas storage and transportation pipeline facilities must be just and reasonable and non-discriminatory. The FERC has authority to regulate rates and charges for natural gas transported and stored in U.S. interstate commerce or sold by a natural gas company in interstate commerce for resale. The FERC also has authority over the construction and operation of natural gas storage and pipeline transportation facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. The FERC’s authority extends to, among other things, terms and conditions of service, maintenance of accounts and records, depreciation and amortization policies, acquisition and disposition of facilities, initiation and discontinuation of services, imposition of creditworthiness and credit support requirements applicable to customers and relationships among pipelines and storage companies and certain affiliates.

The rates and terms and conditions of our natural gas storage and transportation services are found in the FERC-approved tariffs of CNYOG, as owner of the Stagecoach facility and, when completed, the MARC I pipeline; Steuben Gas, as owner of the Steuben facility; and ASC, as owner of the Thomas Corners and Seneca Lake facilities. CNYOG and ASC are authorized to charge and collect market-based rates for storage services provided at the Stagecoach, Thomas Corners and Seneca Lake facilities, respectively. CNYOG is also authorized to charge negotiated rates for transportation services. Market-based and negotiated rate authorization allows us to negotiate rates with individual customers based on market demand, which we then make public. Steuben Gas is authorized to charge and collect cost-of-service rates at the Steuben facility.

Standards of Conduct for Transmission Providers . In October 2008, the FERC issued new standards of conduct regulations for transmission providers that conduct transmission transactions with an affiliate engaging in marketing functions. After a series of rehearing orders issued between October 2009 and April 2011, the new regulations are now final. CNYOG, ASC and Steuben Gas currently are not subject to FERC’s standards of conduct regulations because they do not conduct any such affiliate transactions.

Natural Gas Price Transparency. In April 2007, the FERC issued a notice of proposed rulemaking, or NOPR, regarding price transparency provisions of the NGA and the Energy Policy Act of 2005, or the EPAct 2005. In the notice, the FERC proposed to revise its regulations to, among other things, require that buyers and sellers of more than a de minimis volume of natural gas report annual numbers and volumes of relevant transactions to the FERC. In December 2007, the FERC issued Order No. 704 implementing the annual reporting provisions of the NOPR with minimal changes to the original proposal. The order became effective in February 2008. The FERC issued two orders on rehearing in 2008, and following a technical conference in March 2010, the FERC issued an order clarifying the reporting requirements in June 2010. CNYOG, ASC and Steuben Gas are subject to these annual reporting requirements.

Energy Policy Act of 2005 . Under the EPAct 2005 and related regulations, it is unlawful in connection with the purchase or sale of natural gas or transportation services subject to FERC jurisdiction to use or employ any device, scheme or artifice to defraud; to make any untrue statement of material fact or omit to make any such statement necessary to make the statements made not misleading; or to engage in any act or practice that operates as a fraud or deceit upon any person. EPAct 2005 also gives the FERC authority to impose civil penalties for violations of the
Table of Contents

Index to Financial Statements

NGA up to $1,000,000 per day per violation for violations occurring after August 8, 2005. The anti-manipulation rule and enhanced civil penalty authority reflect an expansion of FERC's NGA enforcement authority.

Other Proposed Regulation. Additional proposals and proceedings that might affect the natural gas industry are pending before Congress, the FERC, state commissions and the courts. The natural gas industry historically has been heavily regulated. Accordingly, we cannot provide assurances that the less stringent and pro-competition regulatory approach recently pursued by the FERC and Congress will continue.

Pending Authorization (FERC). In Docket CP10-194-000, CNYOG filed an application with the FERC on April 27, 2010, requesting authorization for the North/South expansion project. The FERC issued an order granting the requested authorization on January 20, 2011. The order contains a number of conditions that must be satisfied before we can place the additional compressor units into service and provide the transportation services authorized under the FERC order. We are currently working to install the additional compressor units and related facilities, and expect to complete construction later this year. We will not be authorized to commence providing transportation services using the Stagecoach north and south laterals until we demonstrate to the FERC that we have satisfied the conditions set forth in the authorizing order.

In Docket CP10-480-000, CNYOG filed an application with the FERC on August 6, 2010, requesting authorization for the MARC I pipeline. On May 27, 2011, the FERC issued an Environmental Assessment, or EA, for the project, in which the FERC Staff has proposed a “finding of no significant impact” and recommends the adoption of twenty-two mitigation measures. We filed initial comments to the EA on July 11, 2011, and have subsequently filed responses to comments filed by several interveners. Several interveners generally opposed to the development of natural gas infrastructure in the Northeast have argued that, among other things, the environmental impact of the MARC I pipeline must be more fully evaluated in an Environmental Impact Statement, or EIS, before the FERC can issue a certificate authorizing the project. The preparation of an EIS could delay our FERC proceeding by an additional six-to-nine months. We do not expect the FERC to require an EIS, and we expect the FERC to issue an order granting the requested authorization in September 2011. We cannot, however, provide any assurances that the FERC will not require the preparation of an EIS or grant our requested authorization when anticipated, if at all.

The rate design for the transportation services associated with the North/South expansion project and MARC I pipeline differs from the market-based rate design for our gas storage services. We are authorized to charge negotiated rates subject to initial cost-based recourse rates options when providing the firm wheeling services associated with the North/South expansion project, and we have requested FERC approval to use the same rate design when providing transportation services using the MARC I pipeline. Negotiated rates could, in theory, involve rates above or below the recourse rate; a prerequisite for having the right to agree to negotiated rates is that negotiated rate customers must have the option to take service under the pipeline’s recourse rates. Each negotiated rate is designed to fix the customer’s rate for the term of the firm wheeling or transportation agreement.

In addition, we plan to file an application with the FERC by the end of calendar year 2011 requesting authority for Steuben to charge market-based rates for its storage services. Steuben is authorized to charge cost-based rates under its existing FERC gas tariff. In particular, we intend to request FERC approval to merge Steuben Gas into ASC and, as a result thereof, charge market-based rates for Steuben storage services under ASC’s tariff. If our request is granted, we will have the ability to charge market-based rates for storage service provided by our Thomas Corners, Seneca Lake and Steuben facilities under one tariff (ASC’s tariff), which will move us closer toward becoming an integrated natural gas storage and transportation hub in the Northeast. We also believe that having the ability to operate all three of these storage facilities under the same tariff will improve interconnectivity and increase the attractiveness of the services we offer to our customers.

Intrastate Regulation. On March 31, 2010, our wholly owned subsidiary, Inergy Pipeline East, LLC, or Inergy East, filed an application with the NYPSC for authorization to acquire from NYSEG a 37.5-mile intrastate natural gas transmission pipeline (formerly known as the Seneca Lake east lateral pipeline) running from...
Table of Contents

Index to Financial Statements

Dominion's interstate system to the city gate at Binghamton, New York. As part of the application, Inergy East requested that it be subject to lightened regulation under NYPSC regulations and policies following the acquisition. The NYPSC approved Inergy East's acquisition of the intrastate pipeline and request for lightened regulation on March 4, 2011, as modified by an order dated June 17, 2011. Under lightened regulation, Inergy East is exempt from most NYPSC regulation applicable to the provision of retail service and, instead, must comply with limited corporate (e.g., obtaining approval prior to any transfer of its ownership interests or the issuance of debt securities) and operational and safety (e.g., filing of vegetation management plan and annual reports detailing the gas volumes transported over the pipeline) requirements regulated by the NYPSC.

Pipeline Safety

We own and operate pipeline header systems connecting our natural gas storage facilities to various interstate pipelines. We also own an intrastate pipeline and are developing an interstate natural gas pipeline. Our pipelines are subject to regulation by the Pipeline and Hazardous Materials Safety Administration, or PHMSA, pursuant to the Natural Gas Pipeline Safety Act of 1968, or NGPSA. The NGPSA regulates safety requirements in the design, installation, testing, construction, operation and maintenance of gas pipeline facilities. The NGPSA has since been amended by the Pipeline Safety Act of 1992, the Pipeline Safety Improvement Act of 2002, and the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006. These amendments, along with implementing regulations more recently adopted by PHMSA, have imposed additional safety requirements on pipeline operators such as the development of a written qualification program for individuals performing covered tasks on pipeline facilities and the implementation of pipeline integrity management programs. These integrity management plans require more frequent inspections and other preventative measures to ensure pipeline safety in “high consequence areas,” such as high population areas, areas unusually sensitive to environmental damage, and commercially navigable waterways. Accordingly, we will continue to focus on pipeline integrity management for any of the pipelines we currently own or acquire in the future, and significant additional expenses could be incurred if anomaly pipeline conditions are discovered as a result of these inspections or if new or more stringent pipeline safety requirements are implemented. We believe that our operations are in substantial compliance with all existing federal, state, and local pipeline safety laws and regulations and that such laws and regulations will not have a material adverse effect on our business, financial position, or results of operations.

Environmental and Occupational Safety and Health Regulation

General

Our natural gas storage and transportation operations and assets are subject to extensive and frequently-changing federal, regional, state and local laws and regulations governing health and safety aspects of our operations, the discharge of materials into the environment or otherwise relating to environmental protection. Compliance with these laws and regulations may require the acquisition of permits to conduct regulated activities; restrict the type, quantities and concentration of pollutants that may be emitted or discharged into or onto the land, air and water; restrict the handling and disposal of solid and hazardous wastes; apply specific health and safety criteria addressing worker protection; and require remedial measures to mitigate pollution from former and ongoing operations. As with the industry generally, compliance with existing and anticipated environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, operate and upgrade equipment and facilities. While these laws and regulations affect our maintenance capital expenditures and net income, we believe they do not affect our competitive position, as the operations of our competitors are similarly affected.

We believe our facilities are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to frequent change, and continued or future compliance with such laws and regulations, or changes in the interpretation of such laws and regulations, may require us to incur significant expenditures. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of
injunctions that may limit or prohibit some or all of our operations. Additionally, a discharge of NGLs into the environment could, to the extent the event is not insured, subject us to substantial expenses, including costs to respond to such incident in compliance with applicable laws and regulations and to resolve claims made by third parties for claims for personal injury and property damage. These impacts could directly and indirectly affect our business and have an adverse impact on our financial condition, results of operations and cash flows.

**Hazardous Substances and Wastes**

To a large extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater, and surface water, and include measures to control pollution of the environment. These laws and regulations generally govern the generation, storage, treatment, transportation, and disposal of solid and hazardous waste. They also require corrective action, including investigation and remediation, at a facility where such waste may have been released or disposed. For instance, the federal Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, which is also known as Superfund, and comparable state laws, impose liability, without regard to fault or to the legality of the original conduct, on certain classes of persons that contributed to the release of a “hazardous substance” into the environment. These persons include the owner or operator of the site where the release occurred and companies that disposed of, or arranged for the disposal of, the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. In the course of our ordinary operations, we generate wastes that may be characterized as hazardous substances.

We also generate solid wastes, including hazardous wastes, which are subject to the requirements of the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. From time to time, the EPA considers the adoption of stricter disposal standards for non-hazardous wastes, including crude oil and refined products wastes. We are not currently required to comply with a substantial portion of the RCRA requirements because our operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during operations, will in the future be designated as “hazardous wastes.” Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Any changes in the regulations could increase our maintenance capital expenditures and operating expenses.

We currently own and lease properties where hydrocarbons are being or have been handled for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other waste have been spilled or released on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal or recycling. In addition, certain of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. These properties and wastes disposedthereon may be subject to CERCLA, RCRA, and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater), or to perform remedial operations to prevent future contamination.

**Air Emissions**

Our operations are subject to the federal Clean Air Act and comparable state laws and implementing regulations governing emissions of air pollutants from various industrial sources and also imposing monitoring
Table of Contents

Index to Financial Statements

and reporting requirements. Such laws and regulations may require that we obtain pre-approval for the construction and or modification of certain projects or facilities expected to produce new air emission pollutants or result in the increase of existing air emission pollutants, obtain and comply with air permits containing various emissions and operational limitations, and use specific emission control technologies to limit emissions, in which event our operating costs would be expected to increase. Also, we could be required to incur capital expenditures in the future in order to comply with any newly developed or more stringent emission limitations. We do not anticipate that future compliance with such requirements would be any more burdensome to us than to any other similarly situated storage companies.

