SemGroup Energy Partners, L.P.
Form S-1/A
May 04, 2007

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As filed with the Securities and Exchange Commission on May 4, 2007

Registration No. 333-141196

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SEMGROUP ENERGY PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**4610** **(Primary Standard Industrial Classification Code Number)**	**20-8536826** **(I.R.S. Employer Identification Number)**

Two Warren Place

6120 South Yale Avenue, Suite 700

Tulsa, Oklahoma 74136

(918) 524-8100

(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Kevin L. Foxx

President and Chief Executive Officer

SemGroup Energy Partners G.P., L.L.C.

Two Warren Place

6120 South Yale Avenue, Suite 700

Tulsa, Oklahoma 74136

(918) 524-8100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Douglass M. Rayburn	**Michael D. Cooke**	**David P. Oelman**
Joshua Davidson **Baker Botts L.L.P.**	**Hall, Estill, Hardwick, Gable,**	**Brett E. Braden**
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(214) 953-6500	**Tulsa, Oklahoma 74103**	**Houston, Texas 77002**
	(918) 594-0400	**(713) 758-2222**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED May 4, 2007

P R O S P E C T U S

12,500,000 Common Units

Representing Limited Partner Interests

SemGroup Energy Partners, L.P.

$ per Common Unit

The selling unitholder named in this prospectus is selling 12,500,000 common units. We will not receive any proceeds from the sale of the common units by the selling unitholder. We have granted the underwriters an option to purchase up to 1,875,000 additional common units from us to cover over-allotments.

This is the initial public offering of our common units. We currently expect the initial public offering price to be between $ and $ per common unit. We have applied to list our common units on The NASDAQ Global Market under the symbol SGLP.

Investing in our common units involves risks. Please see Risk Factors beginning on page 18.

These risks include the following:

- We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

- On a pro forma basis, we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all units for the year ended December 31, 2006.

- We depend upon SemGroup, L.P. for a substantial majority of our revenues, and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

- We are exposed to the credit risk of SemGroup, L.P. and any material nonperformance by SemGroup, L.P. could reduce our ability to make distributions to our unitholders.

SemGroup, L.P. controls our general partner, which has sole responsibility for conducting our business and managing our operations. SemGroup, L.P. has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

SemGroup, L.P. is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

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

	Per Common Unit	**Total**
Public Offering Price	$	$
Underwriting Discount (1)	$	$
Proceeds to selling unitholder (before expenses)	$	$

(1) Excludes a fee payable to Citigroup Global Markets Inc. of $ in consideration of advice rendered by Citigroup Global Markets Inc. regarding the structure of this offering and our partnership.

The underwriters expect to deliver the common units through the facilities of The Depository Trust Company on or about , 2007.

Citi **Merrill Lynch & Co.**

Lehman Brothers

RBC Capital Markets

Wachovia Securities

A.G. Edwards

Raymond James

Sanders Morris Harris

BOSC, Inc.

, 2007

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You should rely only on the information contained in this prospectus. We have not, and the underwriters and the selling unitholder have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters and the selling unitholder are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Until , 2007 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common units, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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SUMMARY

This summary provides a brief overview of information contained elsewhere in this prospectus. Because it is abbreviated, this summary does not contain all of the information that you should consider before investing in our common units. You should read the entire prospectus carefully, including the historical and unaudited pro forma financial statements and the notes to those financial statements. You should read Risk Factors beginning on page 18 for more information about important risks that you should consider carefully before buying our common units.

Unless indicated otherwise, the information presented in this prospectus assumes (1) an initial public offering price of $20.00 per common unit and (2) that the underwriters do not exercise their over-allotment option. As used in this prospectus, unless we indicate otherwise: (1) SemGroup Energy Partners, our, we, us and similar terms refer to SemGroup Energy Partners, L.P., together with our subsidiaries, after giving effect to the formation transactions described on page 6 of this prospectus, (2) our Parent refers to SemGroup, L.P. and its subsidiaries and affiliates (other than us), (3) selling unitholder and SemGroup Holdings refer to SemGroup Holdings, L.P., a wholly owned subsidiary of our Parent and our sole limited partner prior to the closing of this offering, and (4) references to our pro forma financial information refer to the historical financial information of our predecessor described on page 13 of this prospectus as adjusted to give effect to the Throughput Agreement, the Omnibus Agreement and the other formation transactions described below. We include a glossary of some of the terms used in this prospectus as Appendix B.

SemGroup Energy Partners, L.P.

We are a Delaware limited partnership formed on February 22, 2007 by our Parent, a provider of midstream energy services, to own, operate and develop a diversified portfolio of complementary midstream energy assets. We currently provide crude oil gathering, transportation, terminalling and storage services primarily in our core operating areas in Oklahoma, Kansas and Texas. Prior to the closing of this offering, we will enter into a crude oil gathering, transportation, terminalling and storage agreement with our Parent, which we refer to as the Throughput Agreement. Pursuant to the Throughput Agreement, our Parent will pay us a fee based on the number of barrels of crude oil we gather, transport, terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum revenues of $6.4 million per month. We intend to acquire and construct a significant amount of additional midstream energy assets, including acquisitions from our Parent and jointly with our Parent. At December 31, 2006, our Parent had total net book value of property, plant and equipment of $1.1 billion, with the crude oil gathering, transportation, terminalling and storage assets to be contributed to us prior to the closing of this offering, which we refer to as the Crude Oil Business, representing approximately $92.2 million of this amount.

Our network of assets provides our customers the flexibility to access multiple points for the receipt and delivery of crude oil. We do not take title to, or marketing responsibility for, the crude oil that we gather, transport, terminal and store. As a result, our operations have minimal direct exposure to changes in crude oil prices, but the volumes of crude oil we gather, transport, terminal or store are indirectly affected by commodity prices. We generate revenues by charging a fee for services provided at each transportation stage as crude oil is shipped from its origin at the wellhead to destination points such as the Cushing Interchange, to refineries in Oklahoma, Kansas and Texas or to pipelines, as described below:

> ***Terminalling and storage assets and services.*** We provide crude oil terminalling and storage services at our terminalling and storage facilities located in Oklahoma, Kansas and Texas. We currently own and operate an aggregate of approximately 6.7 million barrels of storage capacity. Of this storage capacity, approximately 4.8 million barrels are located at our terminal in Cushing, Oklahoma. Our Cushing terminal is strategically located within the Cushing Interchange, the largest crude oil

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marketing hub in the United States and the designated point of delivery specified in all New York Mercantile Exchange, or NYMEX, crude oil futures contracts. Our terminals have a combined capacity to receive or deliver approximately 10.0 million barrels of crude oil per month. We also own approximately 26 acres of additional land within the Cushing Interchange where we can develop additional storage capacity.

Gathering and transportation assets and services. We own and operate two pipeline systems, the Mid-Continent system and the Longview system, collectively consisting of approximately 1,120 miles of pipelines that gather crude oil for our Parent and other third-party customers and transport it to refiners, to common carrier pipelines for ultimate delivery to refiners or to terminalling and storage facilities owned by us and others. Our pipeline gathering and transportation system located in Oklahoma and the Texas Panhandle, which we refer to as the Mid-Continent system, has a combined length of approximately 820 miles. Our second pipeline gathering and transportation system located in East Texas, which we refer to as the Longview system, consists of approximately 300 miles of tariff-regulated crude oil gathering pipeline. In addition to our pipelines, we use our approximately 200 owned or leased tanker trucks to gather crude oil in Kansas, Oklahoma, Texas, New Mexico and Colorado for our Parent and other third-party customers at remote wellhead locations generally not connected to pipeline and gathering systems and transport the crude oil to aggregation points and storage facilities located along pipeline gathering and transportation systems. In connection with our gathering services, we also provide a number of producer field services, ranging from gathering condensates from natural gas producers to hauling production waste water to disposal wells.

We derive a substantial majority of our revenues from services provided to the crude oil purchasing, marketing and distribution operations of our Parent pursuant to the Throughput Agreement. For the year ended December 31, 2006, our Parent represented approximately 83.3% of our pro forma revenues and third parties accounted for the remainder. Our Parent s crude oil purchasing, marketing and distribution operations are substantially dependent on our services and assets. The Throughput Agreement has an initial term of seven years with additional automatic one-year renewals unless either party terminates the agreement upon prior notice. Our Parent will pay us a fee based on the number of barrels we gather, transport, terminal or store on behalf of our Parent and will commit to utilize our services at a level that will provide us with minimum revenues of $6.4 million per month, which we expect to be sufficient to initially pay nearly all of the minimum quarterly distribution on our common units but no distribution on our subordinated units. Our Parent will be obligated to pay us fees in respect of this minimum commitment, regardless of whether such services are actually utilized by our Parent.

For the year ended December 31, 2006, we generated pro forma net income of approximately $28.7 million and pro forma income before interest, income taxes, depreciation and amortization, or EBITDA, of $48.4 million. For an explanation of EBITDA and a reconciliation of EBITDA to its most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles, or GAAP, please see Non-GAAP Financial Measures.

Competitive Strengths

We believe we are well positioned to successfully achieve our primary business objectives and execute our business strategies based on the following competitive strengths:

- a substantial majority of our operations generate fee-based revenues, with contracted minimum revenues pursuant to the Throughput Agreement;

- our primary terminalling and storage facilities are strategically located within the Cushing Interchange, the largest crude oil marketing hub in the United States and the designated point of delivery specified in all NYMEX crude oil futures contracts;

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our gathering and transportation systems give us the ability to transport crude oil to multiple end points, particularly the Cushing Interchange, which creates increased demand for our services by allowing our customers the flexibility to effectively manage their marketing of crude oil and increase their profitability;

our relationship with our Parent enhances our ability to make strategic acquisitions and to access other business opportunities;

our properties and facilities have been well maintained resulting in reliable and efficient operations;

we have the financial flexibility through the available capacity under our new five-year credit facility and our ability to access the capital markets to pursue expansion and acquisition opportunities. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow; and

our Parent has a knowledgeable management team with significant experience in the energy industry and in executing acquisition and expansion strategies.

Business Strategies

Our primary business objectives are to maintain stable cash flows and to increase distributable cash flow per unit over time by becoming a leading provider of midstream services to the energy industry. We intend to accomplish these objectives by executing the following strategies:

leveraging our relationship with our Parent to pursue acquisition and organic growth opportunities by:

jointly pursuing acquisition opportunities in a manner that minimizes our direct commodity price exposure; and

acquiring additional assets or businesses directly from our Parent;

pursuing both strategic and accretive acquisitions within the midstream energy industry, by:

evaluating opportunities in our existing areas of operation as well as other midstream energy acquisition opportunities; and

seeking acquisitions that will enable us to grow our distributable cash flow per unit and enhance our service capabilities;

pursuing organic expansion opportunities through:

constructing additional assets in strategic locations that will allow us to leverage our existing market position; and

expanding storage capacity, particularly at our Cushing terminal;

- increasing the profitability of our existing assets by:

  - improving our operating efficiency and by monitoring and controlling our cost structure; and

  - increasing the utilization of our existing asset infrastructure.

Our Relationship with our Parent

One of our principal strengths is our relationship with our Parent, a provider of midstream energy services in the United States. Our Parent provides gathering, transportation, terminalling, storage, distribution, marketing and other midstream services primarily to independent natural gas and crude oil producers, as well as refiners located along the North American energy corridor from the Gulf Coast to Central Canada and the West Coast of the United Kingdom. Our Parent has a significant asset base consisting primarily of pipelines, gathering systems, processing plants, storage facilities, terminals and other distribution facilities located between North American

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production and supply areas, including the Gulf Coast and Mid-Continent regions of the United States and the province of Alberta, Canada and high demand regions such as the Midwest. A substantial majority of our revenues are generated by providing services to our Parent s crude oil purchasing, marketing and distribution operations.

