

PAA NATURAL GAS STORAGE LP

Form S-1

January 25, 2010

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As filed with the Securities and Exchange Commission on January 25, 2010
Registration No. 333-

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

PAA Natural Gas Storage, L.P.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

4922
*(Primary Standard Industrial
Classification Code Number)*

27-1679071
*(I.R.S. Employer
Identification Number)*

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Houston, Texas 77002
(713) 646-4100**
*(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

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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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common units representing limited partner interests	\$200,000,000	\$14,260

(1) Includes common units issuable upon exercise of the underwriters' option to purchase additional common units.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o).

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 preliminary 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 preliminary 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 JANUARY 25, 2010

PRELIMINARY PROSPECTUS

PAA Natural Gas Storage, L.P.

**Common Units
Representing Limited Partner Interests**

This is the initial public offering of our common units. We currently estimate that the initial public offering price will be between \$ and \$ per common unit. Prior to this offering, there has been no public market for our common units. We intend to apply to list our common units on the New York Stock Exchange under the symbol PNG.

Investing in our common units involves risks. Please read Risk Factors beginning on page 23. These risks include the following:

We may not have sufficient cash following the establishment of reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to pay the minimum quarterly distribution to holders of our common units and Series A subordinated units.

Plains All American Pipeline, L.P., or PAA, owns and controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our general partner and its affiliates, including PAA, have conflicts of interest with us and limited fiduciary duties, and may favor their own interests to your detriment.

Increased competition from other companies that provide natural gas storage services or services that can substitute for storage services could have a negative impact on the demand for our services, which could adversely affect our financial results.

Our natural gas storage operations are subject to regulation by federal, state and local regulatory authorities; regulatory measures adopted by such authorities could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions.

We may not be able to maintain or replace expiring storage contracts.

We may not be able to achieve our current expansion plans at our Pine Prairie facility on economically viable terms.

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.

Upon the closing of the offering, investors in our common units will experience immediate and substantial dilution in pro forma net tangible book value of \$ per common unit.

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

	Price to Public	Underwriting Discounts(1)	Proceeds to PAA Natural Gas Storage, L.P.
Per Common Unit	\$	\$	\$
Total	\$	\$	\$

(1) Excludes expenses equal to % of the gross proceeds of this offering, or approximately \$.

We have granted the underwriters a 30-day option to purchase up to an additional common units from us on the same terms and conditions as set forth above if the underwriters sell more than common units in this offering. If the underwriters exercise their option to purchase additional common units, we will sell such common units to the underwriters and redeem the same number of units from PAA.

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

The underwriters expect to deliver the common units on or about , 2010.

Barclays Capital

UBS Investment Bank

, 2010

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Map and pictures of facilities to come

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You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. We and the underwriters are offering to sell, and seeking offers to buy, our common units only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common units. Until _____, 2010 (25 days after the date of this prospectus), all dealers that effect transactions in our common units, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers 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 Risk Factors beginning on page 23 and the historical financial statements and the notes to those financial statements. The information in this prospectus assumes (1) an initial public offering price of \$ per common unit and (2) unless otherwise indicated, that the underwriters option to purchase additional common units is not exercised. We include a glossary of some of the terms used in this prospectus as Appendix B.

References in this prospectus to PAA Natural Gas Storage, L.P., the Partnership, PNGS, we, us, our or similar when used in a historical context refer to the business of PAA Natural Gas Storage, LLC and its subsidiaries, which will be contributed to PAA Natural Gas Storage, L.P. in connection with this offering. When used in the present tense or prospectively, those terms refer to PAA Natural Gas Storage, L.P. and its subsidiaries. References in this prospectus to our general partner refer to PNGS GP LLC. Unless the context indicates otherwise, (i) all references to Plains All American or PAA refer to Plains All American Pipeline, L.P., the ultimate parent company of our general partner and its subsidiaries and affiliates, other than PAA Natural Gas Storage, L.P. and our general partner and their respective subsidiaries, as of the closing date of this offering, (ii) all references to volumes of storage capacity are expressed in billions of cubic feet of natural gas, or Bcf, and are approximations that have been rounded to the nearest Bcf and (iii) all references to capacity mean working gas storage capacity.

PAA Natural Gas Storage, L.P.

Overview

We are a fee-based, growth-oriented Delaware limited partnership formed by Plains All American to own, operate and grow the natural gas storage business that PAA acquired in 2005 and has continuously operated since that time. Our business consists of the acquisition, development, operation and commercial management of natural gas storage facilities. We currently own and operate two natural gas storage facilities located in Louisiana and Michigan that have an aggregate working gas storage capacity of 40 Bcf and an aggregate peak injection and withdrawal capacity of 1.7 Bcf per day and 3.2 Bcf per day, respectively. We also lease storage capacity and pipeline transportation capacity from third parties from time to time in order to increase our operational flexibility and enhance the services we offer our customers. As of December 31, 2009, we had 3 Bcf of storage capacity under lease from third parties and had secured the right to 379 MMcf per day of firm transportation service on various pipelines. Substantially all of our revenues are derived from the provision of firm storage services under multi-year, fee-based contracts.

Our business has expanded rapidly since its inception in 2005, primarily through organic growth initiatives. We have grown our storage capacity from 20 Bcf as of December 31, 2005 to 40 Bcf as of December 31, 2009, and we expect this growth to continue at a rapid pace as we complete our planned expansions over the next several years. Our expansion plans include an additional 31 Bcf of working gas storage capacity, 28 Bcf of which we expect to place into service by mid-2012, including 10 Bcf of new capacity that is substantially complete and that we currently expect to place into service during the second quarter of 2010. Our target is to increase our total capacity to 68 Bcf by mid-2012, representing a 70% increase in storage capacity from year-end 2009 levels. Through our current assets and proposed expansions, we believe we are well-positioned to benefit from the anticipated long-term growth in demand for natural gas storage capacity and services in North America.