Climate Change

In response to findings that emissions of carbon dioxide, methane, and other GHGs present an endangerment to public health and the environment because emissions of such gases are contributing to the warming of the earth’s atmosphere and other climate changes, the EPA has adopted regulations under existing provisions of the federal Clean Air Act that require a reduction in emissions of GHGs from motor vehicles and also may trigger construction and operating permit review for GHG emissions from certain stationary sources, effective January 2, 2011. While we are not required to maintain any Title V operating permits for our stationary sources, our construction activities do remain subject to regulation under the federal Prevention of Significant Deterioration permit program. The EPA has also adopted rules requiring the reporting of GHG emissions from specified large GHG emission sources in the United States on an annual basis, beginning in 2011 for emissions occurring after January 1, 2010, as well as certain onshore oil and natural gas production, processing, transmission, storage and distribution facilities on an annual basis, beginning in 2012 for emissions occurring in 2011. In addition, Congress has from time to time considered legislation to reduce emissions of GHGs, and almost one-half of the states have already taken legal measures to reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. The adoption of any legislation or regulations that requires reporting of GHGs or otherwise limits emissions of GHGs from our equipment and operations could require us to incur costs to reduce emissions of GHGs associated with our operations or could adversely affect demand for oil and natural gas that is produced, which could decrease demand for our storage services. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth’s atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our operations.

Water

The Clean Water Act, or CWA, and analogous state laws impose strict control of the discharge of pollutants, including spills and leaks of oil and other substances, into state waters and waters of the United States. The CWA prohibits the discharge of pollutants into regulated waters, except in accordance with the terms of a permit issued by the EPA or analogous state agency. The CWA also regulates the discharge of storm water runoff from certain industrial facilities. Accordingly, some states require industrial facilities to obtain and maintain storm water discharge permits, which require monitoring and sampling of storm water runoff from such facilities.

As part of our operations, we inject brine into our underground storage facilities. Such operations are subject to the Safe Drinking Water Act, or SDWA, and analogous state laws, which regulate drinking water quality in the United States, including above ground and underground sources designated for actual or potential drinking water use. In particular, to protect underground sources of drinking water, the Underground Injection Control, or UIC, Program of the SDWA regulates the construction, operation, maintenance, monitoring, testing, and closure of underground injection wells. The UIC Program also requires that all underground injection wells be authorized, either under the general rules of the UIC Program or through specific permits. In most jurisdictions, states have primary enforcement authority over the implementation of the UIC Program, including the issuance of permits. The EPA implements the UIC Program in New York.
Endangered Species Act

The Endangered Species Act restricts activities that may affect endangered species or their habitats. We believe that we are in compliance with the Endangered Species Act. However, the discovery of previously unidentified endangered species could cause us to incur additional costs or become subject to operating restrictions or bans in the affected area.

Occupational Safety and Health

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

Seasonality

Because a high percentage of our baseline cash flow is derived from fixed reservation fees under multi-year contracts, our revenues are not generally seasonal in nature, nor are they typically affected by weather and price volatility during the term of the multi-year contracts. Weather impacts natural gas demand for power generation and heating purposes and propane demand for heating purposes, which in turn influences the value of storage across our natural gas and NGL facilities. Peak demand for natural gas typically occurs during the winter months, caused by the heating load, although certain markets such as the Florida market peak in the summer months due to cooling demands. Peak demand for propane typically occurs during the winter months, caused by residential heating load.

Title to Properties and Rights-of-Way

Our real property falls into two categories: (1) parcels that we own in fee and (2) parcels in which our interest derives from leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities permitting the use of such land for our operations. Portions of the land on which our facilities are located are owned by us in fee title, and we believe that we have satisfactory title to these lands. The remainder of the land on which our major facilities are located are held by us pursuant to leases between us, as lessee, and the fee owner of the lands, as lessors. We believe that we have satisfactory leasehold estates to such lands. We have no knowledge of any material challenge to the underlying fee title of any material lease, easement, right-of-way, permit or license held by us or to our title to any material lease, easement, right-of-way, permit or license, and we believe that we have satisfactory title to all of our material leases, easements, rights-of-way, permits and licenses.

Certain of our natural gas assets located in New York are subject to lease-leaseback agreements entered into with local taxing authorities as part of payment-in-lieu-of-taxes, or PILOT, programs. Under our tax-abatement programs, we make annual PILOT payments to local tax authorities rather than pay annual real property taxes based on assessed values. The amount of our annual PILOT payments increases each year during the life of the programs, which typically run 10-20 years in duration. Our Stagecoach and Thomas Corners facilities and the north compression facilities installed for our North/South expansion project are subject to PILOT programs.

We also receive state tax benefits under New York's Empire State Development program. In general, we receive a tax credit on CNOYOG's state income tax return for our facilities located in Owego, New York, which are located within a designated Empire Zone. We received a benefit of approximately $3.7 million under this program for calendar year 2010. Beginning with calendar year 2012, our Empire Zone benefits will be phased out over the next four years.
Table of Contents

Index to Financial Statements

Insurance

We share insurance coverage with NRGY, for which we will reimburse NRGY’s general partner pursuant to the terms of the omnibus agreement. To the extent NRGY experiences covered losses under the insurance policies, the limit of our coverage for potential losses may be decreased. Our insurance program includes general liability insurance, auto liability insurance, worker’s compensation insurance, and property insurance in amounts which management believes are reasonable and appropriate.

Employees

We do not have any employees. We will rely on an omnibus agreement with NRGY and certain of its affiliates to provide us with employees needed to carry out our operations.

Legal Proceedings

We are not a party to any legal proceeding other than legal proceedings arising in the ordinary course of our business. We are also a party to various administrative and regulatory proceedings that have arisen in the ordinary course of our business. Please read “—Regulation—Natural Gas Storage and Transportation Regulation.”
MANAGEMENT

Management of Inergy Midstream, L.P.

Our general partner will manage our operations and activities on our behalf through its directors and officers, the latter of whom will be employed by NRGY. Our general partner is not elected by our common unitholders and will not be subject to re-election in the future. Directors of our general partner will oversee our operations. Common unitholders will not be entitled to elect the directors of our general partner, which will all be appointed by the board of directors of NRGY, or directly or indirectly participate in our management or operations. In addition, Holdings GP, the indirect owner of NRGY's general partner, is required to purchase our general partner under certain circumstances. Please read “Security Ownership of Certain Beneficial Owners and Management.”

Our general partner will, however, be accountable to us and our common unitholders as a fiduciary. Fiduciary duties owed to common unitholders by our general partner are prescribed by law and our partnership agreement, which contains various provisions modifying and restricting the fiduciary duties that might otherwise be owed by our general partner. For more information on the fiduciary duties of our general partner, please read “Conflicts of Interest and Fiduciary Duties—Fiduciary Duties.”

Upon the completion of this offering, we expect that our general partner will have at least two directors, at least one of whom will be independent as defined under the independence standards established by the NYSE and the Exchange Act. The NYSE does not require a listed publicly traded partnership, such as ours, to have a majority of independent directors on the board of directors of our general partner or to establish a compensation committee or a nominating committee. We are, however, required to have an audit committee of at least three members, and all its members are required to meet the independence and experience standards established by the NYSE and the Exchange Act, subject to certain transitional relief during the one-year period following the completion of this offering.

In evaluating director candidates, NRGY will assess whether a candidate possesses the integrity, judgment, knowledge, experience, skill and expertise that are likely to enhance the board’s ability to manage and direct our affairs and business, including, when applicable, to enhance the ability of committees of the board of directors of our general partner to fulfill their duties.

The officers of our general partner will be employed by NRGY and will manage the day-to-day affairs of our business. Certain of our officers may devote the majority of their time to our business, while other officers will have responsibilities for both us and NRGY and will devote less than a majority of their time to our business. We will also utilize certain employees of NRGY to operate our business and provide us with administrative services.

Following the completion of this offering, neither our general partner nor NRGY will receive any management fee or other compensation in connection with our general partner’s management of our business, but we will reimburse our general partner and its affiliates, including NRGY, for all expenses they incur and payments they make on our behalf. We will enter into an omnibus agreement with NRGY and certain of its affiliates, pursuant to which we will agree upon certain aspects of our relationship with them, including the provision by NRGY to us of certain administrative services and employees, our agreement to reimburse NRGY for the cost of such services and employees, certain indemnification obligations, the use by us of the name “Inergy” and related marks, and other matters. Neither our partnership agreement nor the omnibus agreement will limit the amount of expenses for which our general partner and its affiliates may be reimbursed. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. Please read “Certain Relationships and Related Party Transactions—Agreements with Affiliates in Connection with the Transactions—Omnibus Agreement.” Additionally, the omnibus agreement will not increase or decrease our general partner’s fiduciary duties to us under our partnership agreement. For more information on the fiduciary duties of our general partner, please read “Conflicts of Interest and Fiduciary Duties—Fiduciary Duties.”
Executive Officers and Directors of Our General Partner

The following table shows information for the individuals that will serve as executive officers and directors of our general partner upon the completion of this offering. Our directors will hold office until their successors have been elected or qualified or until the earlier of their death, resignation, removal or disqualification. Executive officers will serve at the discretion of the board of directors of our general partner. There are no family relationships among any of the individuals listed below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position with Our General Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>John J. Sherman (1)(2)</td>
<td>56</td>
<td>President, Chief Executive Officer and Director</td>
</tr>
<tr>
<td>R. Brooks Sherman, Jr. (1)</td>
<td>45</td>
<td>Executive Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>William R. Moler (1)</td>
<td>45</td>
<td>Senior Vice President and Chief Operating Officer</td>
</tr>
</tbody>
</table>

(1) Executive officer of NRGY’s general partner.
(2) Director of NRGY’s general partner.

**John J. Sherman—President, Chief Executive Officer and Chairman of the Board**: Mr. Sherman will serve as our President, Chief Executive Officer and Chairman of the board of directors of our general partner. Mr. Sherman has served as President, Chief Executive Officer and a director of NRGY since March 2001, and of NRGY’s predecessor from 1997 until July 2001. Prior to joining NRGY’s predecessor, Mr. Sherman was a vice president with Dynegy Inc. from 1996 through 1997. He was responsible for all downstream propane marketing operations, which at the time were the country’s largest. From 1991 through 1996, Mr. Sherman was the president of LPG Services Group, Inc., a company he co-founded and grew to become one of the nation’s largest wholesale marketers of propane before Dynegy acquired LPG Services in 1996. From 1984 through 1991, Mr. Sherman was a vice president and member of the management committee of Ferrellgas, which is one of the country’s largest retail propane marketers. He also served as President, Chief Executive Officer and director of Inergy Holdings GP, LLC and a director of Great Plains Energy Inc. We believe the breadth of Mr. Sherman’s experience in the energy industry, through his current position as the President and Chief Executive Officer of NRGY and his past employment described above, as well as his current board of director positions, has given him valuable knowledge about our business and our industry that will bring substantial experience and leadership skills to the board of directors of our general partner.

**R. Brooks Sherman, Jr.—Executive Vice President and Chief Financial Officer**: Mr. Brooks Sherman, Jr. (no relation to Mr. John Sherman) will serve as our Executive Vice President and Chief Financial Officer. Mr. Brooks Sherman has served as Executive Vice President of NRGY since September 2007, Senior Vice President of NRGY since September 2002 and Chief Financial Officer of NRGY since March 2001. Mr. Sherman previously served as Vice President of NRGY from March 2001 until September 2002. Mr. Sherman joined NRGY’s predecessor in December 2000 as Vice President and Chief Financial Officer. From 1999 until joining NRGY’s predecessor, he served as Chief Financial Officer of MCM Capital Group. From 1996 through 1999, Mr. Sherman was employed by National Propane Partners, a publicly traded master limited partnership, first as its controller and chief accounting officer and subsequently as its chief financial officer. From 1995 to 1996, Mr. Sherman served as chief financial officer for Berthel Fisher & Co. Leasing Inc. and prior to 1995, Mr. Sherman was in public accounting with Ernst & Young and KPMG Peat Marwick. He also served as Executive Vice President and Chief Financial Officer of Inergy Holdings GP, LLC.

**William R. Moler—Senior Vice President and Chief Operating Officer**: Mr. Moler will serve as our Senior Vice President and Chief Operating Officer. Mr. Moler has served as President and Chief Operating Officer—Natural Gas Midstream Operations of NRGY since May 2011, Senior Vice President—Natural Gas Midstream Operations of NRGY since September 2007, Vice President of Midstream Operations of NRGY since 2005 and Director of Midstream Operations of NRGY since 2004. Prior to joining NRGY, Mr. Moler was with Westport Resources Corporation where he served as both General Manager of Marketing and Transportation Services and General Manager of Westport Field Services, LLC. Prior to Westport, Mr. Moler served in various leadership positions at Kinder Morgan, Inc.
Table of Contents

Index to Financial Statements

Director Independence

In accordance with the rules of the NYSE, NRGY must appoint at least one independent director to the board of directors of our general partner prior to the listing of our common units on the NYSE, one additional independent member within three months of that listing, and one additional independent member within 12 months of that listing. NRGY may not have appointed all three independent directors to the board of directors of our general partner by the date our common units first trade on the NYSE.