Since our Parent s inception in April 2000 through December 31, 2006, our Parent has completed 45 acquisitions at an aggregate purchase price of approximately $955 million, excluding amounts paid for working capital. Our Parent has indicated that it intends to use us as a growth vehicle to pursue the acquisition and expansion of midstream energy businesses and assets. Although we expect to have the opportunity to make acquisitions directly from our Parent in the future, we cannot say with any certainty which, if any, of these acquisition opportunities may be made available to us or if we will choose to pursue any such opportunity. In addition, through our relationship with our Parent, we will have access to a significant pool of management talent and strong commercial relationships throughout the energy industry. While our relationship with our Parent may benefit us, it is also a source of potential conflicts. For example, our Parent is not restricted from competing with us. Our Parent has retained substantial midstream assets and may acquire, construct or dispose of midstream or other assets in the future without any obligation to offer us the opportunity to purchase or construct those assets. Please see Conflicts of Interest and Fiduciary Duties.

Our Parent will retain a significant indirect interest in our partnership through its ownership of a 38.7% limited partner interest, a 2% general partner interest and incentive distribution rights. We will enter into the Throughput Agreement and an omnibus agreement with our Parent, which we refer to as the Omnibus Agreement, that will govern our relationship with our Parent. Please see Business Throughput Agreement and Certain Relationships and Related Party Transactions Omnibus Agreement. Our Parent employed approximately 1,900 people as of December 31, 2006, approximately 300 of whom will be dedicated to supporting our operations following the formation transactions. We will not have any employees. Please see Business Employees.

Summary of Risk Factors

An investment in our common units involves risks associated with our business, regulatory and legal matters, our partnership structure and the tax characteristics of our common units. The following list of risk factors is not exhaustive. Please read carefully these and other risks described under the caption Risk Factors.

Risks Related to Our Business

- We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

- On a pro forma basis, we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all units for the year ended December 31, 2006.

- We depend upon our Parent for a substantial majority of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

- We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

- Our Parent s obligations under the Throughput Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders. Please see Risk Factors Our Parent s obligations under the Throughput Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

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The assumptions underlying our estimate of cash available for distribution we include in Our Cash Distribution Policy and Restrictions on Distributions are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our Parent is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses.

Cost reimbursements due to our general partner and its affiliates for services provided, which will be determined by our general partner in good faith (which means it must believe the determination is in the best interest of our partnership) in accordance with our partnership agreement and the Omnibus Agreement, may be substantial and will reduce our cash available for distribution to you.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent because our general partner and its affiliates will own a sufficient number of units upon completion of this offering to be able to prevent its removal.

We may issue additional units without your approval, which would dilute your ownership interests.

Common units held by persons who are not Eligible Holders will be subject to the possibility of redemption.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service, or IRS, were to treat us as a corporation or if we were to become subject to a material amount of entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

If the IRS contests any of the federal income tax positions we take, the market for our common units may be adversely affected, and the costs of any contest will reduce our cash available for distribution to you.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

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Tax gain or loss on disposition of our common units could be more or less than expected.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

We will treat each purchaser of units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

You likely will be subject to state and local taxes and return filing or withholding requirements in states where you do not live as a result of investing in our common units.

Formation Transactions and Partnership Structure

General

Prior to the closing of this offering, the following transactions, which we refer to as the formation transactions, will have occurred:

SemGroup Holdings will transfer the Crude Oil Business to us;

we will issue to SemGroup Holdings 12,500,000 common units and 8,155,194 subordinated units;

we will issue to our general partner, SemGroup Energy Partners G.P., L.L.C., a wholly owned subsidiary of SemGroup Holdings, 421,535 general partner units representing its initial 2% general partner interest in us, and all of our incentive distribution rights, which incentive distribution rights will entitle our general partner to increasing percentages of the cash we distribute in excess of $0.3881 per unit per quarter;

we will borrow $137.5 million under our new $250.0 million five-year credit facility and distribute the proceeds to SemGroup Holdings;

we will enter into the Throughput Agreement pursuant to which we will provide certain gathering, transportation, terminalling and storage services to our Parent in exchange for contracted fees; and

we will enter into the Omnibus Agreement with our Parent and our general partner which will address, among other things, the provision of, and the reimbursement for, general and administrative and operating services and indemnification matters.

SemGroup Holdings has informed us that it intends to use the proceeds distributed to it from borrowings under our credit facility to repay outstanding indebtedness of our Parent and to fund offering-related expenses.

At the closing of this offering, SemGroup Holdings will sell 12,500,000 common units to the public in this offering, after which SemGroup Holdings will have an aggregate 38.7% limited partner interest in us and the public will have an aggregate 59.3% limited partner interest in us. SemGroup Holdings has informed us that it intends to use the net proceeds received by it from the sale of the common units to repay outstanding indebtedness of our Parent.

We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our new credit facility. If the underwriters exercise their over-allotment option in full, the ownership interest of the public unitholders will increase to 14,375,000 common units, representing an

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aggregate 62.5% limited partner interest in us, the ownership interest of our general partner will increase to 459,800 general partner units, representing a 2% general partner interest in us, and the ownership interest of our Parent will remain at 8,155,194 subordinated units, representing a 35.5% limited partner interest in us.

As is common with publicly traded limited partnerships and in order to maximize operational flexibility, we will conduct our operations through subsidiaries. We will have one direct subsidiary initially, SemGroup Energy Partners Operating, L.L.C., a Delaware limited liability company, that will conduct business through itself and its subsidiaries.

The diagram on the following page depicts our organization and ownership after giving effect to the formation transactions and the offering.

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Simplified Organizational Structure and Ownership of SemGroup Energy Partners, L.P. After the Formation Transactions

Public Common Units	59.3%
Parent Subordinated Units	38.7%
General Partner Units	2.0%
Total	100.0%

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Management of SemGroup Energy Partners, L.P.

SemGroup Energy Partners G.P., L.L.C., our general partner, will manage our operations and activities, and its board of directors and officers will make decisions on our behalf. All of the executive officers and some of the directors of our general partner also serve as executive officers or directors of our Parent. Our general partner will not receive any management fee or other compensation in connection with the management of our business and this offering, but it will be entitled to reimbursement of all direct and indirect expenses incurred on our behalf. Pursuant to the Omnibus Agreement we will pay our general partner a fixed fee for specified general and administrative services it provides to us. Our general partner will also be entitled to distributions on its general partner interest and, if specified requirements are met, on its incentive distribution rights. Our Parent indirectly holds all of the membership interests in our general partner and consequently is indirectly entitled to all of the distributions that we make to our general partner, subject to the terms of the limited liability company agreement of our general partner and relevant legal restrictions. Please see Our Cash Distribution Policy and Restrictions on Distributions, Management Executive Compensation and Certain Relationships and Related Party Transactions.

Unlike shareholders in a publicly traded corporation, our unitholders will not be entitled to elect our general partner or its directors. Our Parent will elect all of the members to the board of directors of our general partner and we will ultimately have three directors who are independent as defined under the independence standards established by The NASDAQ Global Market. For more information about these individuals, please see Management Directors and Executive Officers.

Summary of Conflicts of Interest and Fiduciary Duties

Our general partner has a legal duty to manage us in a manner beneficial to holders of our common units and subordinated units. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. However, because our general partner is owned by our Parent, the officers and directors of our general partner also have fiduciary duties to manage our general partner in a manner beneficial to our Parent. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates on the other hand.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to holders of our common units and subordinated units. Our partnership agreement also restricts the remedies available to our unitholders for actions that might otherwise constitute a breach of our general partner s fiduciary duties owed to our unitholders. Our partnership agreement also provides that our Parent is not restricted from competing with us. By purchasing a common unit, the purchaser agrees to be bound by the terms of our partnership agreement and, pursuant to the terms of our partnership agreement, each holder of common units consents to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

For a more detailed description of the conflicts of interest and fiduciary duties of our general partner, please see Conflicts of Interest and Fiduciary Duties.

Principal Executive Offices and Internet Address

Our principal executive offices are located at Two Warren Place, 6120 South Yale Avenue, Suite 700, Tulsa, Oklahoma 74136 and our telephone number is (918) 524-8100. Our website will be located at www.semgroupenergypartners.com. We expect to make our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, or SEC, available, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

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The Offering

Common units offered to the public 12,500,000 common units.
14,375,000 common units if the underwriters exercise their over-allotment option in full.

Units outstanding after this offering 12,500,000 common units and 8,155,194 subordinated units, representing 59.3% and 38.7%, respectively, limited partner interests in us (14,375,000 common units and 8,155,194 subordinated units, representing 62.5% and 35.5% limited partner interests in us if the underwriters exercise their over-allotment option in full). The general partner will own 421,535 general partner units, or 459,800 general partner units if the underwriters exercise their over-allotment option in full, in each case representing a 2% general partner interest in us.

Use of proceeds We will not receive any proceeds from any common units sold by SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the net proceeds received by it from the sale of the common units to repay outstanding indebtedness of our Parent.
We will borrow $137.5 million under our new five-year credit facility prior to the closing of this offering and distribute the proceeds to SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the proceeds distributed to it from borrowings under our credit facility to repay outstanding indebtedness of our Parent and to fund offering-related expenses.

If the underwriters over-allotment option is exercised in full, we expect to receive net proceeds of approximately $35.1 million, after deducting underwriting discounts. We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our new credit facility.

Cash distributions We expect to make an initial quarterly distribution of $0.3375 per common unit ($1.35 per common unit on an annualized basis) to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses. We will adjust the quarterly distribution for the period of the closing of the offering through , 2007 based on the actual length of the period. Our ability to pay cash distributions at this initial distribution rate is subject to various restrictions and other factors described in more detail under the caption Our Cash Distribution Policy and Restrictions on Distributions.
Our partnership agreement requires us to distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner. We refer to this distributable cash as available cash, and we define its meaning in our partnership agreement and in the glossary of terms attached as Appendix B to this prospectus. Our

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partnership agreement also requires that we distribute all of our available cash from operating surplus each quarter in the following manner:

first, 98% to the holders of common units and 2% to our general partner, until each common unit has received a minimum quarterly distribution of $0.3375 plus any arrearages from prior quarters;

second, 98% to the holders of subordinated units and 2% to our general partner, until each subordinated unit has received a minimum quarterly distribution of $0.3375;

third, 98% to all unitholders, pro rata, and 2% to our general partner, until each unit has received a distribution of $0.3881;

fourth, 85% to all unitholders, pro rata, and 15% to our general partner, until each unit has received a distribution of $0.4219;

fifth, 75% to all unitholders, pro rata, and 25% to our general partner, until each unit has received a distribution of $0.5063; and

thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

We refer to the distributions to our general partner in excess of 2% as incentive distributions. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions.

Our pro forma cash available for distribution for the year ended December 31, 2006 would have been sufficient to allow us to pay the full minimum quarterly distribution on all of our common units, but only 78% of the minimum quarterly distribution on our subordinated units during this period (80% assuming the underwriters exercise their over-allotment option in full). Please see Our Cash Distribution Policy and Restrictions on Distributions.

We believe that, based on the estimates contained and the assumptions listed under the caption Our Cash Distribution Policy and Restrictions on Distributions, we will have sufficient cash available from operations to make cash distributions for the four quarters ending March 31, 2008 at the initial quarterly distribution rate of $0.3375 per unit per quarter on all units.

Subordinated units

Our Parent will initially own all of our subordinated units. The principal difference between our common units and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are entitled to receive the minimum quarterly distribution of $0.3375 per unit only after the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

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End of subordination period and early conversion of subordinated units	The subordination period generally will end if we have earned and paid at least $0.3375 on each outstanding unit and general partner unit for any three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2010, but may end on or after June 30, 2008 if we have earned and paid at least $2.025 (150% of the annualized minimum quarterly distribution) on each outstanding common unit, subordinated unit and general partner unit for any four-quarter period.