Our Assets

We own 100% of the Pine Prairie facility, which is a recently constructed, high-deliverability salt-cavern natural gas storage complex located in Evangeline Parish, Louisiana, and 100% of the Bluewater facility, which is a depleted reservoir natural gas storage complex located approximately 50 miles from Detroit in

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St. Clair County, Michigan. The following table contains certain information regarding our Pine Prairie and Bluewater storage facilities:

Facility Name and Type	Working Gas Capacity (Bcf)	Peak Injection Rate (Bcf/d)	Peak Withdrawal Rate (Bcf/d)	Compression (Horsepower)
Pine Prairie (salt-cavern)				
Existing facility	14	1.2	2.4	32,000
Planned expansion	31(1)	1.2(2)	0.8(2)	56,250(3)
Subtotal:	45	2.4	3.2	88,250
Bluewater (depleted reservoir)				
Existing facility	26	0.5	0.8	13,350
Planned expansion	2(4)			
Subtotal:	28	0.5	0.8	13,350
Total (both facilities):	73	2.9	4.0	101,600

- (1) We expect to place 10 Bcf into service in the second quarter of 2010, 18 Bcf by mid-2012 and the final 3 Bcf will be added ratably through 2015.
- (2) We expect to complete these expansions of peak injection and withdrawal capabilities by mid-2011.
- (3) Of this aggregate expected increase in compression, 16,000 horsepower is on location with installation targeted for April 2010. With respect to the remaining compression capacity, we expect 23,000 horsepower to be in place by mid-2011 and an additional 17,250 horsepower to be in place by mid-2012.
- (4) We expect to place this expansion in working gas capacity into service ratably over a 10-year period beginning in 2011 in connection with a planned liquids removal project.

Pine Prairie. As a strategically located, high-deliverability storage facility, Pine Prairie has attracted a diverse group of customers whose storage needs include both traditional seasonal storage services and short-term storage services. Pine Prairie is strategically positioned relative to several major market hubs, including:

the Henry Hub, which is the delivery point for NYMEX natural gas futures contracts and is located approximately 50 miles to the southeast of Pine Prairie;

the Carthage Hub in east Texas, which is located approximately 150 miles northwest of Pine Prairie; and

the Perryville Hub in north Louisiana, which is located approximately 130 miles north of Pine Prairie.

Pine Prairie's pipeline header system, which includes an aggregate of 74 miles of 24-inch diameter pipe located within a 20-mile radius of Pine Prairie, is directly connected to eight large-diameter interstate pipelines through nine interconnects that service both conventional and unconventional natural gas production in Texas and Louisiana, including production from existing and emerging shale plays, as well as Gulf of Mexico production and liquefied natural gas (LNG) imports. These interconnects also provide direct or indirect access to each of the market hubs described above and to consumer and industrial markets in the Gulf Coast, Midwest, Northeast and Southeast regions of the United States. This interconnectivity, combined with existing compression capacity and approximately 50 MMcf per day of leased third-party pipeline transportation capacity as of December 31, 2009, gives Pine Prairie the operational flexibility to receive from and deliver to multiple pipelines simultaneously.

Pine Prairie has a total current working gas storage capacity of 14 Bcf in two caverns, and planned expansions that will increase Pine Prairie's total capacity to 42 Bcf by mid-2012 and 45 Bcf by mid-2015 (see table above), making it one of the largest high-deliverability salt-cavern natural gas storage facilities in North America. Subject to market demand, project execution, sufficient pipeline capacity, available financing and receipt of future permits, we have the property rights and operational capacity to expand our Pine Prairie facility significantly beyond our current permitted capacity of 48 Bcf. Taking these considerations into account

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and with certain infrastructure modifications, we currently estimate that Pine Prairie could support in excess of 15 salt caverns and an aggregate storage capacity of over 150 Bcf.

Bluewater. Bluewater is located in the State of Michigan, which contains more natural gas storage capacity than any other state in the U.S., and primarily services seasonal storage needs throughout the Midwestern and Northeastern portions of the U.S. and the Southeastern portion of Canada. Accordingly, Bluewater's customers consist primarily of pipelines, utilities and marketers seeking seasonal storage services. Bluewater's 30-mile, 20-inch diameter pipeline header system is supported by 13,350 horsepower of compression and is connected to three interstate and three intrastate natural gas pipelines that provide access to the major market hubs of Chicago, Illinois and Dawn, Ontario, which supply natural gas to eastern Ontario and the northeastern United States. These interconnects also provide access to natural gas utilities that serve local markets in Michigan and Ontario.

As indicated in the table above, Bluewater has total working gas storage capacity of approximately 26 Bcf in two depleted reservoirs and we expect to increase Bluewater's working gas capacity by 2 Bcf ratably over a 10-year period beginning in 2011 as a result of a planned liquids removal project. Bluewater also leases third-party storage capacity and pipeline transportation capacity from time to time to increase its operational flexibility and enhance its service offerings. As of December 31, 2009, we had leased approximately 3 Bcf of additional capacity at third-party natural gas storage facilities as well as 329 MMcf per day of related pipeline transportation capacity.

Our Operations

We provide natural gas storage services to a broad mix of customers, including local gas distribution companies, or LDCs, electric utilities, pipelines, direct industrial users, electric power generators, marketers, producers, LNG importers and affiliates of such entities. Our storage rates are regulated under Federal Energy Regulatory Commission, or FERC, rate-making policies, which currently permit our facilities to charge market-based rates for our services.

We generate revenue almost exclusively through the provision of fee-based gas storage services to our customers. For the year ended December 31, 2009, approximately 99% of our total revenue was derived from fee-based storage activities, with the remaining approximately 1% primarily attributable to the sale of liquid hydrocarbons incidentally produced in connection with the operation of our depleted reservoir storage facilities at Bluewater. Our revenues from fee-based gas storage services are derived from both firm storage services and hub services.