Board Leadership Structure and Role in Risk Oversight

Our Chief Executive Officer May Serve as Chairman of the Board. We expect that the board of directors of our general partner will have no policy with respect to the separation of the offices of chairman of the board of directors and chief executive officer; rather, that relationship will be defined and governed by the limited liability company agreement of our general partner, which will permit the coincidence of the offices. Directors of the board of directors of our general partner will be designated or elected by its sole member, NRGY. Accordingly, unlike holders of common stock in a corporation, our common unitholders will have only limited voting rights on matters affecting our business or governance, subject in all cases to any specific unitholder rights contained in our partnership agreement.

The management of enterprise-level risk may be defined as the process of identification, management and monitoring of events that present opportunities and risks with respect to creation of value for our common unitholders. We expect that the board of directors of our general partner will delegate to management the primary responsibility for enterprise-level risk management, while the board will retain responsibility for oversight of management in that regard. We expect that management will offer an enterprise-level risk assessment to the board of directors of our general partner at least once every year.

Committees of the Board of Directors

The board of directors of our general partner will have an audit committee, a conflicts committee and a compensation committee.

Audit Committee

We are required to have an audit committee of at least three members, and all its members are required to meet the independence and experience standards established by the NYSE and the Exchange Act, subject to certain transitional relief during the one-year period following the completion of this offering as described above. The audit committee of the board of directors of our general partner will assist the board in its oversight of the integrity of our consolidated financial statements and our compliance with legal and regulatory requirements and partnership policies and controls. The audit committee will have the sole authority to (1) retain and terminate our independent registered public accounting firm, (2) approve all auditing services and related fees and the terms thereof performed by our independent registered public accounting firm and (3) pre-approve any non-audit services and tax services to be rendered by our independent registered public accounting firm. The audit committee will also be responsible for confirming the independence and objectivity of our independent registered public accounting firm. Our independent registered public accounting firm will be given unrestricted access to the audit committee and our management, as necessary.

Conflicts Committee

We expect that at least two independent members of the board of directors of our general partner will serve on a conflicts committee to review specific matters that the board believes may involve conflicts of interest (including certain transactions with NRGY). The conflicts committee will determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or...
employees of our general partner or directors, officers or employees of its affiliates, including NRGY, and must meet the independence and experience standards established by the NYSE and the Exchange Act to serve on an audit committee of a board of directors, along with other requirements. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our general partner of any duties it may owe us or our common unitholders.

Compensation Committee

The compensation committee will be responsible for the future administration of our long-term incentive plan and for compensation of our general partner’s non-employee directors.
EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

All of our executive officers and other personnel necessary for the management of our business will be employed and compensated by NRGY, subject to reimbursement by us. Our general partner was recently formed; therefore, we incurred no cost or liability with respect to compensation of our executive officers, and our general partner has not accrued any liabilities for management incentive or retirement benefits for our executive officers, for the fiscal year ended September 30, 2010 or for any prior periods.

Responsibility and authority for cash compensation-related decisions for our executive officers will reside with the compensation committee of NRGY’s general partner. Our executive officers will manage our business as part of the service provided by NRGY under the omnibus agreement, and the cash compensation for all of our executive officers will be indirectly paid by us through reimbursements to NRGY. The compensation committee of the board of directors of our general partner will be responsible for the future administration of our long-term incentive plan and for compensation of our general partner’s non-employee directors.

Certain of our officers may devote the majority of their time to our business, while other officers will have responsibilities for both us and NRGY and will devote less than a majority of their time to our business. Because the officers of our general partner will be employees of NRGY, cash compensation will be paid by NRGY and reimbursed by us. The officers of our general partner, as well as the employees of NRGY who provide services to us, may participate in employee benefit plans and arrangements sponsored by NRGY, including plans that may be established in the future. Each of the individuals that we expect to serve as an officer of our general partner is party to an employment agreement with NRGY. Our general partner is not expected to enter into any new employment agreements with any of our officers.

Historical Compensation

Because our general partner was recently formed and has not accrued any compensation obligations, we are not presenting historical compensation information.

Messrs. John J. Sherman, R. Brooks Sherman, Jr. and William R. Moler are executive officers of NRGY’s general partner as described in “Management,” and information relating to their compensation is set forth in NRGY’s annual report on Form 10-K under the heading “Executive Compensation.”

Compensation Philosophy and Objectives

We will not directly employ any of the persons responsible for managing our business. NRGM GP, LLC, our general partner, will manage our operations and activities, and its board of directors and executive officers will make decisions on our behalf. All of our executive officers will also serve as executive officers of Inergy GP, LLC, the general partner of NRGY. These “shared” officers will receive no additional salary, benefits or other cash compensation for their service to us. However, from time to time they may receive awards of equity in us pursuant to our long-term incentive plan.

A full discussion of the compensation programs for NRGY’s executive officers and the policies and philosophy of the compensation committee of the board of directors of Inergy GP, LLC is set forth in NRGY’s annual report on Form 10-K under the heading “Executive Compensation.”

Long-Term Incentive Plan

In connection with this offering, the board of directors of our general partner will adopt a long-term incentive plan for employees, consultants and directors who perform services for us. We expect that the long-term incentive plan will provide for awards of restricted units, unit options, phantom units, unit payments, unit
appreciation rights, other equity-based awards, distribution equivalent rights and performance awards. Our long-term incentive plan will limit the number of units that may be delivered pursuant to awards to 10% of the common units then outstanding.

Common units withheld to satisfy exercise prices or tax withholding obligations are available for delivery pursuant to other awards. Our long-term incentive plan will be administered by the compensation committee of the board of directors of our general partner, which we refer to as the plan administrator.

The plan administrator may terminate or amend the long-term incentive plan at any time with respect to any of our common units for which a grant has not yet been made. The plan administrator also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of common units that may be granted, subject to common unitholder approval as required by the exchange upon which our common units are listed at that time. However, no change in any outstanding grant may be made that would materially reduce the benefits of the participant without the consent of the participant. The plan will expire on the tenth anniversary of its approval, when common units are no longer available under the plan for grants or upon its termination by the plan administrator, whichever occurs first.

Upon the exercise of a unit option or a unit appreciation right (to the extent the award is settled in common units), or the vesting of a phantom unit (to the extent the award is settled in common units), we may acquire common units on the open market or from any other person or we may directly issue common units or use any combination of the foregoing, in the plan administrator’s discretion. If we issue new common units upon the exercise of a unit option or unit appreciation right, or the vesting of a phantom unit, the total number of common units outstanding will increase.

In connection with the closing of this offering, the board of directors of our general partner may grant awards to our key employees and our outside directors pursuant to the long-term incentive plan; however, the board has not yet made any determination as to the number of awards, the type of awards or when the awards would be granted. Certain of our key employees hold grants under NRGY’s long-term incentive plan.

Director Compensation

The officers or employees of our general partner or of NRGY who also serve as directors of our general partner will not receive additional compensation for their service as a director of our general partner. Directors of our general partner who are not officers or employees of our general partner or of NRGY will receive compensation as set by our general partner’s board of directors. In addition, non-employee directors will be reimbursed for out-of-pocket expenses in connection with attending meetings of the board of directors or its committees.

Each director will be indemnified for his actions associated with being a director to the fullest extent permitted under Delaware law.

Compensation Committee Interlocks and Insider Participation

Our general partner’s board of directors intends to establish a compensation committee, but has yet to do so.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common units that, upon the completion of this offering and the related transactions and assuming that the underwriters do not exercise their option to purchase up to additional common units, will be owned by:

- each person or group of persons known by us to be a beneficial owner of 5% or more of the then outstanding common units;
- each director of our general partner;
- each executive officer of our general partner; and
- all directors and executive officers of our general partner as a group.

<table>
<thead>
<tr>
<th>Name and Address of Beneficial Owner (1)</th>
<th>Common Units To Be Beneficially Owned (2)</th>
<th>Percentage of Common Units To Be Beneficially Owned (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inergy, L.P.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>John J. Sherman (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R. Brooks Sherman, Jr.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>William R. Moler</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All directors and executive officers of our general partner as a group (3 persons)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Less than 1%.

(1) The address for each person listed above is Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112.
(2) As of the date of this prospectus, there are no arrangements for any listed beneficial owner to acquire within 60 days common units from options, warrants, rights, conversion privileges or similar obligations.
(3) Of this amount, common units will be issued to NRGY at the closing of this offering and up to common units will be issued to NRGY within 30 days of this offering, assuming the underwriters do not exercise their option to purchase up to an additional common units. Please read “Summary—The Offering—Common units outstanding after this offering.”
(4) Mr. Sherman also owns a 14.4% limited partner interest in, and is the chief executive officer and a director of, NRGY. NRGY will have the right to appoint all of the directors of our general partner. Mr. Sherman, who currently is the only voting member of the general partner of Inergy Holdings, L.P., has the authority to appoint all of the directors of NRGY’s general partner.

NRGM GP, LLC Change of Control Event

In connection with this offering, in the event of a change of control of NRGY, NRGY and Holdings GP, the indirect owner of NRGY’s general partner, expect to enter into an agreement under which Holdings GP will be required to purchase from NRGY, and NRGY will be required to sell to Holdings GP, all of the membership interests in MGP GP, LLC, the entity that controls our general partner, for nominal consideration. Under the agreement, Holdings GP is also required to purchase MGP GP, LLC in the event that (i) a change of control of NRGY occurs or (ii) NRGY is entitled to receive less than 25% of all cash distributed with respect to our limited partner interests and incentive distribution rights. Any such transaction must comply with the restrictions in any law, regulation or agreement then in effect and must not require NRGY to have to register as an investment company under the Investment Company Act of 1940.

121
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

After this offering, assuming that the underwriters do not exercise their option to purchase additional common units, NRGY will own, directly or indirectly, approximately % of our common units and all of the incentive distribution rights and will own and control our general partner, which will maintain a non-economic general partner interest in us. NRGY will also appoint all of the directors of our general partner.

Distributions and Payments to Our General Partner and Its Affiliates

The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with the formation, ongoing operation and any liquidation of Inergy Midstream, L.P. These distributions and payments were determined by and among affiliated entities.

<table>
<thead>
<tr>
<th>Formation Stage</th>
<th>Operational Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The aggregate consideration received by our general partner and its affiliates for the contribution of their interests</td>
<td>We will generally make cash distributions 100% to our common unit holders, including affiliates of our general partner as the holders of an aggregate of common units. Our general partner will not receive cash distributions on its non-economic general partner interest. If distributions exceed the initial quarterly distribution of $ per unit, NRGY will be entitled to 50.0% of our cash distributions above the initial quarterly distribution level in respect of its incentive distribution rights.</td>
</tr>
<tr>
<td>• common units;</td>
<td>Assuming we have sufficient available cash to pay the full initial quarterly distribution on all of our outstanding common units for four quarters, NRGY would receive an annual distribution of approximately $ million on its common units.</td>
</tr>
<tr>
<td>• a non-economic general partner interest;</td>
<td></td>
</tr>
<tr>
<td>• our incentive distribution rights;</td>
<td></td>
</tr>
<tr>
<td>• our assumption of approximately $ million of indebtedness from NRGY under a $ million revolving credit facility that will be assigned to us of which we will repay $ million using net proceeds from this offering.</td>
<td></td>
</tr>
<tr>
<td>• we expect to re-borrow $80 million under our revolving credit facility to fund a cash distribution to NRGY for reimbursement of capital expenditures associated with our assets; and</td>
<td></td>
</tr>
<tr>
<td>• the extinguishment of all indebtedness that we owe to a subsidiary of NRGY, which will be treated as a capital contribution by NRGY to us and which was approximately $123.7 million as of June 30, 2011.</td>
<td></td>
</tr>
</tbody>
</table>
If NRGY elects to reset the initial quarterly distribution, it will be entitled to receive newly issued common units. Please read “Provisions of Our Partnership Agreement Relating to Cash Distributions—NRGY's Right to Reset Incentive Distribution Level.”

Payments to our general partner and its affiliates

Neither our general partner nor NRGY will receive any management fee or other compensation in connection with our general partner’s management of our business, but we will reimburse our general partner and its affiliates, including NRGY, for all expenses they incur and payments they make on our behalf. We will enter into an omnibus agreement with NRGY and certain of its affiliates, pursuant to which we will agree upon certain aspects of our relationship with them, including the provision by NRGY to us of certain administrative services and employees, our agreement to reimburse NRGY for the cost of such services and employees, certain indemnification obligations, the use by us of the name “Inergy” and related marks, and other matters. Neither our partnership agreement nor the omnibus agreement will limit the amount of expenses for which our general partner and its affiliates may be reimbursed. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. Please read “—Agreements with Affiliates in Connection with the Transactions—Omnibus Agreement.”

Withdrawal or removal of our general partner

If our general partner withdraws or is removed, its general partner interest will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests. Please read “The Partnership Agreement—Withdrawal or Removal of Our General Partner.”

Liquidation Stage

Liquidation

Upon our liquidation, our partners will be entitled to receive liquidating distributions according to their particular capital account balances.