When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

General partner s right to reset the target distribution levels	Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution amount as in our current target distribution levels.

In connection with resetting these target distribution levels, our general partner will be entitled to receive Class B units. The Class B units will be entitled to the same cash distributions per unit as our common units and will be convertible at any time into an equal number of common units. The number of Class B units to be issued will be equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. For a more detailed description of our general partner s right to reset the target distribution levels upon which the incentive distribution payments are based and the concurrent right of our general partner to receive Class B units in connection with this reset, please read Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner s Right to Reset Incentive Distribution Levels.

Issuance of additional units	We can issue an unlimited number of units without the consent of our unitholders. Please see Units Eligible for Future Sale and The Partnership Agreement Issuance of Additional Securities.

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Limited voting rights	Our general partner will manage and operate us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66 $^{2}/3$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon consummation of this offering, our general partner and its affiliates will own an aggregate of 39.5% of our common and subordinated units. This will give our general partner the ability to prevent its involuntary removal. Please see The Partnership Agreement Voting Rights.
Limited call right	If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending , you 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 to you with respect to that period. For example, if you receive an annual distribution of $1.35 per unit, we estimate that your average allocable federal taxable income per year will be no more than $ per unit. Please see Material Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions.
Material tax consequences	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please see Material Tax Consequences.
Exchange listing	We have applied to list the common units on The NASDAQ Global Market under the symbol SGLP.

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Summary Historical and Unaudited Pro Forma Financial and Operating Data

The following table shows summary historical financial and operating data of SemGroup Energy Partners, L.P. Predecessor, our predecessor, and pro forma financial and operating data of SemGroup Energy Partners, L.P. for the periods and as of the dates presented. Prior to the closing of this offering, our Parent will contribute its Crude Oil Business to us, which comprises a substantial majority of our Parent s crude oil gathering, transportation, terminalling and storage assets. The Crude Oil Business has historically been a part of the integrated operations of our Parent, and neither our Parent nor our predecessor recorded revenue associated with the gathering, transportation, terminalling and storage services provided on an intercompany basis. Our Parent and our predecessor recognized only the costs associated with providing such services. Accordingly, revenues reflected in our historical financial statements represent services provided to third parties and do not include any revenues for services provided to our Parent. For this reason and due to the other factors described in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Items Impacting the Comparability of Our Financial Results, our future results of operations will not be comparable to our predecessor s historical results. The summary historical financial data as of and for the years ended December 31, 2004, 2005 and 2006 are derived from the audited financial statements of our predecessor included elsewhere in this prospectus.

The summary pro forma financial data as of and for the year ended December 31, 2006 are derived from the unaudited pro forma financial statements of SemGroup Energy Partners, L.P. included elsewhere in this prospectus. The pro forma adjustments have been prepared as if certain transactions to be effected prior to the closing of this offering had taken place on December 31, 2006, in the case of the pro forma balance sheet, or as of January 1, 2006, in the case of the pro forma statement of operations. These transactions include:

- the contribution by SemGroup Holdings of the Crude Oil Business to us;
- our issuance of 421,535 general partner units and the incentive distribution rights to our general partner and 12,500,000 common units and 8,155,194 subordinated units to SemGroup Holdings;
- our borrowing of $137.5 million under our new five-year credit facility and the distribution of the proceeds to SemGroup Holdings;
- the execution of the Throughput Agreement; and
- the execution of the Omnibus Agreement.

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following table includes the non-GAAP financial measure of EBITDA. For a definition of EBITDA and a reconciliation to its most directly comparable financial measures calculated and presented in accordance with GAAP, please see Non-GAAP Financial Measures.

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	SemGroup Energy Partners, L.P. Predecessor Year Ended December 31, 2004	2005	2006	SemGroup Energy Partners, L.P. Pro Forma Year Ended December 31, 2006
Statement of Operations Data:				(unaudited)
	(dollars in thousands, except per unit data)			
Service revenues[1]:				
Third-party revenue[2]	$ 15,857	$ 20,361	$ 28,839	$ 16,148
Related party revenue				80,260
Total revenue	15,857	20,361	28,839	96,408
Expenses:				
Operating	30,996	38,467	51,608	51,608
General and administrative[3]	7,570	6,280	11,097	5,000
Total expenses	38,566	44,747	62,705	56,608
Operating income (loss)	(22,709)	(24,386)	(33,866)	39,800
Other (income) expenses:				
Interest expense[4]	1,973	2,597	1,989	11,053
Net income (loss)	$ (24,682)	$ (26,983)	$ (35,855)	$ 28,747
General partner interest in pro forma net income				$ 575
Limited partner interest in pro forma net income				$ 28,172
Pro forma net income per limited partner unit:				
Common units				$ 1.36
Subordinated units				$ 1.36
Financial and Operating Data:				
Financial data:				
EBITDA	$ (16,356)	$ (17,832)	$ (25,269)	$ 48,397
Operating data:				
Cushing terminal:				
Average crude oil barrels stored per month	721,590	1,371,281	2,695,766	
Average crude oil delivered (Bpd)	31,074	30,143	44,889	
Total storage capacity (barrels at end of period)	793,200	3,493,200	4,370,000	
Other:				
Total storage capacity (barrels at end of period)	2,329,490	2,048,890	1,952,150	
Average throughput (Bpd):				
Mid-Continent system	20,228	22,255	28,762	
Longview system	31,547	30,993	36,493	
Balance Sheet Data (at period end):				
Property, plant and equipment, net	$ 49,601	$ 64,688	$ 92,245	$ 92,245
Total assets	57,739	72,912	104,847	103,850
Long-term debt and capital lease obligations	35,337	38,849	36,757	143,066
Total division equity/partners capital	20,198	28,799	62,146	(39,216)

(1) Our predecessor only recognized revenues for services provided to third parties. Pro forma service revenues give effect to the Throughput Agreement as if such agreement had been entered into on January 1, 2006.

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The pro forma adjustment is based on actual gathering, transportation, terminalling and storage services provided on an intercompany basis at rates specified in the Throughput Agreement, including giving effect to our Parent s minimum commitments with respect to such services where applicable.

(2) Third-party revenues decreased on a pro forma basis because certain contracts relating to third-party storage services will be retained by our Parent and we will provide services to our Parent relating to these contracts under the Throughput Agreement. Accordingly, these amounts are reflected in pro forma related party revenues.

(3) Pro forma general and administrative expenses have been adjusted to give effect to the annual administrative fee of $5.0 million that we will pay to our general partner and our Parent pursuant to the Omnibus Agreement for the provision of certain general and administrative functions for three years following this offering. Pro forma general and administrative expenses do not include incremental expenses that we will incur as a public company, which we anticipate will be approximately $2.9 million per year. In addition, pro forma general and administrative expenses do not include discretionary incentive compensation based on pro forma EBITDA, which would have been approximately $2.0 million on a pro forma basis for the year ended December 31, 2006.

(4) Historical interest expense reflects interest on capitalized lease obligations and debt payable to our Parent. Pro forma interest expense gives effect to the borrowing of $137.5 million under our new $250.0 million five-year credit facility as if such borrowings occurred on January 1, 2006.

Non-GAAP Financial Measures

We include in this prospectus the non-GAAP financial measure of EBITDA. We define EBITDA as net income before interest, income taxes, depreciation and amortization. EBITDA is used as a supplemental financial measure by our management and by external users of our financial statements such as investors, commercial banks and others, to assess:

- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate cash sufficient to make cash distributions to our unitholders and to pay interest costs and support our indebtedness;
- our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard to financing or capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

EBITDA is not a presentation made in accordance with GAAP. EBITDA should not be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of financial performance presented in accordance with GAAP as measures of operating performance, liquidity or ability to service debt obligations. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP.

The following table provides a reconciliation of EBITDA to its most directly comparable financial measures as calculated and presented in accordance with GAAP.

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	SemGroup Energy Partners, L.P. Predecessor Year Ended December 31,			SemGroup Energy Partners, L.P. Pro Forma Year Ended December 31,
	2004	2005	2006	2006
	(dollars in thousands)			
Reconciliation of EBITDA to net cash provided by operating activities:				
Net cash provided by (used in) operating activities	$ (17,906)	$ (18,848)	$ (25,774)	
Changes in operating working capital which provided (used) cash:				
Accounts receivable	1,095	(741)	(444)	
Accounts payable	262	1,403	1,172	
Other, including changes in noncurrent assets and liabilities	193	354	(223)	
EBITDA	$ (16,356)	$ (17,832)	$ (25,269)	
Reconciliation of EBITDA to net income:				
Net income (loss)	$ (24,682)	$ (26,983)	$ (35,855)	$ 28,747
Add:				
Interest expense, net	1,973	2,597	1,989	11,053
Depreciation and amortization expense	6,353	6,554	8,597	8,597
EBITDA	$ (16,356)	$ (17,832)	$ (25,269)	$ 48,397

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.

If any of the following risks were actually to occur, our business, financial condition, or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and you could lose all or part of your investment.

Risks Related to Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to make cash distributions to holders of our common units and subordinated units at the initial distribution rate under our cash distribution policy.

In order to make our cash distributions at our initial distribution rate of $0.3375 per common unit and subordinated unit per complete quarter, or $1.35 per unit per year, we will require available cash of approximately $7.1 million per quarter, or $28.5 million per year, based on the common units and subordinated units outstanding immediately after completion of this offering ($7.8 million or $31.0 million, respectively, if the underwriters exercise their over-allotment option in full). We may not have sufficient available cash from operating surplus each quarter to enable us to make cash distributions at the initial distribution rate under our cash distribution policy. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things, the risks described in this section.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, including:

- the level of capital expenditures we make;
- the cost of acquisitions;
- our debt service requirements and other liabilities;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions contained in our credit facility or other debt agreements; and
- the amount of cash reserves established by our general partner.

For a description of additional restrictions and factors that may affect our ability to make cash distributions, please see Our Cash Distribution Policy and Restrictions on Distributions.

On a pro forma basis, we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all units for the year ended December 31, 2006.

The amount of available cash we need to pay the minimum quarterly distribution for four quarters on the common units, the subordinated units and the general partner interest to be outstanding immediately after this offering is approximately $28.5 million. The amount of our pro forma available cash generated during the year ended December 31, 2006 would have been sufficient to allow us to pay the full minimum quarterly distribution

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on the common units, but only approximately 78% of the minimum quarterly distribution on our subordinated units during this period (80% assuming the underwriters exercise their over-allotment option in full). In addition, we expect our Parent s minimum commitments under the Throughput Agreement will be sufficient to initially pay nearly all of the minimum quarterly distribution on the common units but no distribution on our subordinated units. For a calculation of our ability to make distributions to unitholders based on our pro forma results for 2006, please see Our Cash Distribution Policy and Restrictions on Distributions.

We depend upon our Parent for a substantial majority of our revenues and any reduction in these revenues would have a material adverse effect on our results of operations and our ability to make distributions to our unitholders.

For the year ended December 31, 2006, our Parent accounted for approximately 83.3% of our pro forma revenues. Because we will utilize a substantial majority of the operating capacity of our existing assets to provide services to our Parent pursuant to the Throughput Agreement, we do not expect to materially increase our revenues from third-party customers in the near term unless we undertake significant acquisition or construction projects. Therefore, we expect our dependence on our Parent for a substantial majority of our revenues to continue. If our Parent is unable to make to us the payments required by it under the Throughput Agreement for any reason, our revenues would decline and our ability to make distributions to our unitholders would be reduced. Therefore, we are indirectly subject to the business risks of our Parent, many of which are similar to the business risks we face. In particular, these business risks include the following:

- the inability of our Parent to generate adequate gross margins from the purchase, transportation, storage and marketing of petroleum products;

- material reductions in the supply of crude oil and petroleum products;

- a material decrease in the demand for crude oil and petroleum products in the markets served by our Parent;

- the inability of our Parent to manage its commodity price risk resulting from its ownership of crude oil and petroleum products;

- contract non-performance by our Parent s customers; and

- various operational risks to which our Parent s business is subject.