Firm Storage Services. Firm storage services include (i) storage services pursuant to which customers receive the assured or firm right to store gas in our facilities over a multi-year period and (ii) seasonal park and loan services pursuant to which customers receive the firm right to store gas in (park), or borrow gas from (loan), our facilities on a seasonal basis. Under our firm storage contracts, our customers are obligated to pay us fixed monthly capacity reservation fees, which are owed to us regardless of the actual storage capacity utilized. At Pine Prairie, our firm storage contracts typically have terms of 3 to 5 years, while at Bluewater terms generally range from 1 to 3 years. Effective as of April 1, 2010, the weighted average remaining tenor of our existing portfolio of firm storage contracts will be approximately 3.9 years at Pine Prairie and approximately 2.2 years at Bluewater. Under our firm storage contracts, we also typically collect a cycling fee based on the volume of natural gas nominated for injection and/or withdrawal and retain a small portion of natural gas nominated for injection as compensation for our fuel use. For the year ended December 31, 2009, approximately 92% of our total revenue was derived from firm storage services.

Hub Services. We also generate revenue from the provision of hub services at our facilities. Hub services include (i) interruptible storage services pursuant to which customers receive only limited assurances regarding the availability of capacity in our storage facilities and pay fees based on their actual utilization of our assets, (ii) non-seasonal park and loan services and (iii) wheeling and balancing services pursuant to which customers

pay fees for the right to move a volume of gas through our facilities from one interconnection point to another and true up their deliveries of gas to, or

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takeaways of gas from our facilities. For the year ended December 31, 2009, approximately 7% of our total revenue was derived from hub services.

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

Our Business Strategy

Our principal business strategy is to capitalize on the anticipated long-term growth in demand for natural gas storage services in North America by owning and operating high-quality natural gas storage facilities and providing our current and future customers reliable, competitive and flexible natural gas storage and related services. In executing this strategy, we intend to expand the scope and scale of our business, grow our earnings and cash flow and increase the amount of cash distributions we make to our unitholders over time. Our plan for executing this strategy includes the following key components:

Optimizing our existing natural gas storage facilities. We are constantly seeking to optimize the performance and profitability of our existing natural gas storage facilities. Our primary commercial objective is to generate a significant portion of our revenues by committing a high percentage of our storage capacity under multi-year firm storage contracts at attractive rates. Effective as of April 1, 2010, approximately 93% of our owned and leased total working gas capacity, which includes the 10 Bcf of additional capacity expected to be placed into service during the second quarter of 2010, was committed under our existing portfolio of firm storage contracts with a weighted average remaining tenor of approximately 3.9 years at Pine Prairie and approximately 2.2 years at Bluewater. We also provide our customers with a variety of hub services that are designed to accommodate customer needs, maximize the utilization of our assets and optimize our earnings and cash flow. Operationally, we seek to optimize our profitability by executing various initiatives that increase our efficiency, reliability and flexibility.

Organically expanding our existing natural gas storage facilities. Our existing assets enable us to expand our storage capacity on what we believe to be attractive economic terms. Our current expansion plans include the addition of 31 Bcf of working gas storage capacity at our Pine Prairie facility, 28 Bcf of which we expect to place into service by mid-2012, including 10 Bcf of new capacity that is substantially complete and that we currently expect to place into service during the second quarter of 2010. Subject to market demand, project execution, sufficient pipeline capacity, available financing and receipt of future permits, we have the property rights and operational capacity to expand our Pine Prairie facility significantly beyond our current permitted capacity of 48 Bcf. Taking these considerations into account and with certain infrastructure modifications, we currently estimate that Pine Prairie could support in excess of 15 salt caverns and an aggregate storage capacity of over 150 Bcf. In addition, we are currently pursuing a liquids removal project to expand our storage capacity at our Bluewater facility by 2 Bcf ratably over a 10-year period beginning in 2011.

Pursuing strategic and accretive acquisition or development projects. We continually evaluate opportunities to acquire or develop new natural gas storage facilities in our existing and new markets. In general, we are seeking acquisition or development opportunities that will be accretive (or result in an increase in distributable cash flow on a per unit basis) and that will add natural gas storage assets or facilities that either complement our existing assets or strategically enhance our overall business by facilitating our entry into a desirable new market, diversifying our customer base or positioning us for future growth. Working with PAA, we are currently involved in discussions and, in certain cases, negotiations, with a number of potential sellers regarding the purchase of natural gas storage assets. Although there can be no assurances that viable

acquisition or development opportunities will continue to be available to us or that we will ultimately be able to consummate any of the transactions currently being considered, we believe the combination of strong long-term fundamentals for natural gas demand

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and storage services coupled with the fragmented nature of the gas storage business creates an environment that will continue to provide a variety of acquisition and/or development opportunities for us to consider. In addition, over time and working in conjunction with PAA, we intend to evaluate opportunities to acquire or develop other natural gas-related assets or businesses that complement our natural gas storage business and allow us to leverage our asset base and industry experience.

Leasing storage capacity and transportation services from third parties to enhance operational flexibility. In order to supplement our owned storage capacity, increase our operating flexibility, enhance the services that we are capable of offering to our customers and optimize the commercial performance of our assets, we periodically lease storage and/or transportation capacity from third parties. As of December 31, 2009, we had 3 Bcf of storage capacity under lease from third parties and had secured the right to 379 MMcf per day of firm transportation service on various pipelines.

Utilizing a portion of our owned and leased storage capacity to enhance our commercial management activities. Similar to the business model successfully employed by PAA, and without altering our basic commercial strategy of committing a high percentage of our storage capacity under multi-year firm storage contracts at attractive rates, we intend to establish a dedicated commercial marketing group that will capture short-term market opportunities by utilizing a portion of our owned or leased storage capacity for our own account and engaging in related commercial marketing activities. Consistent with PAA's experience marketing crude oil and refined products, we anticipate that having a dedicated commercial marketing group that has a consistent presence in our markets will enhance our ability to properly price our storage and hub service offerings and will increase our earnings by capitalizing on volatility and inefficiencies in the natural gas markets. We will conduct these commercial activities within pre-defined risk parameters, and our general policy will be (i) to purchase natural gas only in situations where we have a market for such gas, (ii) to utilize physical natural gas inventory and financial derivatives to manage and optimize seasonal and spread risks inherent in our operations and commercial management activities and to structure our transactions so that commodity price fluctuations will not have a material adverse impact on our cash flow and (iii) not to acquire or hold natural gas, futures contracts or other derivative products for the purpose of speculating on outright commodity price changes.