Agreements with Affiliates in Connection with the Transactions

We have entered into or will enter into various documents and agreements with NRGY that will effect the transactions relating to our formation and this offering, including the vesting of assets in, and the assumption of liabilities by, us and our subsidiaries. We believe the terms of these agreements are or will be no less favorable to either party than those that could have been negotiated with an unaffiliated party; however, these agreements have been or will be negotiated among affiliated parties. All of the transaction expenses incurred in connection with our formation transactions will be paid from the proceeds of this offering.

Omnibus Agreement

In connection with the closing of this offering, we will enter into an omnibus agreement with our general partner and NRGY that will address certain aspects of our relationship with them, including:

- the provision by NRGY to us of certain administrative services and our agreement to reimburse NRGY for such services;
Table of Contents

Index to Financial Statements

- the provision by NRGY of such employees as may be necessary to operate and manage our business, and our agreement to reimburse NRGY for the expenses associated with such employees;
- our use of the name “Inergy” and related marks; and
- certain indemnification obligations.

With respect to the provision by NRGY of certain administrative services and such management and operating services as may be necessary to manage and operate our business, the omnibus agreement will address certain aspects of our relationship with NRGY, which we expect will include:

- the provision by NRGY to us of certain specified administrative services necessary to run our business, including the provision by NRGY to us of such employees as may be necessary to operate and manage our business, and our agreement to reimburse NRGY for all reasonable costs and expenses incurred in connection with such services;
- our agreement to reimburse NRGY for all expenses it incurs as a result of us becoming a publicly traded partnership, including (but not limited to) expenses associated with annual and quarterly reporting, tax returns and Schedule K-1 preparation and distribution expenses, Sarbanes-Oxley compliance expenses, expenses associated with listing on the NYSE, independent auditor fees, legal fees, investor relation expenses and registrar and transfer fees; and
- our agreement to reimburse NRGY for all expenses that NRGY incurs or payments NRGY makes on our behalf with respect to insurance coverage for our business.

Neither our partnership agreement nor the omnibus agreement will limit the amount of expenses for which our general partner and its affiliates may be reimbursed. We expect, however, that these services will be provided at cost.

Contribution Agreement

Immediately prior to the closing of this offering, we will enter into a contribution, conveyance and assignment agreement, which we refer to as the contribution agreement, with NRGY and our general partner under which, among other things, we will transfer or distribute to NRGY or one of its subsidiaries certain assets that will not be part of our initial assets, including 100% of the membership interests in Tres Palacios Gas Storage LLC and US Salt.

In addition, Inergy Propane, a wholly owned subsidiary of NRGY, will assign to us a third-party storage contract under which the third party has contracted for two million barrels of future storage services at our Watkins Glen facility under development. Prior to this offering, Inergy Propane had marketed this future storage capacity and entered into this third-party contract on our behalf.

We will also grant NRGY the right to receive the net proceeds from any exercise of the underwriters’ option to purchase additional common units as well as the right to receive any common units subject to such option which are not purchased by the underwriters upon the expiration of the option period.

Tax Sharing Agreement

In connection with the closing of this offering, we will enter into a tax sharing agreement with NRGY pursuant to which we will reimburse NRGY for our share of state and local income and other taxes borne by NRGY as a result of our income being included in a combined or consolidated tax return filed by NRGY with respect to taxable periods including or beginning on the closing date of this offering. The amount of any such reimbursement will be limited to the tax that we (and our subsidiaries) would have paid had we not been included in a combined group with NRGY. NRGY may use its tax attributes to cause its combined or consolidated group, of which we may be a member for this purpose, to owe no tax. However, we would nevertheless reimburse NRGY for the tax we would have owed had the attributes not been available or used for our benefit, even though NRGY had no cash expense for that period.
NRGM GP, LLC Change of Control Event

In connection with this offering, in the event of a change of control of NRGY, NRGY and Holdings GP, the indirect owner of NRGY's general partner, expect to enter into an agreement under which Holdings GP will be required to purchase from NRGY, and NRGY will be required to sell to Holdings GP, all of the membership interests in MGP GP, LLC, the entity that controls our general partner, for nominal consideration. Under the agreement, Holdings GP is also required to purchase MGP GP, LLC in the event that (i) a change of control of NRGY occurs or (ii) NRGY is entitled to receive less than 25% of all cash distributed with respect to our limited partner interests and incentive distribution rights. Any such transaction must comply with the restrictions in any law, regulation or agreement then in effect and must not require NRGY to have to register as an investment company under the Investment Company Act of 1940.

Other Transactions with Related Persons

We provide firm storage services utilizing 100% of the storage capacity at our Bath NGL storage facility to an affiliate, Inergy Propane, under a contract entered into in March 2011. The annual storage fee will be $13.1 million. We received total revenues of $0.1 million and $0.5 million for the fiscal years ended September 30, 2009 and 2010, respectively, and $2.2 million for the nine months ended June 30, 2011.

As of June 30, 2011, we had approximately $123.7 million of indebtedness outstanding to Inergy Propane, which was not subject to interest. This intercompany indebtedness was incurred to support our capital expansion and working capital needs. In connection with the completion of this offering, we expect that all of our outstanding indebtedness with NRGY or its subsidiaries will be extinguished and treated as a capital contribution and part of NRGY's investment in us. Please read "Summary—Formation Transactions and Partnership Structure" and "Use of Proceeds."

For information regarding our historical related party transactions, please read (i) Notes 2 and 8 to our audited consolidated financial statements as of September 30, 2009 and 2010 and for the fiscal years ended September 30, 2008, 2009 and 2010 that are included elsewhere in this prospectus and (ii) Notes 2 and 5 to our unaudited consolidated financial statements as of June 30, 2011 and for the nine months ended June 30, 2010 and 2011 that are included elsewhere in this prospectus.

Procedures for Review, Approval and Ratification of Transactions with Related Persons

We expect that the board of directors of our general partner will adopt policies for the review, approval and ratification of transactions with related persons. We anticipate the board will adopt a written code of business conduct and ethics, under which a director would be expected to bring to the attention of the chief executive officer or the board any conflict or potential conflict of interest that may arise between the director or any affiliate of the director, on the one hand, and us or our general partner, on the other hand. The resolution of any such conflict or potential conflict should, at the discretion of the board in light of the circumstances, be determined by a majority of the disinterested directors.

If a conflict or potential conflict of interest arises between our general partner or its affiliates, on the one hand, and us and our limited partners, on the other hand, the resolution of any such conflict or potential conflict should be addressed by the board in accordance with the provisions of our partnership agreement. At the discretion of the board in light of the circumstances, the resolution may be determined by the board in its entirety or by a conflicts committee meeting the definitional requirements for such a committee under our partnership agreement.

Upon our adoption of our code of business conduct and ethics, we would expect that any executive officer of our general partner will be required to avoid conflicts of interest unless approved by the board.
In the case of any sale of equity by us in which an owner or affiliate of an owner of our general partner participates, we anticipate that our practice will be to obtain approval of the board for the transaction. We anticipate that the board will typically delegate authority to set the specific terms to a pricing committee, consisting of the chief executive officer and one independent director. Actions by the pricing committee will require unanimous approval. Please read “Conflicts of Interest and Fiduciary Duties—Conflicts of Interest” for additional information regarding the relevant provisions of our partnership agreement.

The code of business conduct and ethics described above will be adopted in connection with the closing of this offering, and as a result the transactions described above were not reviewed according to such procedures.
CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates, including NRGY, on the one hand, and our partnership and our limited partners, on the other hand. The directors and officers of our general partner have fiduciary duties to manage our general partner in a manner beneficial to its owner. At the same time, our general partner has a fiduciary duty to manage our partnership in a manner beneficial to us and our common unitholders.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us and our limited partners, on the other hand, our general partner will resolve that conflict. Our partnership agreement contains provisions that modify and limit our general partner’s fiduciary duties to our common unitholders. Our partnership agreement also restricts the remedies available to our common unitholders for actions taken by our general partner that, without those limitations, might constitute breaches of its fiduciary duty.

Our general partner will not be in breach of its obligations under our partnership agreement or its fiduciary duties to us or our limited partners if a transaction with an affiliate or the resolution of a conflict of interest is:

- approved by the conflicts committee of the board of directors of our general partner, although our general partner is not obligated to seek such approval; or
- approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and any of its affiliates.

Conflicts of interest could arise in the situations described below, among others.

**NRGY and other affiliates of our general partner may compete with us.**

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner and those activities incidental to its ownership of interests in us. Affiliates of our general partner, including NRGY, are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. NRGY currently holds interests in, and may make investments in and purchases of, entities that acquire, own and operate natural gas and NGL storage and transportation businesses. These investments and acquisitions may include entities or assets that we would have been interested in acquiring. Therefore, NRGY may compete with us for investment opportunities, and NRGY may own an interest in entities that compete with us.

Pursuant to the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers and directors and NRGY. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our common unitholders.

**Neither our partnership agreement nor any other agreement requires NRGY to pursue a business strategy that favors us or utilizes our assets or dictates what markets to pursue or grow. Directors of the general partner of NRGY have a fiduciary duty to make these decisions in the best interests of the owners of NRGY, which may be contrary to our interests.**

Because one or more of the directors of our general partner may be directors and/or officers of NRGY’s general partner, such directors have fiduciary duties to NRGY that may cause them to pursue business strategies that disproportionately benefit NRGY or which otherwise are not in our best interests.
Certain of our officers may devote the majority of their time to our business, while other officers will have responsibilities for both us and NRGY and will devote less than a majority of their time to our business.

All of the executive officers of our general partner are also executive officers of NRGY’s general partner. Certain of our officers may devote the majority of their time to our business, while other officers will have responsibilities for both us and NRGY and will devote less than a majority of their time to our business. We will also utilize certain employees of NRGY to operate our business and provide us with administrative services for which we will reimburse NRGY under the omnibus agreement for expenses of operational personnel who perform services for our benefit and for allocated administrative expenses. Please read “Certain Relationships and Related Party Transactions—Agreements with Affiliates in Connection with the Transactions—Omnibus Agreement.” NRGY will also conduct businesses and activities of its own in which we will have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition for the time and effort of the executive officers of our general partner.

Our general partner and its affiliates are allowed to take into account the interests of parties other than us in resolving conflicts of interest.

Our partnership agreement contains provisions that reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples include our general partner’s limited call right, its voting rights with respect to any units it owns, its registration rights, and its determination whether or not to consent to any merger or consolidation of the partnership.

Our partnership agreement limits the liability of and reduces fiduciary duties owed by our general partner and also restricts the remedies available to our common unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that restrict the remedies available to our common unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement provides that:

- whenever our general partner makes a determination or takes, or declines to take, any other action in its capacity as our general partner, our general partner is required to make such determination, or take or decline to take such other action, in good faith, meaning that it believed that the decision was in the best interests of our partnership, and will not be subject to any other or different standard imposed by our partnership agreement, Delaware law or any other law, rule or regulation, or at equity; and

- our general partner will not have any liability to us or our common unitholders for decisions made in its capacity as a general partner so long as it acted in good faith.

Except in limited circumstances, our general partner has the power and authority to conduct our business without common unitholder approval.

Under our partnership agreement, our general partner has full power and authority to do all things, other than those items that require common unitholder approval or with respect to which our general partner has sought conflicts committee approval, on such terms as it determines to be necessary or appropriate to conduct our business, including, but not limited to, the following:

- the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into our securities, and the incurring of any other obligations;
the purchase, sale or other acquisition or disposition of our securities, or the issuance of additional options, rights, warrants and appreciation rights relating to our securities;

- the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of our assets;

- the negotiation, execution and performance of any contracts, conveyances or other instruments;

- the distribution of our cash;

- the selection and dismissal of employees and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

- the maintenance of insurance for our benefit and the benefit of our partners;

- the formation of, or acquisition of an interest in, the contribution of property to, and the making of loans to, any limited or general partnership, joint venture, corporation, limited liability company or other entity;

- the control of any matters affecting our rights and obligations, including the bringing and defending of actions at law or in equity, otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expenses and the settlement of claims and litigation;

- the indemnification of any person against liabilities and contingencies to the extent permitted by law;

- the making of tax, regulatory and other filings, or the rendering of periodic or other reports to governmental or other agencies having jurisdiction over our business or assets; and

- the entering into of agreements with any of its affiliates to render services to us or to itself in the discharge of its duties as our general partner.

Our partnership agreement provides that our general partner must act in good faith when making decisions on our behalf, and our partnership agreement further provides that in order for a determination to be made in good faith, our general partner must believe that the determination is in our best interests. Please read “The Partnership Agreement—Limited Voting Rights” for information regarding matters that require common unitholder approval.

Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and the creation, reduction or increase of reserves, each of which can affect the amount of cash that is distributed to our common unitholders.