We are exposed to the credit risk of our Parent and any material nonperformance by our Parent could reduce our ability to make distributions to our unitholders.

Prior to the closing of this offering, we will enter into the Throughput Agreement with our Parent pursuant to which we will provide certain gathering, transportation, terminalling and storage services to our Parent for an initial term of seven years. We will also enter into the Omnibus Agreement with our Parent that will address, among other things, the provision of general and administrative and operating services to us and indemnification matters. As of December 31, 2006, Moody s and Fitch Ratings assigned our Parent corporate credit ratings of Ba2 and BB, respectively, which are speculative ratings. These speculative ratings signify a higher risk that our Parent will default on its obligations, including its obligations to us, than does an investment grade credit rating. Any material nonperformance under the Omnibus Agreement and the Throughput Agreement by our Parent could materially and adversely impact our ability to operate and make distributions to our unitholders.

As of December 31, 2006, after giving effect to this offering and the other formation transactions and the use of proceeds therefrom, our Parent will have outstanding indebtedness of approximately $1.3 billion. Though we will have no indebtedness rated by any credit rating agency at the closing of this offering, we may have rated debt in the future. Credit rating agencies such as Moody s and Fitch Ratings may consider our Parent s debt ratings when assigning ours, because of our Parent s ownership interest in and control of us, the strong operational links between our Parent and us, and our reliance on our Parent for a substantial majority of our

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revenues. If one or more credit rating agencies were to downgrade the outstanding indebtedness of our Parent, we could experience an increase in our borrowing costs or difficulty accessing capital markets. Such a development could adversely affect our ability to grow our business and to make distributions to unitholders.

Our Parent s obligations under the Throughput Agreement may be reduced or suspended in some circumstances, which would reduce our ability to make distributions to our unitholders.

Some of the circumstances under which our Parent s obligations under the Throughput Agreement may be permanently reduced are within the exclusive control of our Parent. Any such permanent reduction would reduce our ability to make distributions to our unitholders. For example, if we and our Parent cannot agree on an upfront payment or ratable fee surcharge to cover substantial and unanticipated capital expenditures at any of our facilities in order to comply with new laws or regulations, and if we are not able to direct the affected crude oil to mutually acceptable storage or gathering and transportation assets that we own, either party will have the right to remove the affected facility from the Throughput Agreement, and our Parent s minimum monthly payment obligation will be correspondingly reduced. Our Parent s minimum monthly payment obligation may also be temporarily suspended to the extent that the occurrence of a force majeure event that is outside the control of the parties prevents us from making our services available to our Parent and the affected services under the Throughput Agreement may be terminated if the force majeure event prevents performance for more than twelve months. Please see Business Throughput Agreement.

The assumptions underlying our estimate of cash available for distribution we include in Our Cash Distribution Policy and Restrictions on Distributions are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted.

Our estimate of cash available for distribution set forth in Our Cash Distribution Policy and Restrictions on Distributions is based on assumptions that are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those estimated. If we do not achieve the estimated results, we may not be able to pay the full minimum quarterly distribution or any amount on our common units or subordinated units, in which event the market price of our common units may decline materially.

The amount of cash we have available for distribution to holders of our common units and subordinated units depends primarily on our cash flow and not solely on earnings reflected in our financial statements. Consequently, even if we are profitable, we may not be able to make cash distributions to holders of our common units and subordinated units.

You should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow and not solely on earnings reflected in our financial statements, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses for financial accounting purposes and may not make cash distributions during periods when we record net earnings for financial accounting purposes.

A significant decrease in demand for crude oil in the areas served by our storage facilities and pipelines would reduce our ability to make distributions to our unitholders.

A sustained decrease in demand for crude oil in the areas served by our storage facilities and pipelines could significantly reduce our revenues and, therefore, reduce our ability to make or increase distributions to our unitholders. Factors that could lead to a decrease in market demand for crude oil include:

- lower demand by consumers for refined products as a result of recession or other adverse economic conditions or due to high prices caused by an increase in the market price of crude oil or higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasolines or other refined products;

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- a shift by consumers to more fuel-efficient or alternative fuel vehicles or an increase in fuel economy of vehicles, whether as a result of technological advances by manufacturers, governmental or regulatory actions or otherwise; and

- fluctuations in demand for crude oil, such as those caused by refinery downtime or shutdowns, could also significantly reduce our revenues and, therefore, reduce our ability to make distributions to our unitholders.

Certain of our field and pipeline operating costs and expenses are fixed and do not vary with the volumes we gather and transport. These costs and expenses may not decrease ratably or at all should we experience a reduction in our volumes gathered by truck or transmitted by our pipelines. As a result, we may experience declines in our margin and profitability if our volumes decrease.

A material decrease in the production of crude oil from the oil fields served by our pipelines could materially reduce our ability to make distributions to our unitholders.

The throughput on our crude oil pipelines depends on the availability of attractively priced crude oil produced from the oil fields served by such pipelines, or through connections with pipelines owned by third parties. Crude oil production may decline for a number of reasons, including natural declines due to depleting wells, a material decrease in the price of crude oil, or the inability of producers to obtain necessary drilling or other permits from applicable governmental authorities. If we are unable to replace volumes lost due to a temporary or permanent material decrease in production from the oil fields served by our crude oil pipelines, our throughput could decline, reducing our revenue and cash flow and adversely affecting our ability to make distributions to our unitholders. In addition, it is difficult to attract producers to a new gathering system if the producer is already connected to an existing system. As a result, our Parent or third-party shippers on our pipeline systems may experience difficulty acquiring crude oil at the wellhead in areas where there are existing relationships between producers and other gatherers and purchasers of crude oil.

We face intense competition in our gathering, transportation, terminalling and storage activities. Competition from other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply our Parent and our other customers with those services at a lower price could reduce our ability to make distributions to our unitholders.

We are subject to competition from other crude oil gathering, transportation, terminalling and storage operations that may be able to supply our Parent and our other customers with the same or comparable services on a more competitive basis. We compete with national, regional and local gathering, storage, terminalling and pipeline companies, including the major integrated oil companies, of widely varying sizes, financial resources and experience. Some of these competitors are substantially larger than us, have greater financial resources, and control substantially greater storage capacity than we do. With respect to our gathering and transportation services, these competitors include TEPPCO Partners, L.P., Plains All American Pipeline, L.P., ConocoPhillips, Sunoco Logistics Partners L.P. and National Cooperative Refinery Association, among others. With respect to our storage and terminalling services, these competitors include BP plc, Enbridge Energy Partners, L.P. and Plains All American Pipeline, L.P. Some of these competitors have greater capital resources and control greater supplies of crude oil than our Parent. Several of our competitors conduct portions of their operations through publicly traded partnerships with structures similar to ours, including Plains All American Pipeline, L.P., TEPPCO Partners, L.P., Sunoco Logistics Partners L.P. and Enbridge Energy Partners, L.P.

Our ability to compete could be harmed by numerous factors, including:

- price competition;

- the perception that another company can provide better service; and

- the availability of alternative supply points, or supply points located closer to the operations of our Parent s customers.

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In addition, our Parent will continue to own midstream assets upon completion of this offering and may engage in competition with us. If we are unable to compete with services offered by other midstream enterprises, including our Parent, our ability to make distributions to our unitholders may be adversely affected.

Some of our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets.

Some of our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets. Reduced throughput on these interconnecting pipelines as a result of testing, line repair, reduced operating pressures or other causes could result in reduced throughput on our pipeline systems that would adversely affect our revenue and cash flow and our ability to make distributions to our unitholders.

A principal focus of our business strategy is to grow and expand our business through acquisitions. If we do not make acquisitions on economically acceptable terms, our future growth may be limited.

A principal focus of our business strategy is to grow and expand our business through acquisitions. Our ability to grow depends, in part, on our ability to make acquisitions that result in an increase in the cash generated per unit from operations. If we are unable to make these accretive acquisitions, either because we are (1) unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them, (2) unable to obtain financing for these acquisitions on economically acceptable terms or (3) outbid by competitors, then our future growth and ability to increase distributions will be limited. Furthermore, even if we do make acquisitions that we believe will be accretive, these acquisitions may nevertheless result in a decrease in the cash generated from operations per unit.

Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about volumes, revenues and costs, including synergies;
- an inability to integrate successfully the businesses we acquire;
- an inability to hire, train or retain qualified personnel to manage and operate our business and assets;
- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- the diversion of management s and employees attention from other business concerns;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Our acquisition strategy is based, in part, on our expectation of ongoing divestitures of energy assets by industry participants. A material decrease in such divestitures would limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

Our growth strategy includes acquiring midstream entities or assets that are distinct and separate from our existing Crude Oil Business operations, which could subject us to additional business and operating risks.

We may acquire midstream assets that have operations in new and distinct lines of business from our existing Crude Oil Business. Integration of a new business is a complex, costly and time-consuming process.

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Failure to timely and successfully integrate acquired entities new lines of business with our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating a new business with our existing operations include, among other things:

- operating distinct businesses that require different operating strategies and different managerial expertise;
- the necessity of coordinating organizations, systems and facilities in different locations;
- integrating personnel with diverse business backgrounds and organizational cultures; and
- consolidating corporate and administrative functions.

In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of a new business, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial conditions and prospects. Furthermore, new lines of business will subject us to additional business and operating risks. For example, we may in the future determine to acquire businesses that are subject to significant risks due to fluctuations in commodity prices. These new business and operating risks could have a material adverse effect on our financial condition or results of operations.

Expanding our business by constructing new assets subjects us to risks that projects may not be completed on schedule, and that the costs associated with projects may exceed our expectations, which could cause our cash available for distribution to our unitholders to be less than anticipated.

The construction of additions or modifications to our existing assets, and the construction of new assets, involves numerous regulatory, environmental, political, legal and operational uncertainties and requires the expenditure of significant amounts of capital. If we undertake these types of projects, they may not be completed on schedule or at all or at the budgeted cost. In addition, our revenues may not increase immediately upon the expenditure of funds on a particular project. Moreover, we may construct facilities to capture anticipated future growth in demand in a market in which such growth does not materialize.

We are exposed to the credit risks of our third-party customers in the ordinary course of our gathering activities. Any material nonpayment or nonperformance by our third-party customers could reduce our ability to make distributions to our unitholders.

In addition to our dependence on our Parent, we are subject to risks of loss resulting from nonpayment or nonperformance by our third-party customers. Some of our customers may be highly leveraged and subject to their own operating and regulatory risks. In addition, any material nonpayment or nonperformance by our customers could require us to pursue substitute customers for our affected assets or provide alternative services. Any such efforts may not be successful or may not provide similar fees. These events could reduce our ability to make distributions to our unitholders.

Our revenues from third-party customers are generated under contracts that must be renegotiated periodically and that allow the customer to reduce or suspend performance in some circumstances, which could cause our revenues from those contracts to decline and reduce our ability to make distributions to our unitholders.

Some of our contract-based revenues from customers other than our Parent are generated under contracts with terms which allow the customer to reduce or suspend performance under the contract in specified circumstances, such as the occurrence of a catastrophic event to our or the customer s operations. The occurrence of an event which results in a material reduction or suspension of our customer s performance could reduce our ability to make distributions to our unitholders.