Our Financial Strategy

Important factors to successfully grow our business will be our ability to maintain a competitive cost of capital and sufficient access to the capital markets. These factors will be significantly influenced by our ability to grow our distribution to unitholders, maintain a solid credit profile and ultimately achieve and maintain an investment-grade credit rating.

Targeted Credit Profile. We have targeted a general credit profile that has the following attributes:

a long-term debt-to-total capitalization ratio of 40% or less;

an average long-term debt-to-Adjusted EBITDA multiple of approximately 3.5x (Adjusted EBITDA is earnings before interest expense, taxes, depreciation, depletion and amortization, equity compensation plan charges, gains and losses from derivative activities and selected items that are generally unusual or non-recurring); and

an average Adjusted EBITDA-to-interest coverage multiple of approximately 3.3x or better.

When considered together with what we believe to be the relatively low risk profile of our business, we believe this credit profile is consistent with an investment grade credit rating. In combination with our intent to maintain a high percentage of storage capacity under multi-year contracts, this credit profile should also provide flexibility if storage markets become oversupplied and position us to take advantage of attractive acquisition opportunities.

In order for us to maintain our targeted credit profile, we generally intend to fund approximately 60% of the capital required for expansion and acquisition projects through a combination of equity capital and cash

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flow in excess of distributions. In connection with the closing of this offering, we expect to enter into a new \$400 million revolving credit facility. We believe we will be able to fund up to the first \$250 million of acquisitions or expansion projects primarily through borrowings under this credit facility or other sources and remain in compliance with our targeted credit profile.

From time to time, we may be outside the parameters of our targeted credit profile due to timing issues related to the initial funding of certain capital expenditures or acquisitions with debt or delays in realizing increases in Adjusted EBITDA, synergies or other benefits from expansion and/or acquisition projects.

Credit Rating. We have not applied for a credit rating from any credit rating agency, nor to our knowledge has any such credit rating been assigned. Additionally, we do not currently intend to apply for a credit rating until such time as we expect to access the public debt capital markets. If and when we seek a credit rating, our credit rating may be positively or negatively impacted by the leverage and credit rating of PAA. In addition, while we believe our targeted credit profile is consistent with an investment grade rating, we can provide no assurance in this regard. See Risk Factors The credit and risk profile of our general partner and its owner, PAA, could adversely affect our credit ratings and risk profile, which could increase our borrowing costs or hinder our ability to raise capital.

As of January 1, 2010, the senior unsecured ratings of PAA with Standard & Poor's Ratings Services and Moody's Investors Service were BBB-, stable outlook, and Baa3, stable outlook, respectively.

Our Competitive Strengths

We believe that the following competitive strengths will position us to successfully execute our principal business strategy:

Our natural gas storage assets are strategically located and operationally flexible. Our Pine Prairie and Bluewater facilities are strategically positioned relative to several major market hubs and have significant connectivity that enable them to serve a variety of major producing regions, LNG importers and the primary consumer and industrial markets in the Gulf Coast, Midwest, Northeast and Southeast regions of the U.S. as well as eastern Ontario, Canada. Collectively, our facilities have aggregate peak injection and withdrawal capacity of 1.7 Bcf per day and 3.2 Bcf per day, respectively. Upon the completion of current expansion activities, these capabilities will increase to 2.9 Bcf per day of peak rate injection capability and 4.0 Bcf per day of peak rate withdrawal capability.

Our business generates relatively stable and predictable cash flow. Given the high percentage of our cash flow that is derived from fixed-capacity reservation fees under multi-year contracts with a diverse portfolio of customers, our baseline cash flow profile is relatively stable and predictable, which we believe significantly mitigates the risk to us of negative cash flow fluctuations caused by changing supply and demand conditions and other market factors. In addition, we do not take title to the natural gas that we store for our customers and, accordingly, are not exposed to commodity price fluctuations on the gas that is stored in our facilities by our customers. Except for the base gas we purchase and use in our facilities, which we consider to be a long-term asset, and volume and pricing variations related to small amounts of natural gas we are entitled to retain from our customers as compensation for our fuel costs, our current and planned business strategies are designed to minimize our exposure to fluctuations in the outright price of natural gas.

Our Pine Prairie storage facility has the ability to be significantly expanded at competitive costs and with a relatively high degree of schedule certainty. We own and/or lease 320 acres of land on the salt dome that underlies Pine Prairie. Our existing facilities and planned expansions through 2012 to five caverns will utilize only approximately 120 of these acres. Subject to market demand, project execution, sufficient pipeline

capacity, available financing and receipt of future permits, we have the property rights and operational capacity to expand our Pine Prairie facility significantly beyond our current permitted capacity of 48 Bcf. Taking these considerations into account and with certain infrastructure modifications, we currently estimate that Pine Prairie could support in excess of 15 salt caverns and an aggregate storage capacity of over 150 Bcf. In addition, because our existing infrastructure at Pine Prairie has been specifically designed to facilitate future expansion, we expect it to both reduce our

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overall capital costs per additional Bcf of storage capacity and shorten the length and enhance the predictability of our development cycle.

We have the evaluation, integration and engineering skill sets in-house that are necessary to successfully pursue acquisition and expansion opportunities. We possess the in-house capabilities and expertise necessary to develop, construct, own, acquire and operate both depleted reservoir and salt-cavern storage capacity. We have been involved in substantially all aspects of the natural gas storage business since 2005 and our operational and management team has extensive energy industry and acquisition experience. In addition, from 1998 to 2009, PAA has (i) successfully acquired and integrated over \$6 billion of acquisitions in over 50 separate transactions involving midstream energy assets, and (ii) executed over 100 organic growth and expansion projects with total capital expenditures of over \$2.4 billion. We believe that the experience and skill sets of our collective management team provide us with a competitive advantage that enables us to appropriately identify, assess and evaluate the risks and opportunities that are likely to arise during the development and operational phases of potential gas storage acquisition and expansion opportunities.