The amount of cash that is available for distribution to our common unitholders is affected by decisions of our general partner regarding such matters as:

- amount and timing of asset purchases and sales;
- capital expenditures;
- borrowings;
- issuances of additional partnership securities; and
- the creation, reduction or increase of reserves in any quarter.

Our general partner determines the amount and timing of any capital expenditure and whether a capital expenditure is classified as a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. Please read “Provisions of Our Partnership Agreement Relating to Cash Distributions—Capital Expenditures” for a discussion on when a capital expenditure...
constitutes a maintenance capital expenditure or an expansion capital expenditure. This determination can affect the amount of cash that is distributed to our common unitholders and to NRGY in respect of its incentive distribution rights.

In addition, our general partner may use an amount, initially equal to $ million, which would not otherwise constitute available cash from operating surplus, in order to permit the payment of cash distributions on NRGY’s incentive distribution rights. All of these actions may affect the amount of cash distributed to our common unitholders and NRGY in respect of its incentive distribution rights. Please read “Provisions of Our Partnership Agreement Relating to Cash Distributions.”

In addition, borrowings by us and our affiliates do not constitute a breach of any duty owed by our general partner to our common unitholders, including borrowings that have the purpose or effect of enabling NRGY or its affiliates to receive distributions on any units held by them or the incentive distribution rights. For example, in the event we have not generated sufficient cash from our operations to pay the initial quarterly distribution on our common units, our partnership agreement permits us to borrow funds, which would enable us to make this distribution on all of our outstanding common units. Please read “Provisions of Our Partnership Agreement Relating to Cash Distributions.”

Our partnership agreement provides that we and our subsidiaries may borrow funds from our general partner and its affiliates. However, our partnership agreement does not permit our general partner and its affiliates to borrow funds from us or our subsidiaries.

Our general partner determines which costs incurred by it and its affiliates are reimbursable by us.

We will reimburse our general partner and its affiliates for the costs incurred in managing and operating us, including costs incurred in rendering corporate staff and support services to us. Neither our partnership agreement nor the omnibus agreement will limit the amount of expenses for which our general partner and its affiliates may be reimbursed. Our partnership agreement provides that our general partner will determine in good faith such other expenses that are allocable to us. The fully allocated basis charged by our general partner does not include a profit component. Please read “Certain Relationships and Related Party Transactions.”

Our partnership agreement allows our general partner to determine, in good faith, any amounts to pay itself or its affiliates for any services rendered to us. Our general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. We have entered into or will enter into various documents and agreements with NRGY that will effect the transactions relating to our formation and this offering, including the vesting of assets in, and the assumption of liabilities by, us and our subsidiaries. We believe the terms of these agreements are or will be no less favorable to either party than those that could have been negotiated with an unaffiliated party; however, these agreements have been or will be negotiated among affiliated parties. Similarly, agreements, contracts or arrangements between us and our general partner and its affiliates that are entered into following the closing of this offering will be negotiated among affiliated parties, although our general partner may determine that the conflicts committee of the board of directors of our general partner should make a determination on our behalf with respect to such arrangements.

Our general partner will determine, in good faith, the terms of any such transactions entered into after the closing of this offering.

Our general partner and its affiliates will have no obligation to permit us to use any of its or its affiliates’ facilities or assets, except as may be provided in contracts entered into specifically for such use. There is no obligation of our general partner or its affiliates to enter into any contracts of this kind.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that counterparties to such arrangements have recourse only against our assets, and not against our general partner or its assets. Our
partnership agreement provides that any action taken by our general partner to limit its liability is not a breach of our general partner’s fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

Our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if our general partner and its affiliates own more than % of the outstanding common units.

Our general partner may exercise its right to call and purchase common units, as provided in our partnership agreement, or may assign this right to one of its affiliates or to us. Our general partner is not bound by fiduciary duty restrictions in determining whether to exercise this right. As a result, a common unitholder may be required to sell its common units at an undesirable time or price. Please read “The Partnership Agreement—Limited Call Right.”

Our general partner controls the enforcement of its and its affiliates’ obligations to us.

Any agreements between us, on the one hand, and our general partner and its affiliates, on the other hand, will not grant to the common unitholders, separate and apart from us, the right to enforce the obligations of our general partner and its affiliates in our favor.

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

Attorneys, independent accountants and others who perform services for us are selected by our general partner or the conflicts committee and may perform services for our general partner and its affiliates. We may retain separate counsel for ourselves or the common unitholders in the event of a conflict of interest between our general partner and its affiliates, on the one hand, and us or the common unitholders, on the other hand, depending on the nature of the conflict. We do not intend to do so in most cases.

NRGY may elect to cause us to issue common units to it in connection with a resetting of the initial quarterly distribution related to its incentive distribution rights, without the approval of the conflicts committee of the board of directors of our general partner or the holders of our common units. This election could result in lower distributions to our common unitholders.

NRGY has the right to reset, at a higher level, the initial quarterly distribution based on our cash distributions at the time of the exercise of the reset election. Following a reset election by NRGY, the initial quarterly distribution will be adjusted to equal the reset initial quarterly distribution.

If NRGY elects to reset the initial quarterly distribution, it will be entitled to receive a number of newly issued common units. The number of common units to be issued to NRGY will equal the number of common units that would have entitled the holder to the quarterly cash distribution in the prior quarter equal to the distribution to NRGY on its incentive distribution rights in such prior quarter. It is possible that NRGY could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may, therefore, desire to issue common units rather than retain the right to receive incentive distributions based on the initial quarterly distribution. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that our common unitholders would have otherwise received had we not issued new common units to NRGY in connection with resetting the initial quarterly distribution. Please read “Provisions of Our Partnership Agreement Relating to Cash Distributions—NRGY’s Right to Reset Incentive Distribution Level.”

Fiduciary Duties

Our general partner is accountable to us and our common unitholders as a fiduciary. Fiduciary duties owed to common unitholders by our general partner are prescribed by law and our partnership agreement. The
Delaware Act provides that Delaware limited partnerships may, in their partnership agreements, modify, restrict or expand the fiduciary duties otherwise owed by a general partner to limited partners and the partnership.

Our partnership agreement contains various provisions modifying and restricting the fiduciary duties that might otherwise be owed by our general partner. We have adopted these restrictions to allow our general partner or its affiliates to engage in transactions with us that would otherwise be prohibited by state-law fiduciary duty standards and to take into account the interests of other parties in addition to our interests when resolving conflicts of interest. We believe this is appropriate and necessary because our general partner’s board of directors will have fiduciary duties to manage our general partner in a manner that is beneficial to its owners, as well as to our common unitholders. Without these modifications, our general partner’s ability to make decisions involving conflicts of interest would be restricted. The modifications to the fiduciary standards enable our general partner to take into consideration all parties involved in the proposed action, so long as the resolution is fair and reasonable to us. These modifications also enable our general partner to attract and retain experienced and capable directors. These modifications are detrimental to our common unitholders because they restrict the remedies available to our common unitholders for actions that, without those limitations, might constitute breaches of fiduciary duty, as described below, and permit our general partner to take into account the interests of third parties in addition to our interests when resolving conflicts of interest. The following is a summary of the material restrictions of the fiduciary duties owed by our general partner to our limited partners:

### State law fiduciary duty standards

Fiduciary duties are generally considered to include an obligation to act in good faith and with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally require that any action taken or transaction engaged in be entirely fair to the partnership.

### Partnership agreement modified standards

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its capacity as our general partner, as opposed to in its individual capacity, it must act in good faith and will not be subject to any other standard under applicable law. In addition, when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligation to us or the common unitholders whatsoever. These standards reduce the obligations to which our general partner would otherwise be held.

### Rights and remedies of common unitholders

The Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. These actions include actions against a general partner for breach of its fiduciary duties or of our partnership agreement. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of
indemnification

Under our partnership agreement, we must indemnify our general partner and its officers, directors, managers and certain other specified persons, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by our general partner or these other persons. We must provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We must also provide this indemnification for criminal proceedings unless our general partner or these other persons acted with knowledge that their conduct was unlawful. Thus, our general partner could be indemnified for its negligent acts if it meets the requirements set forth above. To the extent these provisions purport to include indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, in the opinion of the SEC, such indemnification is contrary to public policy and, therefore, unenforceable. Please read "The Partnership Agreement—Indemnification."
Table of Contents

Index to Financial Statements

DESCRIPTION OF THE COMMON UNITS

The Common Units

The common units represent limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units in and to partnership distributions, please read this section and “Cash Distribution Policy and Restrictions on Distributions.” For a description of other rights and privileges of limited partners under our partnership agreement, including voting rights, please read “The Partnership Agreement.”

Transfer Agent and Registrar

Duties

American Stock Transfer & Trust Company, LLC will serve as the registrar and transfer agent for the common units. We will pay all fees charged by the transfer agent for transfers of common units except the following, which must be paid by our common unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;
- special charges for services requested by a holder of a common unit; and
- other similar fees or charges.

There will be no charge to our common unitholders for disbursements of our cash distributions. We will indemnify each of the transfer agent, its agents and their respective stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor is appointed, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

Upon the transfer of a common unit in accordance with our partnership agreement, the transferee of the common unit will be admitted as a limited partner with respect to the common units transferred when such transfer and admission are reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically becomes bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and
- gives the consents, waivers and approvals contained in our partnership agreement, such as the approval of all transactions and agreements that we are entering into in connection with our formation and this offering.

In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a substituted limited partner in our partnership for the transferred common units. A transferee will become a substituted limited partner of our partnership for the transferred common units automatically upon the
recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the common unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder’s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities, and any transfers of common units are subject to the laws governing the transfer of securities.
THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. The form of our partnership agreement is included in this prospectus as Appendix A. We will provide prospective investors with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read “Provisions of Our Partnership Agreement Relating to Cash Distributions”;
- with regard to the fiduciary duties of our general partner, please read “Conflicts of Interest and Fiduciary Duties”;
- with regard to the transfer of common units, please read “Description of the Common Units—Transfer of Common Units”; and
- with regard to allocations of taxable income and taxable loss, please read “Material U.S. Federal Income Tax Consequences.”

Organization and Duration

Prior to the closing of this offering, Inergy Midstream, LLC will convert from a Delaware limited liability company to a Delaware limited partnership and change its name to Inergy Midstream, L.P. Inergy Midstream, L.P. will have a perpetual existence unless terminated pursuant to the terms of its partnership agreement.

Purpose

Our purpose under our partnership agreement is to engage in any business activity that is approved by our general partner and that lawfully may be conducted by a limited partnership organized under Delaware law. However, our general partner may not cause us to engage in any business activity that it determines would cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes.

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the business of the operation, development and acquisition of natural gas and NGL storage and transportation assets and related assets, our general partner may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners. Our general partner is generally authorized to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

Cash Distributions

Our partnership agreement specifies the manner in which we will make cash distributions to holders of our common units and other partnership securities as well as to IDR holders in respect of the incentive distribution rights. For a description of these cash distribution provisions, please read “Provisions of Our Partnership Agreement Relating to Cash Distributions.”

Capital Contributions

Common unitholders are not obligated to make additional capital contributions, except as described below under “—Limited Liability.”
Limited Voting Rights

The following is a summary of the unitholder vote required for each of the matters specified below. Matters that require the approval of a “unit majority” require the approval of a majority of the common units.

In voting their common units, our general partner and its affiliates will have no fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. The incentive distribution rights may be entitled to vote in certain circumstances.

Issuance of additional units
No approval right. Please read “—Issuance of Additional Interests.”

Amendment of the partnership agreement
Certain amendments may be made by our general partner without the approval of the common unitholders. Other amendments generally require the approval of a unit majority. Please read “—Amendment of the Partnership Agreement.”

Merger of our partnership or the sale of all or substantially all of our assets
Unit majority in certain circumstances. Please read “—Merger, Consolidation, Conversion, Sale or Other Disposition of Assets.”

Dissolution of our partnership
Unit majority. Please read “—Dissolution.”

Continuation of our business upon dissolution
Unit majority. Please read “—Dissolution.”

Withdrawal of our general partner
No approval right. Please read “—Withdrawal or Removal of Our General Partner.”

Removal of our general partner
Not less than 66 2/3% of the outstanding common units, including common units held by our general partner and its affiliates. Please read “—Withdrawal or Removal of Our General Partner.”

Transfer of our general partner interest
No approval right. Please read “—Transfer of General Partner Interest.”

Transfer of incentive distribution rights
No approval right. Please read “—Transfer of Incentive Distribution Rights.”

Transfer of ownership interests in our general partner
No approval right. Please read “—Transfer of Ownership Interests in the General Partner.”