Some of our contracts with third-party customers for producer field services have terms of one year or less. As these contracts expire, they must be extended and renegotiated or replaced. We may not be able to extend, renegotiate or replace these contracts when they expire, and the terms of any renegotiated contracts may not be as favorable as the contracts they replace. In particular, our ability to extend or replace contracts could be harmed

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by numerous competitive factors, such as those described above under We face intense competition in our gathering, transportation, terminalling and storage activities. Competition from other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply our Parent and our other customers with those services at a lower price could reduce our ability to make distributions to our unitholders. Additionally, we may incur substantial costs if modifications to our terminals are required in order to attract substitute customers or provide alternative services. If we cannot successfully renew significant contracts or must renew them on less favorable terms, or if we incur substantial costs in modifying our terminals, our revenues from these arrangements could decline and our ability to make distributions to our unitholders could suffer.

We may incur significant costs and liabilities as a result of pipeline integrity management program testing and any necessary pipeline repair, or preventative or remedial measures, which could have a material adverse effect on our results of operations.

The United States Department of Transportation, or DOT, has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in high consequence areas , including high population areas, areas that are sources of drinking water, ecological resource areas that are unusually sensitive to environmental damage from a pipeline release and commercially navigable waterways, unless the operator effectively demonstrates by risk assessment that the pipeline could not affect the area. The regulations require operators of covered pipelines to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize threats to pipeline segments that could impact a high consequence area;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and
- implement preventive and mitigating actions.

In addition to these adopted regulations, in September 2006, the DOT proposed amendment of existing pipeline safety standards including its integrity management programs to broaden the scope of coverage to include certain rural onshore hazardous liquid and low-stress pipeline systems found near unusually sensitive areas, including non-populated areas requiring extra protection because of the presence of sole source drinking water resources, endangered species, or other ecological resources. Also, in December 2006, the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 was enacted. This act reauthorizes and amends the DOT s pipeline safety programs and includes a provision eliminating the regulatory exemption for hazardous liquid pipelines operated at low stress. Adoption of new or more stringent pipeline safety regulations affecting our gathering or low-stress pipelines could result in more rigorous and costly integrity management planning requirements being imposed on those lines, which could have a material adverse effect on our results of operations. Please read Business Regulation Pipeline Safety for more information.

We do not have any officers or employees and rely solely on officers of our general partner and employees of our Parent. Failure of such officers and employees to devote sufficient attention to the management and operation of our business may adversely affect our financial results and our ability to make distributions to our unitholders.

The officers of our general partner will be employees of our general partner and will also be employed by our Parent. We intend to enter into the Omnibus Agreement with our Parent, pursuant to which our Parent will operate our assets and perform other administrative services for us such as accounting, legal, regulatory, development, finance, land and engineering. Affiliates of our Parent conduct businesses and activities of their own in which we have no economic interest, including businesses and activities relating to our Parent. As a result, there will be material competition for the time and effort of the officers and employees who provide services to our general partner and our Parent. If the officers of our general partner and the employees of our Parent do not devote sufficient attention to the management and operation of our business, our financial results may suffer and our ability to make distributions to our unitholders may be reduced.

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Due to our lack of geographic and business diversification, adverse developments in the geographic markets that we serve or in the supply of, or demand for, crude oil in those geographic areas could reduce our ability to make distributions to our unitholders.

We rely exclusively on the revenues generated from our crude oil gathering, transportation, terminalling and storage services. These services are performed, and the assets used in these operations are located, primarily in the Mid-Continent region of the United States. Due to our lack of diversification in asset type and location, an adverse development in these businesses or areas, including adverse developments due to catastrophic events or weather and decreases in demand for petroleum products, would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

Our operations are subject to environmental and worker safety laws and regulations that may expose us to significant costs and liabilities. Failure to comply with these laws and regulations could adversely affect our ability to make distributions to our unitholders.

Our midstream crude oil gathering, transportation, terminalling and storage operations are subject to significant federal, state and local laws and regulations relating to the protection of the environment. Various governmental authorities, including the United States Environmental Protection Agency, have the power to enforce compliance with these laws and regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Joint and several strict liability may be incurred without regard to fault or the legality of the original conduct under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act and analogous state laws for the remediation of contaminated areas. Private parties, including the owners of properties located near our storage facilities or through which our pipeline systems pass, also may have the right to pursue legal actions to enforce compliance, as well as seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. Moreover, new stricter laws, regulations or enforcement policies could be implemented that significantly increase our compliance costs and the cost of any remediation that may become necessary, some of which may be material.

In performing midstream services, we incur environmental costs and liabilities in connection with the handling of hydrocarbons and solid wastes. We currently own, operate or lease properties that for many years have been used for midstream activities, including properties in and around the Cushing Interchange. Activities by us or prior owners, lessees or users of these properties over whom we had no control may have resulted in the spill or release of hydrocarbons or solid wastes on or under them. Additionally, some sites we own or operate are located near current or former storage, terminal and pipeline operations, and there is a risk that contamination has migrated from those sites to ours. Increasingly strict environmental laws, regulations and enforcement policies as well as claims for damages and other similar developments could result in significant costs and liabilities, and our ability to make distributions to our unitholders could suffer as a result. Please see Business Regulation for more information.

In addition, the workplaces associated with the storage facilities and pipelines we operate are subject to the requirements of the federal Occupational Safety and Health Act, as amended, or OSHA, and comparable state statutes that regulate the protection of the health and safety of workers. The OSHA hazard communication standard requires that we maintain information about hazardous materials used or produced in our operations and that we provide this information to employees, state and local government authorities, and local residents. Failure to comply with OSHA requirements, including general industry standards, recordkeeping requirements and monitoring of occupational exposure to regulated substances, could subject us to fines or significant compliance costs and adversely affect our ability to make distributions to our unitholders.

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Our business involves many hazards and operational risks, including adverse weather conditions, which could cause us to incur substantial liabilities.

Our operations are subject to the many hazards inherent in the transportation and storage of crude oil, including:

- explosions, fires, accidents, including road and highway accidents involving our tanker trucks;
- extreme weather conditions, such as hurricanes which are common in the Gulf Coast and tornadoes and flooding which are common in the Midwest;
- damage to our pipelines and storage tanks and related equipment;
- leaks or releases of crude oil into the environment; and
- acts of terrorism or vandalism.

If any of these events were to occur, we could suffer substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations. In addition, mechanical malfunctions, faulty measurement or other errors may result in significant costs or lost revenues.

We are not fully insured against all risks incident to our business, and could incur substantial liabilities as a result.

We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of changing market conditions, premiums and deductibles for certain of our insurance policies may increase substantially in the future. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position and ability to make distributions to unitholders.

We share some insurance policies, including our general liability policy, with our Parent. These policies contain caps on the insurer s maximum liability under the policy, and claims made by either our Parent or us are applied against the caps and deductibles. The possibility exists that, in an event in which we wish to make a claim under a shared insurance policy, our claim could be denied or only partially satisfied due to claims made by our Parent against the policy cap. Further, where events occur that would entitle both our Parent and us to benefits under these insurance policies, the full deductible may be borne by the first claimant under the policy. In addition, claims made by our Parent could affect our premiums and our ability to obtain insurance in the future.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

Assuming we had completed the formation transactions on December 31, 2006, our pro forma indebtedness would have been $137.5 million. In addition, we anticipate having capacity to borrow up to $112.5 under our new five-year credit facility that we expect to be effective prior to the completion of this offering. Following this offering, we will continue to have the ability to incur additional debt, subject to limitations in our credit facility. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

our debt level will make us more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

our debt level may limit our flexibility in responding to changing business and economic conditions.

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Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors. Our ability to service debt under our credit facility also will depend on market interest rates, since we anticipate that the interest rates applicable to our borrowings will fluctuate with the London Interbank Offered Rate, or LIBOR, or the prime rate. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms, or at all.

Restrictions in our credit facility may prevent us from engaging in some beneficial transactions or paying distributions to our unitholders.

Our new credit facility contains covenants limiting our ability to make distributions to unitholders. In addition, our credit facility contains various covenants that limit, among other things, our ability to incur indebtedness, grant liens or enter into a merger, consolidation or sale of assets. Furthermore, our credit facility contains covenants requiring us to maintain certain financial ratios and tests. Any subsequent refinancing of our current debt may have similar or greater restrictions. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

If we borrow funds to make our minimum quarterly distributions, our ability to pursue acquisitions and other business opportunities may be limited and our operations may be materially adversely effected.

Available cash for the purpose of making distributions to unitholders includes working capital borrowings. If we borrow funds to pay one or more minimum quarterly distributions, such amounts will incur interest and must be repaid in accordance with the terms of our credit facility. In addition, any amounts borrowed for distributions to our unitholders will reduce the funds available to us for other purposes under our credit facility, including amounts available for use in connection with acquisitions and other business opportunities. If we are unable to pursue our growth strategy due to our limited ability to borrow funds, our operations may be materially adversely effected.

If our general partner fails to develop or maintain an effective system of internal controls, then we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our common units.

Our general partner has sole responsibility for conducting our business and for managing our operations. Effective internal controls are necessary for our general partner, on our behalf, to provide reliable financial reports, prevent fraud and operate us successfully as a public company. Although our Parent is in the process of implementing controls to properly prepare and review our financial statements, we cannot be certain that its efforts to develop and maintain its internal controls will be successful, that it will be able to maintain adequate controls over our financial processes and reporting in the future or that it will be able to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002. Any failure to develop or maintain effective internal controls, or difficulties encountered in implementing or improving our general partner s internal controls, could harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls also could cause investors to lose confidence in our reported financial information, which likely would have a negative effect on the trading price of our common units.

Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to our business. Continued hostilities in the Middle East or other sustained military campaigns may adversely impact our results of operations.

The long-term impact of terrorist attacks, such as the attacks that occurred on September 11, 2001, and the threat of future terrorist attacks on our industry in general, and on us in particular, is not known at this time.

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Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs to our business. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect our operations in unpredictable ways, including disruptions of crude oil supplies and markets for our services, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Risks Inherent in an Investment in Us

Our Parent controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our Parent has conflicts of interest with us and limited fiduciary duties, which may permit it to favor its own interests to your detriment.

Following the offering, our Parent will own and control our general partner. Some of our general partner s directors are directors of our Parent and all of our executive officers are officers of our Parent. Therefore, conflicts of interest may arise between our Parent and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving those conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. Although the conflicts committee of our general partner s board of directors may review such conflicts of interest, our general partner s board of directors is not required to submit such matters to the conflicts committee. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our Parent to pursue a business strategy that favors us. Our Parent s directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of our Parent, which may be contrary to our interests;

- our general partner is allowed to take into account the interests of parties other than us, such as our Parent and its affiliates, in resolving conflicts of interest;

- our Parent is not limited in its ability to compete with us and is under no obligation to offer assets or business opportunities to us; please see Our Parent is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses;

- our general partner may make a determination to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights without the approval of the conflicts committee of our general partner or our unitholders; please see Provisions of Our Partnership Agreement Relating to Cash Distributions;

- our Parent may compete with us with respect to any future acquisition opportunities;

- all of the officers of our Parent who provide services to us also will devote significant time to the business of our Parent, and will be compensated by our Parent for the services rendered to it;

- our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;

our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and reserves, each of which can affect the amount of cash that is distributed to unitholders;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount

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of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units;

our general partner determines which costs incurred by it and its affiliates are reimbursable by us and our Parent will determine the allocation of shared overhead expenses;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;

our general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;

our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and

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

Please see Conflicts of Interest and Fiduciary Duties.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty laws. 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 any limited partner. Examples include the exercise of its right to receive a quantity of our Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights, the exercise of its limited call right, the exercise of its rights to transfer or vote the units it owns, the exercise of its registration rights and its determination whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement;

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner acting in good faith and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith. In determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us;

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

provides that in resolving conflicts of interest, it will be presumed that in making its decision the general partner acted in good faith, and in any proceeding brought by or on behalf of any limited partner or us, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

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By purchasing a common unit, a common unitholder will become bound by the provisions in the partnership agreement, including the provisions discussed above. Please see Conflicts of Interest and Fiduciary Duties Fiduciary Duties.