We have the financial flexibility to pursue acquisition and expansion opportunities. At the closing of this offering, we expect to have approximately \$200 million of borrowing capacity available to us under our revolving credit facility. We believe our borrowing capacity and our ability to access private and public debt and equity capital should provide us with the financial flexibility necessary to execute our growth and expansion strategy. Additionally, PAA may elect, but is not obligated, to provide us with financial support in connection with acquisitions or expansion capital projects in certain circumstances.

Our general partner has an experienced executive management team with specialized knowledge of natural gas storage and markets and whose interests are aligned with those of our unitholders. Our general partner has an executive management team that has extensive experience managing, operating, building, acquiring and integrating energy assets, including natural gas storage assets and other midstream energy assets. On average, the members of our general partner's executive management team have in excess of 20 years of energy industry experience. In addition, our general partner's executive management team includes a President and three Vice Presidents who are exclusively dedicated to and focused on the operation, management, development and expansion of our natural gas storage business. Through their indirect and direct interests in us, our general partner and PAA, our general partner's executive management team has a significant, vested interest in our continued success. We believe the experience of our general partner's executive management team and the experience and market presence of PAA, combined with our relationships with participants across the natural gas supply chain, provide us with extensive operational and commercial understanding of the physical North American natural gas market.

We believe these competitive strengths will aid our efforts to expand our presence in the natural gas storage sector.

Our Relationship with Plains All American Pipeline, L.P.

We believe one of our strengths is our relationship with Plains All American Pipeline, L.P., the fourth largest publicly traded master limited partnership as measured by equity market capitalization, which was approximately \$7.5 billion as of January 20, 2010. Plains All American's common units trade on the New York Stock Exchange, or NYSE, under the ticker symbol PAA. In addition to its participation in the natural gas storage business through our partnership, PAA is engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas-related petroleum products. PAA's assets include approximately 17,000 miles of pipelines, 85 million barrels of storage capacity, and a significant fleet of trucks, trailers, tugs, barges and railcars. Through its transportation, storage and commercial activities, PAA physically handles approximately 3 million barrels per day of petroleum products.

PAA and its predecessors have been active participants in the hydrocarbon storage industry since the early 1990s. PAA has a long history of successfully expanding its energy infrastructure businesses through a combination of organic growth projects and complementary acquisitions. Since its initial public offering in 1998, PAA has grown its asset base from approximately \$600 million to over \$12 billion and increased the

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annualized distribution on its limited partner units by over 100%, from \$1.80 per unit as of PAA's initial public offering to \$3.71 per unit for the distribution to be paid in February 2010.

Our partnership will own all of the natural gas storage business and assets formerly owned by PAA and PAA has stated that it intends to utilize our partnership as the primary vehicle through which it will participate in the natural gas storage business. Upon completion of this offering, as the ultimate owner of our 2.0% general partner interest, all of our incentive distribution rights and an approximate % limited partner interest in us (including common units, Series A subordinated units and Series B subordinated units), PAA will have a significant economic stake in us and a commensurate incentive to promote and support the successful execution of our growth plan and strategy.

We will also enter into an omnibus agreement with PAA and certain of its affiliates, pursuant to which we will agree upon certain aspects of our relationship with them, including the provision by PAA's general partner to us of certain general and administrative services and employees, our agreement to reimburse PAA's general partner for the cost of such services and employees, certain indemnification obligations, the use by us of the name Plains All American, PAA and related marks, and other matters. Please read Certain Relationships and Related Transactions Agreements Governing the Transactions Omnibus Agreement.

We believe PAA's significant presence in the energy sector, its successful track record of growth and its significant investment in, and sponsorship and support of, us will enhance our ability to grow our business. While we believe this relationship with PAA is a significant positive attribute, it may also be a source of conflicts. For example, PAA is not restricted in its ability to compete with us. Please read Conflicts of Interest and Fiduciary Duties.

Risk Factors

An investment in our common units involves risks. Please read Risk Factors for a description of these risks.

Formation Transactions and Partnership Structure

At or prior to the closing of this offering, the following transactions, which we refer to as the formation transactions, will occur:

PAA will contribute to us 98.0% of the equity interests in the entities that own its gas storage business, in exchange for common units, Series A subordinated units, and Series B subordinated units, representing an aggregate % limited partner interest in us;

PNGS GP LLC, our general partner and a subsidiary of PAA, will contribute to us 2.0% of the equity interests in the entities that own PAA's gas storage business, in exchange for a 2.0% general partner interest in us as well as all of our incentive distribution rights, which will entitle our general partner to increasing percentages of the cash we distribute in excess of \$ per quarter;

we will issue common units to the public, representing a % limited partner interest in us;

we will receive net proceeds of approximately \$ million from the issuance and sale of common units at an assumed initial offering price of \$ per common unit and we will use the proceeds from this offering as described in Use of Proceeds;

we expect to enter into a new \$400 million credit facility and use the credit facility to repay approximately \$200 million of intercompany indebtedness owed to PAA; and

we will also enter into an omnibus agreement with PAA and certain of its affiliates, pursuant to which we will agree upon certain aspects of our relationship with them, including the provision by PAA's general partner to us of certain general and administrative services and employees, our agreement to reimburse PAA's general partner for the cost of such services and employees, certain indemnification obligations, the use by us of the name Plains All American, PAA and related marks, and other matters. Please read Certain Relationships and Related Transactions Agreements Governing the Transactions Omnibus Agreement.

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The diagram below illustrates our organization and ownership based on total units outstanding after giving effect to the offering and the related formation transactions and assumes that the underwriters' option to purchase additional common units is not exercised.

Public Common Units	%
Common Units owned by PAA	%
Series A Subordinated Units owned by PAA	%
Series B Subordinated Units owned by PAA	%(1)
General Partner Interest	2.0%
Total	100.0%

- (1) The Series B subordinated units will not be entitled to participate in our quarterly distributions unless and until they convert into Series A subordinated units or common units. The Series B subordinated units are, however, entitled to vote on matters submitted to a vote to our unitholders.

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Management of PAA Natural Gas Storage, L.P.