If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group approved by our general partner or to any person or group who acquires the units with the specific prior approval of our general partner.
Table of Contents

Index to Financial Statements

Applicable Law; Forum, Venue and Jurisdiction

Our partnership agreement is governed by Delaware law. Our partnership agreement requires that any claims, suits, actions or proceedings:

- arising out of or relating in any way to the partnership agreement (including any claims, suits, actions or proceedings to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners to us, or the rights or powers of, or restrictions on, the limited partners or us);
- brought in a derivative manner on our behalf;
- asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us or our general partner, or owed by our general partner, to us or the limited partners;
- asserting a claim arising pursuant to any provision of the Delaware Act; or
- asserting a claim governed by the internal affairs doctrine;

shall be exclusively brought in the Court of Chancery of the State of Delaware, regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims. By purchasing a common unit, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware in connection with any such claims, suits, actions or proceedings.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that it otherwise acts in conformity with the provisions of our partnership agreement, such limited partner’s liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital such limited partner is obligated to contribute to us for its common units plus its share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by our limited partners as a group:

- to remove or replace our general partner;
- to approve some amendments to our partnership agreement; or
- to take other action under our partnership agreement;

constituted “participation in the control” of our business for the purposes of the Delaware Act, then our limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as our general partner. This liability would extend to persons who transact business with us under the reasonable belief that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware
INERGY MIDSTREAM, LLC (Form: S-1, Received: 08/24/2011 07:3... http://ipo.nasdaq.com/edgar_conv_html/2011/08/24/0001193125-11-2...

Table of Contents

Index to Financial Statements

Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years.

Following the completion of this offering, we expect that our subsidiaries will conduct business in New York and Pennsylvania, and we may have subsidiaries that conduct business in other states or countries in the future. Maintenance of our limited liability as owner of our operating subsidiaries may require compliance with legal requirements in the jurisdictions in which the operating subsidiaries conduct business, including qualifying our subsidiaries to do business there.

Limitations on the liability of members or limited partners for the obligations of a limited liability company or limited partnership have not been clearly established in many jurisdictions. If, by virtue of our ownership interest in our subsidiaries or otherwise, it were determined that we were conducting business in any jurisdiction without compliance with the applicable limited liability company or limited partnership statute, or that the right or exercise of the right by our limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted “participation in the control” of our business for purposes of the statutes of any relevant jurisdiction, then our limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of our limited partners.

Issuance of Additional Interests

Our partnership agreement authorizes us to issue an unlimited number of additional partnership interests for the consideration and on the terms and conditions determined by our general partner without the approval of the common unitholders.

It is possible that we will fund acquisitions through the issuance of additional common units or other partnership interests. Holders of any additional common units we issue will be entitled to share equally with the then-existing common unitholders in our distributions of available cash. In addition, the issuance of additional common units or other partnership interests may dilute the value of the interests of the then-existing common unitholders in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership interests that, as determined by our general partner, may have special voting rights to which the common units are not entitled. In addition, our partnership agreement does not prohibit our subsidiaries from issuing equity interests, which may effectively rank senior to the common units.

If we issue additional partnership interests (other than the issuance of common units upon exercise by the underwriters of their option to purchase additional common units, the issuance of common units to NRGY upon expiration of the option to purchase additional common units, the issuance of partnership interests issued in connection with a reset of the initial quarterly distribution or the issuance of partnership interests upon conversion of outstanding partnership securities), our general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other partnership interests whenever, and on the same terms that, we issue partnership interests to persons other than our general partner and its affiliates, to the extent necessary to maintain the aggregate percentage interest of the general partner and its affiliates, including such interest represented by common units, that existed immediately prior to each issuance.

The common unitholders will not have preemptive rights under our partnership agreement to acquire additional common units or other partnership interests.
Table of Contents

Index to Financial Statements

Amendment of the Partnership Agreement

General

Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. However, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interests of us or our limited partners. In order to adopt a proposed amendment, other than the amendments discussed below, our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or to call a meeting of our limited partners to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by a unit majority.

Prohibited Amendments

No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected; or
- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which consent may be given or withheld in its sole discretion.

The provision of our partnership agreement preventing the amendments having the effects described in the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding common units (including common units owned by our general partner and its affiliates). Upon completion of this offering, affiliates of our general partner will own approximately % of our outstanding common units.

No Unitholder Approval

Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

- a change in our name, the location of our principal place of business, our registered agent or our registered office;
- the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;
- a change that our general partner determines to be necessary or appropriate to qualify or continue our qualification as a limited partnership or other entity in which the limited partners have limited liability under the laws of any state or to ensure that neither we nor any of our subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for U.S. federal income tax purposes (to the extent not already so treated or taxed);
- an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents or trustees from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisers Act of 1940 or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;
- an amendment that our general partner determines to be necessary or appropriate in connection with the creation, authorization or issuance of additional partnership interests or the right to acquire partnership interests;
- any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;
Opinion of Counsel and Unitholder Approval

For amendments of the type not requiring unitholder approval, our general partner will not be required to obtain an opinion of counsel that an amendment will neither result in a loss of limited liability to the limited partners nor result in our being treated as a taxable entity for federal income tax purposes in connection with any of the amendments. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding units, voting as a single class, unless we first obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners.

In addition to the above restrictions, any amendment that our general partner determines adversely affects in any material respect one or more particular classes of limited partners will require the approval of at least a majority of the class or classes so affected, but no vote will be required by any class or classes of limited partners that our general partner determines are not adversely affected in any material respect. Any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action other than to remove the general partner or call a meeting of unitholders is required to be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced. Any amendment that would increase the percentage of units required to remove the general partner or call a meeting of unitholders must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the percentage sought to be increased.
Table of Contents

Index to Financial Statements

Merger, Consolidation, Conversion, Sale or Other Disposition of Assets

A merger, consolidation or conversion of us requires the prior consent of our general partner. However, our general partner will have no duty or obligation to consent to any merger, consolidation or conversion and may decline to do so free of any fiduciary duty or obligation whatsoever to us or our limited partners, including any duty to act in good faith or in the best interest of us or our limited partners.

In addition, our partnership agreement generally prohibits our general partner, without the prior approval of the holders of a unit majority, from causing us to sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination. Our general partner may, however, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without the approval of a unit majority. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval. Finally, our general partner may consummate any merger, consolidation or conversion without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction would not result in a material amendment to the partnership agreement (other than an amendment that the general partner could adopt without the consent of other partners), each of our units will be an identical unit of our partnership following the transaction and the partnership securities to be issued do not exceed 20% of our outstanding partnership interests (other than incentive distribution rights) immediately prior to the transaction.

If the conditions specified in our partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity, if the sole purpose of that conversion, merger or conveyance is to effect a mere change in our legal form into another limited liability entity, we have received an opinion of counsel regarding limited liability and tax matters and the governing instruments of the new entity provide our limited partners and our general partner with the same rights and obligations as contained in our partnership agreement. Our unitholders are not entitled to dissenters’ rights of appraisal under our partnership agreement or applicable Delaware law in the event of a merger, consolidation or conversion, a sale of substantially all of our assets or any other similar transaction or event.

Dissolution

We will continue as a limited partnership until dissolved under our partnership agreement. We will dissolve upon:

- the election of our general partner to dissolve us, if approved by the holders of units representing a unit majority;
- there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law;
- the entry of a decree of judicial dissolution of our partnership pursuant to the provisions of the Delaware Act; or
- the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or its withdrawal or removal following the approval and admission of a successor.

Upon a dissolution under the last clause above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of a unit majority, subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability under Delaware law of any limited partner; and
Table of Contents

Index to Financial Statements

- neither our partnership nor any of our subsidiaries would be treated as an association taxable as a corporation or otherwise be taxable as an entity for U.S. federal income tax purposes upon the exercise of that right to continue (to the extent not already so treated or taxed).

Liquidation and Distribution of Proceeds

Upon our dissolution, unless our business is continued, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate, liquidate our assets and apply the proceeds of the liquidation as described in “Provisions of Our Partnership Agreement Relating to Cash Distributions—Distributions of Cash Upon Liquidation.” The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of Our General Partner

At any time, our general partner may withdraw as our general partner without first obtaining approval of any unitholder by giving 90 days’ written notice, and that withdrawal will not constitute a violation of our partnership agreement.

Upon withdrawal of our general partner under any circumstances, other than as a result of a transfer by our general partner of all or a part of its general partner interest in us, the holders of a unit majority may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within a specified period of time after that withdrawal, the holders of a unit majority agree in writing to continue our business and to appoint a successor general partner. Please read “—Dissolution.”

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding units, voting together as a single class, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units. The ownership of more than 33 1/3% of the outstanding units by our general partner and its affiliates gives them the ability to prevent our general partner’s removal. At the closing of this offering, an affiliate of our general partner will own % of our outstanding common units.

Under circumstances where our general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner and its affiliates for fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. If the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner’s general partner interest and all its and its affiliates’ incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred as a result of the termination of any employees employed for our benefit by the departing general partner or its affiliates.

143
Table of Contents

Index to Financial Statements

Transfer of General Partner Interest

At any time, our general partner may transfer all or any of its general partner interest or common units to another person without the approval of our common unitholders. As a condition of this transfer, the transferee must assume, among other things, the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement and furnish an opinion of counsel regarding limited liability and tax matters.

Transfer of Ownership Interests in the General Partner

At any time, NRGY may sell or transfer all or part of its ownership interests in our general partner to an affiliate or third party without the approval of our common unitholders.

Transfer of Incentive Distribution Rights

At any time, NRGY may sell or transfer all or part of its incentive distribution rights to an affiliate or third party without the approval of our common unitholders.

By transfer of incentive distribution rights in accordance with our partnership agreement, each transferee of incentive distribution rights will be admitted as a limited partner with respect to the incentive distribution rights transferred when such transfer and admission is reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically becomes bound by the terms and conditions of our partnership agreement; and
- gives the consents, waivers and approvals contained in our partnership agreement, such as the approval of all transactions and agreements we are entering into in connection with this offering.

In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a limited partner for the transferred incentive distribution rights. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

Until an incentive distribution right has been transferred on our books, we may treat the record holder of the right as the absolute owner for all purposes, except as otherwise required by law.

We may, at our discretion, treat the nominee holder of incentive distribution rights as the absolute owner. In that case, the beneficial holder’s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Incentive distribution rights are securities, and any transfers of incentive distribution rights are subject to the laws governing the transfer of securities.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove NRGM GP, LLC as our general partner or from otherwise changing our management. Please read “—Withdrawal or Removal of Our General Partner” for a discussion of certain consequences of the removal of our general partner. If any person or group, other than our general partner and its affiliates, acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply in certain circumstances. Please read “—Meetings; Voting.”
Limited Call Right

If at any time our general partner and its affiliates own more than % of our then-issued and outstanding limited partner interests of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or beneficial owners or to us, to acquire all, but not less than all, of the limited partner interests of the class held by unaffiliated persons, as of a record date to be selected by our general partner, on at least 10 but not more than 60 days notice. The purchase price in the event of this purchase is the greater of:

- the highest price paid by our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and
- the average of the daily closing prices of the partnership securities of such class over the 20 consecutive trading days immediately preceding the date three days before the date the notice is mailed.

As a result of our general partner’s right to purchase outstanding limited partner interests, a holder of limited partner interests may have its limited partner interests purchased at an undesirable time or at a price that may be lower than market prices at various times prior to such purchase or lower than a common unitholder may anticipate the market price to be in the future. The U.S. federal income tax consequences to a common unitholder of the exercise of this call right are the same as a sale by that unitholder of its common units in the market. Please read “Material U.S. Federal Income Tax Consequences—Disposition of Units.”

Non-Taxpaying Holders; Redemption

To avoid any adverse effect on the maximum applicable rates chargeable to customers by us or any of our future subsidiaries, or in order to reverse an adverse determination that has occurred regarding such maximum rate, our partnership agreement provides our general partner the power to amend the agreement. If our general partner, with the advice of counsel, determines that our not being treated as an association taxable as a corporation or otherwise taxable as an entity for U.S. federal income tax purposes, coupled with the tax status (or lack of proof thereof) of one or more of our limited partners, has, or is reasonably likely to have, a material adverse effect on the maximum applicable rates chargeable to customers by our subsidiaries, then our general partner may adopt such amendments to our partnership agreement as it determines necessary or advisable to:

- obtain proof of the U.S. federal income tax status of our limited partners (and their owners, to the extent relevant); and
- permit us to redeem the units held by any person whose tax status has or is reasonably likely to have a material adverse effect on the maximum applicable rates or who fails to comply with the procedures instituted by our general partner to obtain proof of the U.S. federal income tax status. The redemption price in the case of such a redemption will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for redemption.

Non-Citizen Assignees; Redemption

If our general partner, with the advice of counsel, determines we are subject to U.S. federal, state or local laws or regulations that, in the reasonable determination of our general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any limited partner, then our general partner may adopt such amendments to our partnership agreement as it determines necessary or advisable to:

- obtain proof of the nationality, citizenship or other related status of our limited partners (and their owners, to the extent relevant); and
- permit us to redeem the units held by any person whose nationality, citizenship or other related status creates substantial risk of cancellation or forfeiture of any property or who fails to comply with the
Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited.