Our Parent is not limited in its ability to compete with us, which could limit our ability to acquire additional assets or businesses.

Neither our partnership agreement nor the Omnibus Agreement will prohibit our Parent from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, our Parent may acquire, construct or dispose of additional midstream or other assets in the future, without any obligation to offer us the opportunity to purchase or construct any of those assets. Our Parent is a large, established participant in the midstream energy business, and has significantly greater resources and experience than we have, which factors may make it more difficult for us to compete with our Parent with respect to commercial activities as well as for acquisition candidates. As a result, competition from our Parent could adversely impact our results of operations and cash available for distribution. Please see Conflicts of Interest and Fiduciary Duties.

Cost reimbursements due to our general partner and its affiliates for services provided, which will be determined by our general partner, may be substantial and will reduce our cash available for distribution to you.

Pursuant to our partnership agreement and the Omnibus Agreement we will enter into with our Parent, our general partner and other affiliates upon the closing of this offering, our Parent will receive reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit. Payments for these services may be substantial and will reduce the amount of cash available for distribution to unitholders. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated under our partnership agreement to reimburse or indemnify our general partner. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments would reduce the amount of cash otherwise available for distribution to our unitholders. Please see Certain Relationships and Related Party Transactions Omnibus Agreement and Conflicts of Interest and Fiduciary Duties.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders will not elect our general partner or our general partner s board of directors, and will have no right to elect our general partner or our general partner s board of directors on an annual or other continuing basis. The board of directors of our general partner will be chosen by SemGroup Holdings, a wholly owned subsidiary of our Parent. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent.

The unitholders will be unable initially to remove our general partner without its consent because our general partner and its affiliates will own sufficient units upon completion of this offering to be able to prevent

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its removal. The vote of the holders of at least 66 2/3% of all outstanding units voting together as a single class is required to remove the general partner. Following the closing of this offering, our general partner and its affiliates will own 39.5% of our aggregate outstanding common and subordinated units. Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over our subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholders dissatisfaction with our general partner s performance in managing our partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

Control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of our Parent, the owner of our general partner, from transferring all or a portion of its ownership interest in our general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of our general partner with its own choices and thereby influence the decisions made by the board of directors and officers.

We may issue additional units without your approval, which would dilute your ownership interests.

Our partnership agreement does not limit the number of additional limited partner interests (including any securities of equal or senior rank to our common units, and options, rights, warrants and appreciation rights relating to any such securities) that we may issue at any time without the approval of our unitholders. In addition, because we are a limited partnership, we will not be subject to the shareholder approval requirements relating to the issuance of securities contained in Nasdaq Marketplace Rule 4350(i). The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

Our partnership agreement restricts the voting rights of unitholders, other than our general partner and its affiliates, including our Parent, owning 20% or more of our common units.

Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, including our Parent, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions.

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Affiliates of our general partner may sell common units in the public markets, which sales could have an adverse impact on the trading price of the common units.

After the sale of the common units offered hereby, SemGroup Holdings will hold an aggregate of 8,155,194 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period and may convert earlier. The sale of these units in the public markets could have an adverse impact on the price of the common units or on any trading market that may develop.

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

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You also may incur a tax liability upon a sale of your units. At the end of the subordination period, assuming no additional issuances of common units and no sales of subordinated units, our general partner and its affiliates will own 39.5% of the common units. For additional information about this call right, please see The Partnership Agreement Limited Call Right.

Common units held by persons who are not Eligible Holders will be subject to the possibility of redemption.

The Longview system is, and any additional interstate pipelines that we acquire or construct may be, subject to the rate regulation of the Federal Energy Regulatory Commission, or FERC. Our general partner has the right under our partnership agreement to institute procedures, by giving notice to each of our unitholders, that would require transferees of common units and, upon the request of our general partner, existing holders of our common units to certify that they are Eligible Holders. The purpose of these certification procedures would be to enable us to utilize a federal income tax expense as a component of the pipeline s cost of service upon which tariffs may be established under FERC rate-making policies applicable to entities that pass through their taxable income to their owners. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. Please read Description of the Common Units Transfer of Common Units. If these tax certification procedures are implemented, we will have the right to redeem the common units held by persons who are not Eligible Holders at the lesser of the holder s purchase price and the then-current market price of the units. The redemption price would be paid in cash or by delivery of a promissory note, as determined by our general partner.

Your liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. You could be liable for our obligations as if you were a general partner if:

- a court or government agency determined that we were conducting business in a state but had not complied with that particular state s partnership statute; or

- your right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

Please see The Partnership Agreement Limited Liability for a discussion of the implications of the limitations of liability on a unitholder.

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Unitholders may have liability to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 and 17-804 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interests and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

We will incur increased costs as a result of being a publicly traded company.

Neither we nor our Parent has any history of operating as a publicly traded company. As a publicly traded company, we will incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and The NASDAQ Global Market, have required changes in corporate governance practices of publicly traded companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make activities more time-consuming and costly. For example, as a result of becoming a publicly traded company, we are required to have at least three independent directors, create additional board committees and adopt policies regarding internal controls and disclosure controls and procedures, including the preparation of reports on internal controls over financial reporting. In addition, we will incur additional costs associated with our publicly-traded company reporting requirements. We have included $2.9 million of estimated incremental costs per year associated with being a publicly traded company for purposes of our estimate of our cash available for distribution for the twelve months ending March 31, 2008, included elsewhere in this prospectus; however, it is possible that our actual incremental costs of being a publicly traded company will be higher than we currently estimate.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, you should read Material Tax Consequences for a more complete discussion of the expected material federal income tax consequences of owning and disposing of our common units.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the IRS were to treat us as a corporation or if we were to become subject to a material amount of entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested a ruling from the IRS on this or any other tax matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change, so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits and other

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reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, beginning in 2008 we will be required to pay annually a Texas franchise tax at a maximum effective rate of 0.7% of our gross income apportioned to Texas with respect to the prior year. We currently estimate that our tax liability related to our 2007 gross income apportioned to Texas will be approximately $300,000. Imposition of such a tax on us by Texas and, if applicable, by any other state will reduce the cash available for distribution to you. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

If the IRS contests any of the federal income tax positions we take, the market for our common units may be adversely affected, and the costs of any contest will reduce our cash available for distribution to you.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel s conclusions or the positions we take. A court may not agree with some or all of our counsel s conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, the costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income, even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from your share of our taxable income.

Tax gain or loss on the disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions to you in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal income tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a foreign person, you should consult your tax advisor before investing in our common units.

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We will treat each purchaser of units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and/or amortization positions that may not conform with all aspects of existing Treasury regulations and, as a result, our counsel, Baker Botts L.L.P., is unable to opine as to the validity of these positions. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please see Material Tax Consequences Uniformity of Units for a further discussion of the effect of the depreciation and amortization positions we will adopt.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. Please read Material Tax Consequences Disposition of Common Units Constructive Termination for a discussion of the consequences of our termination for federal income tax purposes.

You likely will be subject to state and local taxes and return filing or withholding requirements as a result of investing in our common units.

In addition to federal income taxes, you will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You likely will be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We initially will own property and conduct business in Texas, Oklahoma, Kansas, Colorado and New Mexico. Of those states, Texas does not currently impose a state income tax on individuals. We may own property or conduct business in other states or foreign countries in the future. It is your responsibility to file all federal, state and local tax returns. Under the tax laws of some states where we will conduct business, we may be required to withhold a percentage from amounts to be distributed to a unitholder who is not a resident of that state. In particular, in the case of Oklahoma, we are required to either report detailed tax information about our non-Oklahoma resident unitholders with an income in Oklahoma in excess of $500 to the taxing authority, or withhold an amount equal to 5% of the portion of our distributions to unitholders which is deemed to be the Oklahoma share of our income. Similarly, we are required to withhold Kansas income tax at a rate of 6.45% on each non-Kansas resident unitholder s share of our taxable income that is attributable to Kansas (regardless of whether such income is distributed), unless the non-Kansas resident unitholder files a tax reporting affidavit with us which we, in turn, are required to file with the Kansas Department of Revenue. Our counsel has not rendered an opinion on the state and local tax consequences of an investment in our common units.

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USE OF PROCEEDS

We will not receive any proceeds from any common units sold by SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the net proceeds received by it from the sale of the common units to repay outstanding indebtedness of our Parent.

We will borrow $137.5 million under our new five-year credit facility prior to the closing of this offering, and distribute the proceeds to SemGroup Holdings. SemGroup Holdings has informed us that it intends to use the proceeds distributed to it from borrowings under our credit facility to repay outstanding indebtedness of our Parent and to fund offering related expenses. Please see Certain Relationships and Related Party Transactions Distributions and Payments to Our General Partner and Its Affiliates.

If the underwriters over-allotment option is exercised in full, we expect to receive net proceeds of approximately $35.1 million, after deducting underwriting discounts. We will use any net proceeds from the exercise of the underwriters over-allotment option to reduce outstanding borrowings under our new five-year credit facility. Amounts borrowed under this credit facility are due and bear interest at a rate of % per annum. If the underwriters exercise their over-allotment option in full, the ownership interest of the public unitholders will increase to 14,375,000 common units, representing an aggregate 62.5% limited partner interest in us, and our general partner will own 459,800 general partner units representing a 2.0% general partner interest in us. SemGroup Holdings will not receive any proceeds from any common units sold by us pursuant to the exercise of the underwriters over-allotment option.

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CAPITALIZATION

The following table shows:

- the historical capitalization of SemGroup Energy Partners, L.P. Predecessor as of December 31, 2006; and

- our pro forma capitalization as of December 31, 2006, as adjusted to reflect the transactions described under Summary Formation Transactions and Partnership Structure.

We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical and unaudited pro forma financial statements and the accompanying notes included elsewhere in this prospectus. You should also read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	As of December 31, 2006	
	Historical	Pro Forma
	(in thousands)	
Debt:		
Debt payable to our Parent	$ 31,191	$
Credit facility		137,500
Capital lease obligations	5,566	5,566
Total debt	36,757	143,066
Division equity/partners capital		
Predecessor business	62,146	
Common units public		250,000
Subordinated units SemGroup Holdings		(274,987)
General partner interest		(14,229)
Total division equity/partners capital	62,146	(39,216)
Total capitalization	$ 98,903	$ 103,850

This table does not reflect the issuance of up to 1,875,000 common units that may be sold to the underwriters upon exercise of their over-allotment option.

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OUR CASH DISTRIBUTION POLICY AND RESTRICTIONS ON DISTRIBUTIONS

You should read the following discussion of our cash distribution policy in conjunction with specific assumptions included in this section. For more detailed information regarding the factors and assumptions upon which our cash distribution policy is based, please see Assumptions and Considerations below. In addition, you should read Forward-Looking Statements and Risk Factors for information regarding statements that do not relate strictly to historical or current facts as well as certain risks inherent in our business.

For additional information regarding our historical and pro forma operating results, you should refer to the audited historical financial statements of our predecessor for the years ended December 31, 2004, 2005 and 2006 and our unaudited pro forma financial statements for the year ended December 31, 2006, included elsewhere in this prospectus.

General

Rationale for Our Cash Distribution Policy. Our partnership agreement requires us to distribute all of our available cash quarterly. Our available cash is our cash on hand at the end of a quarter after the payment of our expenses and the establishment of reserves for future capital expenditures, operational needs and payment of distributions to our unitholders for any one or more of the next four quarters. We intend to fund a portion of our capital expenditures with additional borrowings or issuances of additional units. We may also borrow to make distributions to unitholders, for example, in circumstances where we believe that the distribution level is sustainable over the long term, but short-term factors have caused available cash from operations to be insufficient to pay the distribution at the current level. Our cash distribution policy reflects a basic judgment that our unitholders will be better served by us distributing our available cash, after expenses and reserves, rather than retaining it. Also, because we are not subject to an entity-level federal income tax, we have more cash to distribute to you than would be the case if we were subject to federal income tax.