PNGS GP LLC, our general partner, has sole responsibility for conducting our business and for managing our operations. The board of directors and officers of our general partner will make decisions on our behalf. PAA is the sole member of our general partner and will have the right to elect all seven members to the board of directors of our general partner, with at least three of these directors meeting the independence standards established by the New York Stock Exchange. One of such independent directors will be appointed prior to the effectiveness of the registration statement of which this prospectus forms a part. In addition, some of the executive officers and directors of PAA also serve as executive officers and directors of our general partner. For more information about the directors and executive officers of our general partner, please read **Management Directors and Executive Officers of Our General Partner**.

Pursuant to our partnership agreement as well as the omnibus agreement that we will enter into concurrently with the closing of this offering, PAA and our general partner will be entitled to reimbursement for all direct and indirect expenses that they incur on our behalf. In addition, PAA and our general partner will have substantial discretion in incurring third-party expenses on our behalf. Please read **Certain Relationships and Related Party Transactions Agreements Governing the Transactions Omnibus Agreement**.

As is common with publicly traded partnerships and in order to maximize operational flexibility, we will conduct our operations through subsidiaries.

Principal Executive Offices and Internet Address

Our principal executive offices are located at 333 Clay St., Suite 1100, Houston, Texas 77002, and our telephone number is (713) 646-4100. Our website will be located at _____ and will be activated in connection with the closing of this offering. We expect to make available our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, which we refer to as the SEC, 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 herein and does not constitute a part of this prospectus.

Summary of Conflicts of Interest and Fiduciary Duties

General. Our general partner has a legal duty to manage us in a manner beneficial to holders of our common and subordinated units. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. However, the officers and directors of our general partner also have fiduciary duties to manage our general partner in a manner beneficial to its owner, PAA. Certain of the officers and directors of our general partner are also officers of PAA. As a result, conflicts of interest will arise in the future between us and holders of our common and subordinated units, on the one hand, and PAA and our general partner, on the other hand. For example, our general partner will be entitled to make determinations that affect the amount of cash distributions we make to the holders of common units and Series A subordinated units, which in turn has an effect on whether our general partner receives incentive cash distributions. In addition, our general partner has the discretion to take actions which may hasten the conversion of Series B subordinated units into Series A subordinated units or common units or Series A subordinated units into common units.

Partnership Agreement Modifications to Fiduciary Duties. Our partnership agreement limits the liability of, and reduces the fiduciary duties owed by, our general partner to holders of our common and subordinated units. Our

partnership agreement also restricts the remedies available to holders of our common and subordinated units for actions that might otherwise constitute a breach of our general partner's fiduciary duties. 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 and potential conflicts of interest contemplated in the partnership agreement that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

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PAA May Engage in Competition With Us. While PAA has stated that it intends to utilize our partnership as the primary vehicle through which it will participate in the natural gas storage business, PAA and its affiliates are not limited in their ability to compete with us.

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

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The Offering

Common units offered to the public

common units.

common units if the underwriters exercise their option to purchase additional common units.

Units outstanding after this offering

common units,¹ Series A subordinated and Series B subordinated units for a total of limited partner units. The Series B subordinated units will not be entitled to participate in our quarterly distributions, but will convert into Series A subordinated units on a one-for-one basis upon the satisfaction of certain operational and financial conditions. If at the time the operational and financial conditions are satisfied, the subordination period has already ended, the Series B subordinated units will instead convert directly into common units on a one-for-one basis. In addition, our general partner will own a 2.0% general partner interest in us.

Use of proceeds

We intend to use the net proceeds of approximately \$, after deducting underwriting discounts, but before paying offering expenses, together with borrowings under our credit facility, to repay intercompany indebtedness owed to PAA in the amount of approximately \$.

If the underwriters' option to purchase additional common units is exercised in full, we will use the net proceeds to redeem from PAA a number of common units equal to the number of common units issued upon exercise of the underwriters' option, at a price per common unit equal to the proceeds per common unit before expenses but after underwriting discounts. Please read Use of Proceeds.

Cash distributions

Upon completion of this offering, our general partner will establish a minimum quarterly distribution of \$ per common unit and Series A subordinated unit (\$ per common unit and Series A subordinated unit on an annualized basis) to the extent we have sufficient cash after establishment of reserves and payment of fees and expenses, including payments to our general partner and its affiliates. We refer to this cash as available cash, and it is defined in our partnership agreement included in this prospectus as Appendix A and in the glossary included in this prospectus as Appendix B. Our ability to pay the minimum quarterly distribution is subject to various restrictions and other factors described in more detail under the caption Our Cash Distribution Policy and Restrictions On Distributions. We will adjust the minimum quarterly distribution payable for the period from the completion of

this offering through June 30, 2010, based on the actual length of that period.

¹ Excludes common units subject to issuance under our Long-Term Incentive Plan. Please read Management Our Long-Term Incentive Plan.

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Our partnership agreement requires that we distribute all of our available cash each quarter in the following manner:

first, 98.0% to the holders of common units and 2.0% to our general partner, until each common unit has received the minimum quarterly distribution of \$, plus any arrearages from prior quarters; and

second, 98.0% to the holders of Series A subordinated units and 2.0% to our general partner, until each Series A subordinated unit has received the minimum quarterly distribution of \$.

If cash distributions to our unitholders exceed \$ per common unit and Series A subordinated unit in any quarter, our general partner will receive, in addition to distributions on its 2.0% general partner interest, increasing percentages, up to 48.0%, of the cash we distribute in excess of that amount. We refer to these distributions as incentive distributions. Please read Provisions of Our Partnership Agreement Relating to Cash Distributions.

The amount of pro forma available cash from distributable cash flow generated during the year ended December 31, 2009 would have been sufficient to allow us to pay only % of the minimum quarterly distribution (\$ per unit per quarter, or \$ on an annualized basis) on our common units for such period and would not have been sufficient to pay any distributions on our Series A subordinated units for such period. Please read Our Cash Distribution Policy and Restrictions on Distributions.