Our general partner does not anticipate that any meeting of our common unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the common unitholders may be taken either at a meeting of the common unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take that action at a meeting. Meetings of the common unitholders may be called by our general partner or by common unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Common unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum, unless any action by the common unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to its percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read "—Issuance of Additional Interests." However, if at any time any person or group, other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates and purchasers specifically approved by our general partner, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of common unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and its nominee provides otherwise.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record common unitholders under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

Voting Rights of Incentive Distribution Rights

If a majority of the incentive distribution rights are held by NRGY and its affiliates, the holders of the incentive distribution rights will have no right to vote in respect of such rights on any matter, unless otherwise required by law, and the holders of the incentive distribution rights, in their capacity as such, shall be deemed to have approved any matter approved by our general partner.

If less than a majority of the incentive distribution rights are held by NRGY and its affiliates, the incentive distribution rights will be entitled to vote on all matters submitted to a vote of common unitholders, other than amendments and other matters that our general partner determines do not adversely affect the holders of the incentive distribution rights in any material respect. On any matter in which the IDR holders are entitled to vote, such holders will vote together with the common units as a single class, and such incentive distribution rights shall be treated in all respects as common units when sending notices of a meeting of our limited partners to vote on any matter (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under our partnership agreement. The relative voting power of the holders
Table of Contents

Index to Financial Statements

of the incentive distribution rights and common units will be set in the same proportion as cumulative cash distributions, if any, in respect of the incentive distribution rights for the four consecutive quarters prior to the record date for the vote bears to the cumulative cash distributions in respect of common units for such four quarters.

Status as Limited Partner

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission are reflected in our books and records. Except as described above under "—Limited Liability," the common units will be fully paid, and common unitholders will not be required to make additional contributions.

Indemnification

Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- our general partner;
- any departing general partner;
- any person who is or was an affiliate of our general partner or any departing general partner;
- any person who is or was a manager, managing member, general partner, director, officer, fiduciary or trustee of our partnership, our subsidiaries, our general partner, any departing general partner or any of their affiliates;
- any person who is or was serving as a manager, managing member, general partner, director, officer, employee, agent, fiduciary or trustee of another person owing a fiduciary duty to us or our subsidiaries;
- any person who controls our general partner or any departing general partner; and
- any person designated by our general partner.

Any indemnification under these provisions will only be out of our assets. Unless our general partner otherwise agrees, it will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance covering liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement. To the extent these provisions purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the SEC, such indemnification is contrary to public policy and, therefore, unenforceable.

Reimbursement of Expenses

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. Neither our partnership agreement nor the omnibus agreement will limit the amount of expenses for which our general partner and its affiliates may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. Our general partner is entitled to determine in good faith the expenses that are allocable to us. For more information on the omnibus agreement, please read "Certain Relationships and Related Party Transactions—Agreements with Affiliates in Connection with the Transactions—Omnibus Agreement.”

147
Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. These books will be maintained for both tax and financial reporting purposes on an accrual basis. For financial reporting purposes, our fiscal year ends on September 30. For U.S. federal income tax purposes, our taxable year ends on December 31.

We will furnish or make available to record holders of our common units, within 105 days after the close of each fiscal year, an annual report containing audited consolidated financial statements and a report on those consolidated financial statements by our independent registered public accounting firm. Except for our fourth quarter, we will also furnish or make available summary financial information within 50 days after the close of each quarter. We will be deemed to have made any such report available if we file such report with the SEC on EDGAR or make the report available on a publicly available website which we maintain.

We will furnish each record holder of a unit with information reasonably required for U.S. federal and state tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to our common unitholders will depend on their cooperation in supplying us with specific information. Every common unitholder will receive information to assist such unitholder in determining its U.S. federal and state tax liability and in filing its U.S. federal and state income tax returns, regardless of whether such unitholder supplies us with the necessary information.

Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to its interest as a limited partner, upon reasonable written demand stating the purpose of such demand and at such partner’s own expense, have furnished to it:

- a current list of the name and last known address of each record holder;
- copies of our partnership agreement, our certificate of limited partnership and related amendments and any powers of attorney under which they have been executed;
- information regarding the status of our business and our financial condition; and
- any other information regarding our affairs as our general partner determines is just and reasonable.

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

Registration Rights

Under our partnership agreement, we have agreed to register for resale under the Securities Act and applicable state securities laws any common units or other limited partner interests proposed to be sold by our general partner or any of its affiliates or their assignees if an exemption from the registration requirements is not otherwise available. These registration rights continue for two years following any withdrawal or removal of NRGM GP, LLC as our general partner. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions. Please read “Units Eligible for Future Sale.”
UNITS ELIGIBLE FOR FUTURE SALE

After the sale of the common units offered by this prospectus, NRGY will own, directly or indirectly, an aggregate of common units (assuming that the underwriters do not exercise their option to purchase up to additional common units). The sale of these common units could have an adverse impact on the price of our common units or on any trading market that may develop.

Our common units sold in this offering will generally be freely transferable without restriction or further registration under the Securities Act, except that any common units held by an “affiliate” of ours may not be resold publicly except in compliance with the registration requirements of the Securities Act or under an exemption under Rule 144 or otherwise. Rule 144 permits securities acquired by an affiliate to be sold into the market in an amount that does not exceed, during any three-month period, the greater of:

- 1% of the total number of our common units outstanding; or
- the average weekly reported trading volume of our common units for the four weeks prior to the sale.

Sales under Rule 144 are also subject to specific manner of sale provisions, holding period requirements, notice requirements and the availability of current public information about us. Once we have been a reporting company for at least 90 days, a person who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned the common units proposed to be sold for at least six months, would be entitled to sell those common units without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject only to the current public information requirement. After beneficially owning Rule 144 restricted common units for at least one year, such person would be entitled to freely sell those common units without regard to any of the requirements of Rule 144.

Our partnership agreement provides that we may issue an unlimited number of limited partner interests of any type without a vote of the common unitholders at any time. Any issuance of additional common units or other equity securities would result in a corresponding decrease in the proportionate ownership interest in us represented by, and could adversely affect the cash distributions to and market price of, common units then outstanding. Please read “The Partnership Agreement—Issuance of Additional Interests.”

Under our partnership agreement, our general partner and its affiliates, including NRGY, will have the right to cause us to register under the Securities Act and applicable state securities laws the offer and sale of any units that they hold. Subject to the terms and conditions of the partnership agreement, these registration rights allow our general partner and its affiliates or their assignees holding any units to require registration of any of these units and to include any of these units in a registration by us of other units, including units offered by us or by any unitholder. Our general partner and its affiliates will continue to have these registration rights for two years following its withdrawal or removal as our general partner. In connection with any registration of this kind, we will indemnify each unitholder participating in the registration and its officers, directors and controlling persons from and against any liabilities under the Securities Act or any applicable state securities laws arising from the registration statement or prospectus. We will bear all costs and expenses incidental to any registration, excluding any underwriting discounts and commissions. Except as described below, our general partner and its affiliates may sell their units in private transactions at any time, subject to compliance with applicable laws.

NRGY, our partnership, our general partner and its affiliates and the executive officers and directors of our general partner have agreed not to sell any common units they beneficially own for a specified period from the date of this prospectus. Please read “Underwriting” for a description of these lock-up provisions.
MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

This section summarizes the material U.S. federal income tax consequences that may be relevant to prospective common unitholders. To the extent this section discusses federal income taxes, that discussion is based upon current provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed U.S. Treasury regulations thereunder (the “Treasury Regulations”), and current administrative rulings and court decisions, all of which are subject to change. Changes in these authorities may cause the federal income tax consequences to a prospective common unitholder to vary substantially from those described below. Unless the context otherwise requires, references in this section to “we” or “us” are references to the partnership and its subsidiaries.

Legal conclusions contained in this section, unless otherwise noted, are the opinion of Vinson & Elkins L.L.P. and are based on the accuracy of representations made by us to them for this purpose. However, this section does not address all federal income tax matters that affect us or our common unitholders. Furthermore, this section focuses on common unitholders who are individual citizens or residents of the United States (for federal income tax purposes), whose functional currencies are the U.S. dollar and who hold units as capital assets (generally, property that is held for investment). This section has limited applicability to corporations, partnerships, entities treated as partnerships for federal income tax purposes, estates, trusts, non-resident aliens or other common unitholders subject to specialized tax treatment, such as tax-exempt institutions, non-U.S. persons, individual retirement accounts (“IRAs”), employee benefit plans, real estate investment trusts or mutual funds. Accordingly, because each common unitholder may have unique circumstances beyond the scope of the discussion herein, we encourage each common unitholder to consult such unitholder’s own tax advisor in analyzing the federal, state, local and non-U.S. tax consequences that are particular to that unitholder resulting from ownership or disposition of its units.

We are relying on opinions and advice of Vinson & Elkins L.L.P. with respect to the matters described herein. An opinion of counsel represents only that counsel’s best legal judgment and does not bind the IRS or courts. Accordingly, the opinions and statements made herein may not be sustained by a court if contested by the IRS. Any such contest of the matters described herein may materially and adversely impact the market for our units and the prices at which such units trade. In addition, our costs of any contest with the IRS will be borne indirectly by our common unitholders because the costs will reduce our cash available for distribution. Furthermore, our tax treatment, or the tax treatment of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions, which might be retroactively applied.

For the reasons described below, Vinson & Elkins L.L.P. has not rendered an opinion with respect to the following federal income tax issues: (1) the treatment of a common unitholder whose units are loaned to a short seller to cover a short sale of units (please read “—Tax Consequences of Unit Ownership—Treatment of Short Sales”); (2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read “—Disposition of Units—Allocations Between Transferors and Transferees”); and (3) whether our method for taking into account Section 743 adjustments is sustainable in certain cases (please read “—Tax Consequences of Unit Ownership—Section 754 Election” and “—Uniformity of Units”).

Taxation of the Partnership

Partnership Status

We expect to be treated as a partnership for federal income tax purposes and, therefore, generally will not be liable for federal income taxes. Instead, as described below, each of our common unitholders will take into account its respective share of our items of income, gain, loss and deduction in computing its federal income tax liability as if the common unitholder had earned such income directly, even if no cash distributions are made to the common unitholder. Distributions by us to a common unitholder generally will not give rise to income or gain taxable to such unitholder, unless the amount of cash distributed to a common unitholder exceeds the unitholder’s adjusted tax basis in its units.
Section 7704 of the Code generally provides that publicly traded partnerships will be treated as corporations for federal income tax purposes. However, if 90% or more of a partnership’s gross income for every taxable year it is publicly traded consists of “qualifying income,” the partnership may continue to be treated as a partnership for federal income tax purposes (the “Qualifying Income Exception”). Qualifying income includes (i) income and gains derived from the refining, transportation, storage, processing and marketing of crude oil, natural gas and products thereof (including NGLs), (ii) interest (other than from a financial business), (iii) dividends, (iv) gains from the sale of real property and (v) gains from the sale or other disposition of capital assets held for the production of qualifying income. We estimate that approximately 77% of our current gross income is not qualifying income; however, this estimate could change from time to time.

Based upon factual representations made by us and our general partner regarding the composition of our income and the other representations set forth below, Vinson & Elkins L.L.P. is of the opinion that we will be treated as a partnership and each of our partnership or limited liability company subsidiaries will be treated as a partnership or will be disregarded as an entity separate from us for federal income tax purposes. In rendering its opinion, Vinson & Elkins L.L.P. has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which Vinson & Elkins L.L.P. has relied include, without limitation:

(a) Neither we nor any of our partnership or limited liability company subsidiaries has elected to be treated as a corporation for federal income tax purposes; and

(b) For each taxable year, more than 90% of our gross income has been and will be income of a character that Vinson & Elkins L.L.P. has opined is “qualifying income” within the meaning of Section 7704(d) of the Code.

We believe that these representations are true and will be true in the future.

If we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery (in which case the IRS may also require us to make adjustments with respect to our common unitholders or pay other amounts), we will be treated as transferring all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation and then distributed that stock to our common unitholders in liquidation of their units. This deemed contribution and liquidation should not result in the recognition of taxable income by our common unitholders or us so long as our liabilities do not exceed the tax basis of our assets. Thereafter, we would be treated as an association taxable as a corporation for federal income tax purposes.

If for any reason we are taxable as a corporation in any taxable year, our items of income, gain, loss and deduction would be taken into account by us in determining the amount of our liability for federal income tax, rather than being passed through to our common unitholders. Accordingly, our taxation as a corporation would materially reduce our cash distributions to common unitholders and thus would likely substantially reduce the value of our units. In addition, any distribution made to a common unitholder would be treated as (i) taxable dividend income to the extent of our current or accumulated earnings and profits, then (ii) a nontaxable return of capital to the extent of the common unitholder’s tax basis in our units, and thereafter (iii) taxable capital gain.