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy. There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

- Our cash distribution policy is subject to restrictions on distributions under our new credit facility. Specifically, the agreement related to our credit facility will contain material financial tests and covenants that we must satisfy. These financial tests and covenants will include a requirement that our ratio of consolidated indebtedness to consolidated EBITDA be not more than 5.00 to 1.00 and a requirement that our ratio of consolidated EBITDA to consolidated interest expense be not less than 2.75 to 1.00. These financial ratios and covenants are described in this prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Our Liquidity and Capital Resources Description of Credit Facility. Should we be unable to satisfy these restrictions under our credit facility or if we are otherwise in default under our credit facility, we would be prohibited from making cash distributions to you notwithstanding our stated cash distribution policy.

- Our general partner will have the authority to establish reserves for the prudent conduct of our business and for future cash distributions to our unitholders, and the establishment of those reserves could result in a reduction in cash distributions to you from levels we currently anticipate pursuant to our stated distribution policy.

- While our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended. Although during the subordination period, with certain exceptions, our partnership agreement may not be amended without the approval of the public common unitholders, our partnership agreement can be amended with the approval of a majority of the outstanding common units and any Class B units issued upon the reset of incentive distribution rights, if any, voting as a class (including common units and Class B units held by our Parent and its affiliates) after the

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subordination period has ended. At the closing of this offering, our Parent will own our general partner and 100% of our outstanding subordinated units.

Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

Under Section 17-607 and 17-804 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. 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. We do not expect this prohibition to limit our ability to make cash distributions for the four quarters ending March 31, 2008 at the initial quarterly distribution rate of $0.3375 per unit per quarter on all units.

We may lack sufficient cash to pay distributions to our unitholders due to a number of factors, including reduced demand for our midstream services, increases in our general and administrative expenses, principal and interest payments on our outstanding debt, tax expenses, working capital requirements and anticipated cash needs.

Our Ability to Grow is Dependent on Our Ability to Access External Expansion Capital. We expect that we will distribute all of our available cash to our unitholders. As a result, we expect that we will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, rather than cash reserves established by our general partner, to fund our acquisitions and expansion capital expenditures. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow. In addition, because we distribute all of our available cash, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level, which in turn may impact the available cash that we have to distribute on each unit. There are no limitations in our partnership agreement or our credit facility on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which in turn may impact the available cash that we have to distribute to our unitholders.

Our Initial Distribution Rate

Upon completion of this offering, the board of directors of our general partner will adopt a cash distribution policy that will require us to pay distributions at an initial distribution rate of $0.3375 per unit per complete quarter, or $1.35 per unit per year, no later than 45 days after the end of each fiscal quarter through the quarter ending , 2008 to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. This equates to an aggregate cash distribution of approximately $7.1 million per quarter or $28.5 million per year, in each case based on the number of common units, subordinated units and general partner units outstanding immediately after completion of this offering. If the underwriters exercise their over-allotment option in full, the ownership interest of the public unitholders will increase to 14,375,000 common units representing an aggregate 62.5% limited partner interest in us and our aggregate cash distribution per quarter would be $7.8 million or $31.0 million per year. Our ability to make cash distributions at the initial distribution rate pursuant to this policy will be subject to the factors described above under the caption General Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy.

As of the date of this offering, our general partner will be entitled to 2% of all distributions that we make prior to our liquidation. In the future, the general partner s initial 2% interest in these distributions may be reduced if we issue additional units in the future (other than the issuance of common units upon exercise by the

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underwriters of their over-allotment option, the issuance of partnership securities issued in connection with a reset of the incentive distribution target levels relating to our general partner s incentive distribution rights or the issuance of partnership securities upon conversion of outstanding partnership securities) and our general partner does not contribute a proportionate amount of capital to us to maintain its initial 2% general partner interest. Our general partner is not obligated to contribute a proportionate amount of capital to us to maintain its current general partner interest.

The table below sets forth the assumed number of outstanding common units (assuming no exercise and full exercise of the underwriters over-allotment option), subordinated units and general partner units upon the closing of this offering and the aggregate distribution amounts payable on such units during the year following the closing of this offering at our initial distribution rate of $0.3375 per common unit per quarter ($1.35 per common unit on an annualized basis).

	No Exercise of the Underwriters Over-allotment Option			Full Exercise of the Underwriters Over-allotment Option		
	Number of	Distributions		Number of	Distributions	
	Units	One Quarter	Four Quarters	Units	One Quarter	Four Quarters
Publicly held common units	12,500,000	$ 4,218,750	$ 16,875,000	14,375,000	$ 4,851,563	$ 19,406,250
Subordinated units held by SemGroup Holdings	8,155,194	2,752,378	11,009,512	8,155,194	2,752,378	11,009,512
General partner units held by SemGroup Holdings	421,535	142,268	569,072	459,800	155,182	620,730
Total	21,076,729	$ 7,113,396	$ 28,453,584	22,989,994	$ 7,759,123	$ 31,036,492

The subordination period generally will end if we have earned and paid at least $1.35 on each outstanding unit and general partner unit for any three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2010. If we have earned and paid at least $2.025 (150% of the annualized minimum quarterly distribution) on each outstanding common unit, subordinated unit and general partner unit for any four-quarter period, the subordination period will terminate automatically and all of the subordinated units will convert into an equal number of common units. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

We do not have a legal obligation to pay distributions at our initial distribution rate or at any other rate except as provided in our partnership agreement. Our distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly. Under our partnership agreement, available cash is defined to generally mean, for each fiscal quarter, cash generated from our business in excess of expenses and the amount of reserves our general partner determines is necessary or appropriate to provide for the conduct of our business, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders for any one or more of the upcoming four quarters. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions.

If distributions on our common units are not paid with respect to any fiscal quarter at the initial distribution rate, our unitholders will not be entitled to receive such payments in the future except that, to the extent we have available cash in any future quarter during the subordination period in excess of the amount necessary to make cash distributions to holders of our common units at the initial distribution rate, we will use this excess available cash to pay these deficiencies related to prior quarters before any cash distribution is made to holders of subordinated units. Please see Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

Our partnership agreement provides that any determination made by our general partner in its capacity as our general partner must be made in good faith and that any such determination will not be subject to any other standard imposed by our partnership agreement, the Delaware limited partnership statute or any other law, rule or regulation or imposed at equity. Holders of our common units may pursue judicial action to enforce provisions of

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our partnership agreement, including these related to requirements to make cash distributions as described above; however, our partnership agreement provides that our general partner is entitled to make the determinations described above without regard to any standard other than the requirements to act in good faith. Our partnership agreement provides that, in order for a determination by our general partner to be made in good faith, our general partner must believe that the determination is in our best interests.

Our cash distribution policy, as expressed in our partnership agreement, may not be modified or repealed without amending our partnership agreement. The actual amount of our cash distributions for any quarter is subject to fluctuations based on the amount of cash we generate from our business and the amount of reserves our general partner establishes in accordance with our partnership agreement as described above.

We will pay our distributions on or about the 15th of each of February, May, August and November to holders of record on or about the 1st of each such month. If the distribution date does not fall on a business day, we will make the distribution on the business day immediately preceding the indicated distribution date. We will adjust the quarterly distribution for the period from the closing of this offering through , 2007 based on the actual length of the period.

In the sections that follow, we present in detail the basis for our belief that we will be able to fully fund our initial distribution rate of $0.3375 per unit each quarter for the four quarters ending March 31, 2008. In those sections, we present two tables, consisting of:

- Unaudited Pro Forma Available Cash, in which we present the amount of cash we would have had available for distribution for the year ended December 31, 2006, based on our unaudited pro forma financial statements.

- Estimated Cash Available for Distribution, in which we present how we calculate the estimated minimum EBITDA necessary for us to have sufficient cash available for distribution to pay the full minimum quarterly distribution on all outstanding units for the four quarters ending March 31, 2008. In Assumptions and Considerations below, we also present our assumptions underlying our belief that we will generate sufficient EBITDA to pay the minimum quarterly distribution on all outstanding units for each quarter for the four quarters ending March 31, 2008.

Unaudited Pro Forma Available Cash for the Year Ended December 31, 2006

If we had completed the transactions contemplated in this prospectus on January 1, 2006, our pro forma available cash for the year ended December 31, 2006 would have been approximately $26.0 million. This amount would have been sufficient to make a cash distribution for the year ended December 31, 2006 at the initial distribution rate of $0.3375 per unit per quarter (or $1.35 per unit on an annualized basis) on all of the common units and a cash distribution of $0.2634 per unit per quarter (or $1.05 on an annualized basis) or 78% of the minimum quarterly distribution on all of the subordinated units.

Our unaudited pro forma available cash assumes that the underwriters do not exercise their over-allotment option. The underwriters may or may not elect to exercise this option. Because we will use the proceeds from the exercise of the over-allotment option to reduce outstanding indebtedness, our pro forma available cash for the year ended December 31, 2006 will increase by $2.8 million to $28.8 million if the underwriters exercise their over-allotment option in full. This amount would have been sufficient to make a cash distribution for the year ended December 31, 2006 at the initial distribution rate of $0.3375 per unit per quarter (or $1.35 per unit on an annualized basis) on all of the common units and a cash distribution of $0.2702 per unit per quarter (or $1.08 on an annualized basis) or 80% of the minimum quarterly distribution on all of the subordinated units.

Unaudited pro forma available cash from operating surplus includes an incremental general and administrative expense we will incur as a result of being a publicly traded limited partnership, including compensation and benefit expenses of our executive management personnel, costs associated with annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor

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fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. We expect this incremental general and administrative expense initially to total approximately $2.9 million per year. These direct, incremental general and administrative expenditures are not reflected in our historical or pro forma financial statements.

We based the pro forma adjustments upon currently available information and specific estimates and assumptions. The pro forma amounts below do not purport to present our results of operations had the transactions contemplated in this prospectus actually been completed as of the dates indicated. In addition, cash available to pay distributions is primarily a cash accounting concept, while our unaudited pro forma financial statements have been prepared on an accrual basis. As a result, you should view the amount of pro forma available cash only as a general indication of the amount of cash available to pay distributions that we might have generated had we been formed in earlier periods.

The following table illustrates, on a pro forma basis, for the year ended December 31, 2006, the amount of available cash that would have been available for distributions to our unitholders, assuming that the formation transactions had been consummated on January 1, 2006 and that the underwriters do not exercise their over-allotment option. Each of the pro forma adjustments presented below is explained in the footnotes to such adjustments.

SemGroup Energy Partners, L.P. Unaudited Pro Forma Available Cash

	Year Ended December 31, 2006 (dollars in thousands, except per unit data)
Pro forma net income [1]	$ 28,747
Add:	
Pro forma interest expense (including amortization of debt issuance costs)[2]	11,053
Pro forma depreciation and amortization[2]	8,597
Pro forma EBITDA[3]	48,397
Less:	
Incremental general and administrative expense of being a public company[4]	2,850
Incremental incentive compensation expense[5]	1,996
Pro forma cash interest expense[6]	11,593
Maintenance capital expenditures[7]	5,922
Expansion capital expenditures[8]	35,553
Principal payments on capital lease obligations	2,143
Add:	
Capital contribution to fund expansion capital expenditures[9]	35,553
Capital contribution to fund principal payments on capital lease obligations[10]	2,143
Pro forma cash available for distribution	$ 26,036
Distributions per unit[11]	$ 1.35
Pro forma distributions for four quarters to:	
Publicly held common units[11]	$ 16,875
Subordinated units held by SemGroup Holdings[11]	11,010
General partner units held by our general partner[11]	569
Total minimum distributions for four quarters[11]	28,454
Surplus (shortfall)	$ (2,418)

Percent of minimum quarterly distributions payable to common unitholders	100%
Percent of minimum quarterly distributions payable to subordinated unitholders	78%
Interest coverage ratio(12)	4.4x
Leverage ratio(12)	3.0x

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(1) Reflects our pro forma net income for the period indicated and gives effect to the Throughput Agreement, the Omnibus Agreement and the other formation transactions. The pro forma adjustment to give effect to the Throughput Agreement is based on actual gathering, transportation, terminalling and storage services provided on an intercompany basis during the period at rates specified in such agreement. Please see our unaudited pro forma financial statements included elsewhere in this prospectus.