We believe that, based on the Statement of Minimum Estimated Distributable Cash Flow included under the caption Our Cash Distribution Policy and Restrictions on Distributions, we will have sufficient distributable cash flow to pay the minimum quarterly distribution of \$ per unit on all common units and Series A subordinated units and the corresponding distributions on our general partner's 2.0% interest for the four quarters ending June 30, 2011. This should be read in conjunction with Risk Factors and Our Cash Distribution Policy and Restrictions on Distributions.

Series A subordinated units

PAA will initially own all of our Series A subordinated units. The principal difference between our common units and Series A subordinated units is that in any quarter during the subordination period, holders of the Series A subordinated units are not entitled to receive any distribution until the common units have received the

minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Series A subordinated units will not accrue arrearages.

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Conversion of Series A subordinated units

The subordination period will end on the first business day after we have earned and paid at least (i) \$ (the minimum quarterly distribution on an annualized basis) on each outstanding common unit and Series A subordinated unit and the corresponding distribution on our general partner's 2.0% interest for each of three consecutive, non-overlapping four quarter periods ending on or after June 30, 2013 from distributable cash flow or (ii) \$ per quarter (150.0% of the minimum quarterly distribution, which is \$ on an annualized basis) on each outstanding common unit and Series A subordinated unit and the corresponding distributions on our general partner's 2.0% interest for each of four consecutive quarters from distributable cash flow.

Distributable cash flow is defined as net income adjusted for (i) any gain or loss from the sale of assets not in the ordinary course of business, (ii) any gain or loss as a result of a change in accounting principles, (iii) any non-cash gains or items of income and any non-cash losses or expenses, including mark-to-market activity associated with hedging and with non-cash revaluation and/or fair valuation of assets or liabilities, (iv) any acquisition-related expenses associated with (a) successful acquisitions or (b) all other acquisitions until the earlier to occur of the abandonment of such acquisition or one year from the date of incurrence and (v) earnings or losses from unconsolidated subsidiaries except to the extent of actual cash distributions received; plus depreciation, depletion and amortization expense; and less maintenance capital expenditures.

In addition, the subordination period will end upon the removal of our general partner other than for cause if the units held by our general partner and its affiliates are not voted in favor of such removal.

When the subordination period ends, all Series A subordinated units will convert into common units on a one-for-one basis, and all common units thereafter will no longer be entitled to arrearages.

Series B subordinated units

PAA will initially own all of the Series B subordinated units. The Series B subordinated units will not be entitled to participate in our quarterly distributions until they convert into Series A subordinated units or common units.

The Series B subordinated units are designed to compensate PAA for prior capital expenditures made by it to expand the working gas storage capacity at Pine Prairie and the future financial contribution expected to result from such investment. As of the closing of this offering, we expect to have approximately 24 Bcf of aggregate working gas storage capacity at Pine Prairie, including approximately 10 Bcf of new capacity that is substantially complete and that we

currently expect to place into service during the second quarter of 2010.

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Conversion of Series B subordinated units

The Series B subordinated units will convert into Series A subordinated units upon satisfaction of the following operational and financial conditions:

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 29.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters);

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 35.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters); and

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 41.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters).

To the extent that the above operational and financial tests are satisfied, the Series B subordinated units will convert into Series A subordinated units and participate in the quarterly distribution payable

to Series A subordinated units with respect to the second consecutive quarter for which the operational and financial tests described above have been satisfied.

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Any Series B subordinated units that remain outstanding as of December 31, 2018, will automatically be cancelled.

Following conversion of any Series B subordinated units into Series A subordinated units, such converted Series B subordinated units will further convert into common units (together with any other outstanding Series A subordinated units) to the extent that the Series A subordination tests are satisfied. In determining whether the subordination tests have been satisfied, the Series B subordinated units that have converted into Series A subordinated units will be treated as Series A subordinated units from and after the date of their conversion into Series A subordinated units.

If at the time the above operational and financial tests are satisfied, the subordination period has already ended and all outstanding Series A subordinated units have converted into common units, the Series B subordinated units will instead convert directly into common units on a one-for-one basis and participate in the quarterly distribution payable to common units with respect to the second consecutive quarter for which the operational and financial tests described above have been satisfied.

For additional information regarding our Series B subordinated units, please read Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period Series B Subordinated Units.

General partner's right to reset the target distribution levels

Our general partner has the right, at any time when there are no Series A subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our cash distributions at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and each target distribution level will be reset to the correspondingly higher amount that causes such reset target distribution level to exceed the reset minimum quarterly distribution by the same percentage that such distribution level exceeds the then-current minimum quarterly distribution.

If our general partner elects to reset the target distribution levels, it will be entitled to receive common units and a general partner interest necessary to maintain its general partner interest in us immediately prior to the reset election. The number of common units to be issued to our general partner will equal the number of common units which would have entitled their holder to an average aggregate quarterly cash

distribution in the prior two quarters equal to the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. Please read Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner's Right to Reset Incentive Distribution Levels.

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Issuance of additional units	We have the ability to issue an unlimited number of units without the consent of our unitholders. Please read Units Eligible for Future Sale and The Partnership Agreement Issuance of Additional Securities .
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 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, voting together as a single class, including any units owned by our general partner and its affiliates, including PAA. Upon consummation of this offering, PAA will own an aggregate of approximately % of our outstanding voting units. This will give PAA the ability to prevent the involuntary removal of our general partner. Please read The Partnership Agreement Voting Rights .
Limited call right	If at any time our general partner and its affiliates own more than 80.0% 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 that is 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 December 31, 2012, 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 \$ per unit, we estimate that your average allocable federal taxable income per year will be no more than \$ per unit. Please read Material Income Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions .

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Material income 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 read Material Income Tax Consequences.
Exchange listing	We intend to apply to list our common units on the New York Stock Exchange under the symbol PNG.

Table of Contents**Summary Historical Financial and Operating Data**

The summary historical financial and operating data below was derived from our audited consolidated balance sheets as of December 31, 2009 and 2008 and the audited consolidated statements of operations, changes in members' capital and cash flows for the periods of September 3, 2009 to December 31, 2009, January 1, 2009 to September 2, 2009, and the years ended December 31, 2008 and 2007 included elsewhere in this prospectus. The summary historical financial and operating data below for the year ended December 31, 2007 and 2006 was derived from our audited consolidated balance sheets as of December 31, 2007 and 2006 and the consolidated statements of operations, changes in members' capital and cash flows for the year ended December 31, 2006 not included in this prospectus.