The remainder of this discussion is based on the opinion of Vinson & Elkins L.L.P. that we will be treated as a partnership for federal income tax purposes.

Tax Consequences of Unit Ownership

Limited Partner Status

Common unitholders who are admitted as limited partners of the partnership, as well as common unitholders whose units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of units, will be treated as partners of the partnership for
 federal income tax purposes. For a discussion related to the risks of losing partner status as a result of short sales, please read “—Treatment of Short Sales.” Common unitholders who are not treated as partners in us as described above are urged to consult their own tax advisors with respect to the tax consequences applicable to them under the circumstances.

Flow-Through of Taxable Income

Subject to the discussion below under “—Entity-Level Collections of Unitholder Taxes” with respect to payments we may be required to make on behalf of our common unitholders, we will not pay any federal income tax. Rather, each common unitholder will be required to report on its income tax return its share of our income, gains, losses and deductions for our taxable year or years ending with or within its taxable year without regard to whether we make cash distributions to such unitholder. Consequently, we may allocate income to a common unitholder even if that unitholder has not received a cash distribution.

Ratio of Taxable Income to Distributions

We estimate that a purchaser of common units in this offering who owns those common units from the date of closing of this offering through the record date for distributions for the period ending December 31, 2014, will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be % or less of the cash distributed with respect to that period. Thereafter, we anticipate that the ratio of taxable income to cash distributions to the common unitholders will increase. These estimates are based upon the assumption that earnings from operations will approximate the amount required to make the initial quarterly distribution on all units and other assumptions with respect to capital expenditures, cash flow, net working capital and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, legislative, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that these estimates will prove to be correct. The actual ratio of taxable income to cash distributions could be higher or lower than expected, and any differences could be material and could materially affect the value of the common units. For example, the ratio of taxable income to cash distributions to a purchaser of common units in this offering will be higher, and perhaps substantially higher, than our estimate with respect to the period described above if:

- the earnings from operations exceeds the amount required to make initial quarterly distributions on all units, yet we only distribute the initial quarterly distributions on all units; or
- we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering.

Basis of Units

A common unitholder’s tax basis in its units initially will be the amount it paid for those units plus its initial share of our liabilities. That basis generally will be (i) increased by the common unitholder’s share of our income and any increases in such unitholder’s share of our nonrecourse liabilities, and (ii) decreased, but not below zero, by distributions to it, by its share of our losses, any decreases in its share of our nonrecourse liabilities and its share of our expenditures that are neither deductible nor required to be capitalized.

Treatment of Distributions

Distributions made by us to a common unitholder generally will not be taxable to the common unitholder, unless such distributions are of cash or marketable securities that are treated as cash and exceed the common unitholder’s tax basis in its units, in which case the common unitholder will recognize gain taxable in the manner described below under “—Disposition of Units.”
Any reduction in a common unitholder’s share of our “nonrecourse liabilities” (liabilities for which no partner bears the economic risk of loss) will be treated as a distribution by us of cash to that common unitholder. A decrease in a common unitholder’s percentage interest in us because of our issuance of additional units will decrease the common unitholder’s share of our nonrecourse liabilities. For purposes of the foregoing, a common unitholder’s share of our nonrecourse liabilities generally will be based upon that common unitholder’s share of the unrealized appreciation (or depreciation) in our assets, to the extent thereof, with any excess liabilities allocated based on the common unitholder’s share of our profits. Please read “—Disposition of Units.”

A non-pro rata distribution of money or property (including a deemed distribution described above) may cause a common unitholder to recognize ordinary income, if the distribution reduces the common unitholder’s share of our “unrealized receivables,” including depreciation recapture and substantially appreciated “inventory items,” both as defined in Section 751 of the Code (“Section 751 Assets”). To the extent of such reduction, the common unitholder would be deemed to receive its proportionate share of the Section 751 Assets and exchange such assets with us in return for an allocable portion of the non-pro rata distribution. This latter deemed exchange generally will result in the common unitholder’s realization of ordinary income in an amount equal to the excess of (1) the non-pro rata portion of that distribution over (2) the common unitholder’s tax basis (generally zero) in the Section 751 Assets deemed to be relinquished in the exchange.

**Limitations on Deductibility of Losses**

The deduction by a common unitholder of its share of our losses will be limited to the lesser of (i) the common unitholder’s tax basis in its units, and (ii) in the case of a common unitholder who is an individual, estate, trust or corporation (if more than 50% of the corporation’s stock is owned directly or indirectly by or for five or fewer individuals or a specific type of tax exempt organization), the amount for which the common unitholder is considered to be “at risk” with respect to our activities. In general, a common unitholder will be at risk to the extent of its tax basis in its units, reduced by (1) any portion of that basis attributable to the common unitholder’s share of our liabilities, (2) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or similar arrangement and (3) any amount of money the common unitholder borrows to acquire or hold its units, if the lender of those borrowed funds owns an interest in us, is related to another common unitholder or can look only to the units for repayment.

A common unitholder subject to the basis and at risk limitation must recapture losses deducted in previous years to the extent that distributions (including distributions as a result of a reduction in a common unitholder’s share of nonrecourse liabilities) cause the common unitholder’s at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a common unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction in a later year to the extent that the common unitholder’s tax basis at risk amount, whichever is the limiting factor, is subsequently increased. Upon a taxable disposition of units, any gain recognized by a common unitholder can be offset by losses that were previously suspended by the at risk limitation but not losses suspended by the basis limitation. Any loss previously suspended by the at risk limitation in excess of that gain can no longer be used.

In addition to the basis and at risk limitations, passive activity loss limitations generally limit the deductibility of losses incurred by individuals, estates, trusts, some closely held corporations and personal service corporations from “passive activities” (generally, trade or business activities in which the taxpayer does not materially participate). The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any passive losses we generate will be available to offset only our passive income generated in the future. Passive losses that are not deductible because they exceed a common unitholder’s share of income we generate may be deducted in full when he disposes of all of its units in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk and basis limitations.
**Table of Contents**

**Index to Financial Statements**

**Limitations on Interest Deductions**

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

- interest on indebtedness properly allocable to property held for investment;
- interest expense attributed to portfolio income; and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a common unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses other than interest directly connected with the production of investment income. Such term generally does not include qualified dividend income or gains attributable to the disposition of property held for investment. A common unitholder's share of a publicly traded partnership's portfolio income and, according to the IRS, net passive income will be treated as investment income for purposes of the investment interest expense limitation.

**Entity-Level Collections of Unitholder Taxes**

If we are required or elect under applicable law to pay any federal, state, local or non-U.S. tax on behalf of any current or former common unitholder, we are authorized to pay those taxes and treat the payment as a distribution of cash to the relevant common unitholder. Where the relevant common unitholder's identity cannot be determined, we are authorized to treat the payment as a distribution to all current common unitholders. We are authorized to amend our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under our partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of a common unitholder, in which event the common unitholder may be entitled to claim a refund of the overpayment amount. Common unitholders are urged to consult their tax advisors to determine the consequences to them of any tax payment we make on their behalf.

**Allocation of Income, Gain, Loss and Deduction**

In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among our common unitholders in accordance with their percentage interests in us. If we have a net loss, our items of income, gain, loss and deduction will be allocated first among our common unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and thereafter to our general partner. At any time that incentive distributions are made to IDR holders, gross income will be allocated to IDR holders to the extent of such distributions.

Specified items of our income, gain, loss and deduction will be allocated under Section 704(c) of the Code to account for any difference between the tax basis and fair market value of our assets at the time such assets are contributed to us and at the time of any subsequent offering of our units (a "Book-Tax Disparity"). In addition, items of recapture income will be specially allocated to the extent possible to the common unitholder who was allocated the deduction giving rise to that recapture income in order to minimize the recognition of ordinary income by other common unitholders.

An allocation of items of our income, gain, loss or deduction, generally must have "substantial economic effect" as determined under Treasury Regulations. If an allocation does not have substantial economic effect, it will be reallocated to our common unitholders the basis of their interests in us, which will be determined by taking into account all the facts and circumstances, including:

- our partners' relative contributions to us;
Table of Contents

Index to Financial Statements

- the interests of all of our partners in our profits and losses;
- the interest of all of our partners in our cash flow; and
- the rights of all of our partners to distributions of capital upon liquidation.

Vinson & Elkins L.L.P. is of the opinion that, with the exception of the issues described in "—Section 754 Election" and "—Disposition of Units—Allocations Between Transferors and Transferees," allocations under our partnership agreement will have substantial economic effect.

Treatment of Short Sales

A common unitholder whose units are loaned to a “short seller” to cover a short sale of units may be treated as having disposed of those units. If so, such common unitholder would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period (i) any of our income, gain, loss or deduction allocated to those units would not be reportable by the common unitholder, and (ii) any cash distributions received by the common unitholder as to those units would be fully taxable, possibly as ordinary income.

Due to lack of controlling authority, Vinson & Elkins L.L.P. has not rendered an opinion regarding the tax treatment of a common unitholder whose units are loaned to a short seller to cover a short sale of our units. Common unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing and lending their units. The IRS has announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please read “—Disposition of Units—Recognition of Gain or Loss.”

Treatment of Liquidation and Termination

In general, if we liquidate or terminate the Partnership and sell all of the partnership’s assets, any gain or loss recognized upon such sale generally will be allocated among our common unitholders in the manner described under “—Allocation of Income, Gain, Loss and Deduction”. Please read “—Treatment of Distributions” for a discussion of the termination of any distributions that may result from a liquidation of the partnership. For a general discussion of the events and circumstances of a liquidation and termination of the Partnership, please read “The Partnership Agreement—Dissolution” and “The Partnership Agreement—Liquidation and Distribution of Proceeds.”

Alternative Minimum Tax

If a common unitholder is subject to federal alternative minimum tax, such tax will apply to such common unitholder’s distributive share of any items of our income, gain, loss or deduction. The current alternative minimum tax rate for non-corporate taxpayers is 3% on the first $175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective common unitholders are urged to consult with their tax advisors with respect to the impact of an investment in our units on their alternative minimum tax liability.

Tax Rates

Under current law, the highest marginal federal income tax rates for individuals applicable to ordinary income and long-term capital gains (generally, gains from the sale or exchange of certain investment assets held for more than one year) are 35% and 15%, respectively. However, absent new legislation extending the current rates, beginning January 1, 2013, the highest marginal federal income tax rate applicable to ordinary income and long-term capital gains of individuals will increase to 39.6% and 20%, respectively. These rates are subject to change by new legislation at any time.
Section 754 Election

We have made the election permitted by Section 754 of the Code that permits us to adjust the tax bases in our assets as to specific purchased units under Section 743(b) of the Code to reflect the unit purchase price. The Section 743(b) adjustment separately applies to each purchaser of units based upon the values and bases of our assets at the time of the relevant purchase. The Section 743(b) adjustment does not apply to a person who purchases units directly from us. For purposes of this discussion, a common unitholder’s basis in our assets will be considered to have two components: (1) its share of the tax basis in our assets as to all common unitholders (“common basis”) and (2) its Section 743(b) adjustment to that tax basis (which may be positive or negative).

Under Treasury Regulations, a Section 743(b) adjustment attributable to property depreciable under Section 168 of the Code, such as our storage assets, may be amortizable over the remaining cost recovery period for such property, while a Section 743(b) adjustment attributable to properties subject to depreciation under Section 167 of the Code, must be amortized straight-line or using the 150% declining balance method. As a result, if we owned any assets subject to depreciation under Section 167 of the Code, the amortization rates could give rise to differences in the taxation of common unitholders purchasing units from us and common unitholders purchasing from other common unitholders.

Under our partnership agreement, we are authorized to take a position to preserve the uniformity of units even if that position is not consistent with these or any other Treasury Regulations. Please read “—Uniformity of Units.” Consistent with this authority, we intend to treat properties depreciable under Section 167, if any, in the same manner as properties depreciable under Section 168 for this purpose. These positions are consistent with the methods employed by other publicly traded partnerships but are inconsistent with the existing Treasury Regulations, and Vinson & Elkins L.L.P. has not opined on the validity of this approach.

The IRS may challenge our position with respect to deprecimating or amortizing the Section 743(b) adjustment we take to preserve the uniformity of units due to lack of controlling authority. Because a common unitholder’s tax basis for its units is reduced by its share of our items of deduction or loss, any position we take that understates deductions will overstate a common unitholder’s basis in its units, and may cause the common unitholder to understate gain or overstate loss on any sale of such units. Please read “—Disposition of Units—Recognition of Gain or Loss.” If a challenge to such treatment were sustained, the gain from the sale of units may be increased without the benefit of additional deductions.

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