(2) Reflects adjustments to reconcile pro forma net income to pro forma EBITDA.

(3) EBITDA is defined as net income before interest, income taxes, depreciation and amortization. We have provided EBITDA in this prospectus because we believe it provides investors with additional information to measure our performance. EBITDA is not a presentation made in accordance with GAAP. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Please see Summary Non-GAAP Financial Measures.

(4) Reflects an adjustment to our pro forma EBITDA for an estimated incremental cash expense associated with being a publicly traded limited partnership, including costs associated with annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and independent director compensation.

(5) Our predecessor s incentive compensation has historically been paid based on EBITDA. Reflects an adjustment of discretionary incentive compensation based on pro forma EBITDA.

(6) Reflects the interest expense related to $137.5 million in borrowings under our new five-year credit facility at an assumed annual interest rate of 8% and the interest expense on capital lease obligations, including capitalized interest of $1.1 million and excluding $0.6 million in amortization of debt issuance costs. If the interest rate used to calculate the interest on our credit facility borrowings were 1% higher or lower, our annual cash interest cost would increase or decrease, respectively, by $1.4 million.

(7) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. Maintenance capital expenditures for the year ended December 31, 2006 include certain one-time costs incurred in connection with initial compliance with pipeline integrity rules.

(8) Expansion capital expenditures are made to acquire additional assets to grow our business, to expand and upgrade our systems and facilities and to construct or acquire similar systems or facilities. Expansion capital expenditures for the year ended December 31, 2006 consisted primarily of our Parent s acquisition of the assets of Big Tex Crude Oil Company, or Big Tex, a crude oil gathering, transportation and marketing company located in Abilene and Midland, Texas, and in Hobbs, New Mexico, for total consideration of approximately $15.5 million and expenditures for the construction of additional crude oil storage capacity primarily at our Cushing terminal. Approximately $9.8 million of the assets from the Big Tex acquisition, consisting primarily of equipment, vehicles and intangibles related to customer relationships and non-compete agreements, are included in our predecessor s financial statements and will be contributed to us.

(9) Represents cash provided by our Parent to fund expansion capital expenditures, as described in the preceding footnote.

(10) Represents cash provided by our Parent to fund capital lease obligations.

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(11) The table below assumes no exercise of the underwriters over-allotment option and sets forth the assumed number of outstanding common units, subordinated units and general partner units upon the closing of this offering and the estimated per unit and aggregate distribution amounts payable on our common units, subordinated units and general partner units for four quarters at our initial distribution rate of $0.3375 per common unit per quarter ($1.35 per common unit on an annualized basis).

		No Exercise of the Over-allotment Option	
	Number of Units	One Quarter	Four Quarters
Publicly held common units	12,500,000	$ 4,218,750	$ 16,875,000
Subordinated units held by SemGroup Holdings	8,155,194	2,752,378	11,009,512
General partner units held by SemGroup Holdings	421,535	142,268	569,072
Total	21,076,729	$ 7,113,396	$ 28,453,584

(12) We will enter into a new credit facility that we expect will contain covenants limiting our ability to make distributions, incur indebtedness, grant liens and engage in transactions with affiliates. Furthermore, we expect that our credit facility will contain covenants requiring us to maintain a ratio of consolidated indebtedness to consolidated EBITDA of not more than 5.00 to 1.00 and a ratio of consolidated EBITDA to consolidated interest expense of not less than 2.75 to 1.00. Any subsequent replacement of our credit facility or any new indebtedness could have similar or greater restrictions.

Estimated Cash Available for Distribution for the Twelve Months Ending March 31, 2008

As a result of the factors described in this Estimated Cash Available for Distribution for the Twelve Months Ending March 31, 2008 and Assumptions and Considerations below, we believe we will be able to pay the minimum quarterly distribution on all of our common units, subordinated units and general partner units for each quarter in the twelve months ending March 31, 2008, based on assumptions we believe to be reasonable. Our estimated cash available for distribution is prepared on a basis consistent with the accounting principles used in the historical financial statements of our predecessor and includes revenues attributable to the Throughput Agreement. Our estimated cash available for distribution also incorporates the effect of our Parent s retention of certain crude oil gathering and transportation assets in areas in which we will operate.

In order to pay the minimum quarterly distribution on all our common units, subordinated units and general partner units of $0.3375 per unit per complete quarter for four quarters, we estimate that our EBITDA for the twelve months ending March 31, 2008 must be at least $43.2 million. EBITDA should not be considered an alternative to net income, operating income, cash flows from operating activities or any other measure of financial performance calculated in accordance with GAAP, as those items are used to measure our operating performance, liquidity or ability to service debt obligations. Please see Summary Non-GAAP Financial Measures for an explanation of EBITDA and a reconciliation of EBITDA to net income, its most directly comparable financial measure calculated in and presented in accordance with GAAP.

We also anticipate that if our EBITDA for such period is at or above our estimate, we would be permitted to make the minimum quarterly distributions on all the common units, subordinated units and general partner units under the applicable covenants, if any, under our new five-year credit facility.

We believe we will generate estimated EBITDA of $45.9 million for the twelve months ending March 31, 2008. You should read Assumptions and Considerations below for a discussion of the material assumptions underlying this belief, which reflect our judgment of conditions we expect to exist and the course of action we expect to take. If our estimate is not achieved, we may not be able to pay the minimum quarterly distribution on all of our units. We believe our actual results of operations and cash flows will approximate those reflected in the prospective financial information; however, we can give you no assurance that our assumptions will be realized or that we will generate the $43.2 million in EBITDA required to pay the minimum quarterly distribution on all

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our common units, subordinated units and general partner units. There likely will be differences between our estimates and the actual results we will achieve and those differences could be material. If we do not generate the estimated minimum EBITDA or if our maintenance capital expenditures or interest expense are higher than estimated, we may not be able to pay the minimum quarterly distribution on all units.

When considering our ability to generate our estimated EBITDA of $45.9 million, you should keep in mind the risk factors and other cautionary statements under the heading Risk Factors and elsewhere in this prospectus. Any of these factors or the other risks discussed in this prospectus could cause our results of operations and cash available for distribution to our unitholders to vary significantly from those set forth below.

Our estimated cash available for distribution assumes that the underwriters do not exercise their over-allotment option. The underwriters may or may not elect to exercise this option. Because we will use the proceeds from the exercise of the over-allotment option to reduce outstanding indebtedness, our cash available for distribution will increase by $2.8 million as a result of the reduced interest expense. This amount is offset in part by the $2.7 million of cash required to make distributions on the additional common and general partner units.

We do not as a matter of course make public projections as to future operations, earnings or other results. However, we have prepared the prospective financial information and related assumptions and conditions set forth below to present the estimated cash available for distribution for the twelve months ending March 31, 2008. The accompanying prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments and presents, to the best of our knowledge and belief, the expected course of action and our expected future financial performance. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus are cautioned not to place undue reliance on the prospective financial information.

The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, our management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this prospectus relates to the historical information of SemGroup Energy Partners, L.P. Predecessor. It does not extend to the prospective financial information and should not be read to do so.

We do not undertake any obligation to release publicly the results of any future revisions we may make to the financial forecast or to update this financial forecast or the assumptions used to prepare the forecast to reflect events or circumstances after the date in this prospectus. In light of the above, the statement that we believe that we will have sufficient cash available for distribution to allow us to make the full minimum quarterly distribution on all of our outstanding common units, subordinated units and general partner units for each quarter through March 31, 2008 should not be regarded as a representation by us or the underwriters or any other person that we will make such a distribution. Therefore, you are cautioned not to place undue reliance on this information.

The following table shows how we calculate the estimated EBITDA for the twelve months ending March 31, 2008, which we believe will allow us to pay the minimum quarterly distribution on all our common units, subordinated units and general partner units for each quarter in such period. Our estimated EBITDA is based on the projected results of operations from all of our operating subsidiaries for the twelve months ending March 31, 2008. The assumptions that we have made that we believe are relevant to particular line items in the table below are explained in the corresponding footnotes set forth in Assumptions and Considerations.

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SemGroup Energy Partners, L.P.

Estimated Cash Available for Distribution

		Twelve Months Ending March 31, 2008 (dollars in millions, except per unit data)
Total service revenues	$	104.9
Operating expense		61.3
General and administrative expense		7.9
Interest expense (including amortization of debt issuance costs)		12.1
Net income		23.6
Adjustments to reconcile net income to estimated EBITDA:		
Add:		
Depreciation and amortization expense		10.2
Interest expense, net		12.1
Estimated EBITDA(1) (2)		45.9
Adjustments to reconcile estimated EBITDA to estimated cash available for distribution:		
Less:		
Cash interest expense (including capital lease obligations)		11.5
Expansion capital expenditures		0.5
Maintenance capital expenditures		3.2
Principal payments on capital lease obligations		1.8
Add:		
Contributions from our Parent to fund expansion capital expenditures		0.5
Borrowings to fund principal payments on capital lease obligations		1.8
Estimated cash available for distribution	$	31.2
Per unit minimum annual distribution	$	1.35
Annual distributions to:		
Publicly held common units	$	16.9
Subordinated units held by SemGroup Holdings		11.0
General partner units held by our general partner		0.6
Total minimum annual cash distributions		28.5
Excess of cash available for distributions over minimum annual distributions	$	2.7
Calculation of minimum estimated EBITDA necessary to pay minimum annual cash distributions:		
Estimated EBITDA	$	45.9
Less:		
Excess of cash available for distributions over minimum annual distributions		2.7

Minimum estimated EBITDA necessary to pay minimum, annual cash distributions	$	43.2
Interest coverage ratio[(3)]		3.8x
Leverage ratio[(3)]		3.1x

(1) EBITDA is defined as net income before interest, income taxes, depreciation and amortization. We have provided EBITDA in this prospectus because we believe it provides investors with additional information to measure our performance. EBITDA is not a presentation made in accordance with GAAP. Because EBITDA excludes some, but not all, items that affect net income and is defined differently by different companies in our industry, our definition of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA has important limitations as an analytical tool, and you should not consider it in

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isolation, or as a substitute for analysis of our results as reported under GAAP. Please see Summary Non-GAAP Financial Measures.

(2) The following table sets forth, on a quarterly basis, how we calculate estimated EBITDA for each of the four quarters in the twelve-month period ending March 31, 2008. Our quarterly forecast is based on the same assumptions utilized for the preparation of the forecast for the twelve-month period ending March 31, 2008. Based on such assumptions, we believe that our results for each of the four quarters in the twelve-month period ending March 31, 2008 will be generally consistent from quarter to quarter.

	Quarter Ending			
	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
	(dollars in millions, except per unit data)			
Total service revenues	$ 26.2	$ 26.2	$ 26.2	$ 26.3
Operating expense	15.3	15.3	15.3	15.4
General and administrative expense	2.0	2.0	2.0	2.0
Interest expense (including amortization of debt issuance cost)	3.0	3.0	3.0	3.0
Net income	5.9	5.9	5.9	5.9
Adjustments to reconcile net income to estimated EBITDA:				
Add:				
Depreciation and amortization expense	2.5	2.5	2.5	2.5
Interest expense, net	3.0	3.0	3.0	3.0
Estimated EBITDA	11.5	11.5	11.5	11.5
Adjustments to reconcile estimated EBITDA to estimated cash available for distribution:				
Less:				