On September 3, 2009, PAA became our sole owner by acquiring Vulcan Capital's 50% interest in us (the PAA Ownership Transaction) in exchange for \$220 million, including contingent cash consideration of \$40 million. At the time of the transaction, the entity had approximately \$450 million of outstanding project finance debt. Although we continued as the same legal entity after the transaction, pursuant to applicable accounting principles, all of our assets and liabilities were adjusted to fair value as a result of this transaction. This change in value resulted in a new cost basis for accounting (fair value push down accounting). Accordingly, the selected financial and operating data presented below are presented for two periods, Predecessor and Successor, which relate to the accounting periods preceding and succeeding the PAA Ownership Transaction. The Predecessor and Successor periods have been separated by a vertical line to highlight the fact that the financial and operating information for such periods was prepared under two different cost bases of accounting.

The summary historical financial and operating data should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Predecessor			January 1, 2009	Successor September 3, 2009
Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	through September 2, 2009	through December 31, 2009	
(\$ in thousands except for /Mcf numbers)					
Statement of operations data:					
Total revenues	\$ 30,831	\$ 36,945	\$ 49,177	\$ 46,929	\$ 25,251
Storage related costs	100	3,847	8,934	8,792	7,003
Operating costs (except those shown below)	3,658	3,947	4,059	4,820	3,257
Fuel expense	613	1,140	2,320	1,816	578
General and administrative expenses	3,402	3,755	3,874	3,562	4,083
Depreciation, depletion and amortization	3,986	4,520	6,245	8,054	3,578
Total costs and expenses	11,759	17,209	25,432	27,044	18,499

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Operating income	19,072	19,736	23,745	19,885	6,752
Interest expense	(8,389)	(7,108)	(4,941)	(4,352)	(4,262)
Interest income and other income					
(expense), net	2,030	5,378	1,669	458	(2)
Income tax expense			(887)	(473)	
Net income	\$ 12,713	\$ 18,006	\$ 19,586	\$ 15,518	\$ 2,488

Balance sheet data (at end of period):

Total assets	\$ 518,092	\$ 674,765	\$ 811,436	\$ 900,407
Long-term debt(1)	227,300	352,713	415,263	450,523
Total debt(1)	227,300	355,163	417,713	450,523
Members capital	264,109	294,717	363,229	432,744

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	Predecessor			January 1, 2009	Successor September 3, 2009
	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	through September 2, 2009	through December 31, 2009
	(\$ in thousands except for /Mcf numbers)				
Other financial data:					
Adjusted EBITDA(2)	\$ 27,395	\$ 29,663	\$ 31,001	\$ 28,701	\$ 12,165(3)
Distributable cash flow(2)	\$ 19,006	\$ 22,156	\$ 25,577	\$ 23,965	\$ 7,375
Maintenance capital expenditures	\$	\$	\$ 377	\$ 384	\$ 320
Net cash provided by (used in) operating activities	\$ 13,973	\$ 22,343	\$ 21,818	\$ 22,603	\$ 15,265
Net cash provided by (used in) investing activities	\$ (206,612)	\$ (177,280)	\$ (118,890)	\$ (58,561)	\$ (9,656)
Net cash provided by (used in) financing activities	\$ 158,771	\$ 145,743	\$ 122,344	\$ 23,636	\$ (22,813)
Operating data:					
Average monthly working capacity (Bcf)(4)(5)	24	26	28	40	43
Average monthly Firm Storage Services revenue/Mcf	\$ 0.09	\$ 0.10	\$ 0.13	\$ 0.13	\$ 0.14
Average monthly Hub Services revenue/Mcf	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.01
Adjusted EBITDA/Mcf	\$ 1.14	\$ 1.14	\$ 1.11	\$ 0.72	\$ 0.28

- (1) At December 31, 2009, the long-term debt and total debt balances consist of an intercompany note payable to PAA.
- (2) Adjusted EBITDA and distributable cash flow are defined in Non-GAAP and Segment Financial Measures below.
- (3) The successor period includes total expenses of approximately \$1 million associated with increased personnel costs, including added staffing, and accelerated audit and other costs related to our increased acquisition activities and our efforts to become a publicly traded entity as well as increased overhead allocations from PAA.
- (4) Calculated as the sum of the capacity at the end of each month divided by the number of months in the period.
- (5) Includes up to 3 Bcf of storage capacity under lease from third parties.

Non-GAAP and Segment Financial Measures

Adjusted EBITDA and distributable cash flow are supplemental financial measures that are used by management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies.

We define Adjusted EBITDA as earnings before interest expense, taxes, depreciation, depletion and amortization, equity compensation plan charges, gains and losses from derivative activities and selected items that are generally unusual or non-recurring.

Adjusted EBITDA may be used to assess:

our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to financing methods, capital structure or historical cost basis;

the ability of our assets to generate sufficient cash flow to make distributions to our unitholders; and

the viability of acquisitions and capital expenditure projects and the returns on investment of various investment opportunities.

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We define distributable cash flow as net income adjusted for (i) any gain or loss from the sale of assets not in the ordinary course of business, (ii) any gain or loss as a result of a change in accounting principles, (iii) any non-cash gains or items of income and any non-cash losses or expenses, including mark-to-market activity associated with hedging and with non-cash revaluation and/or fair valuation of assets or liabilities, (iv) any acquisition-related expenses associated with (a) successful acquisitions or (b) all other acquisitions until the earlier to occur of the abandonment of such acquisition or one year from the date of incurrence and (v) earnings or losses from unconsolidated subsidiaries except to the extent of actual cash distributions received; plus depreciation, depletion and amortization expense; and less maintenance capital expenditures.

Distributable cash flow may be used to assess our ability to generate sufficient cash flow to make distributions of the minimum quarterly distribution on all of our outstanding units as well as to satisfy the tests necessary for the conversion of our Series B subordinated units into Series A subordinated units or common units and the conversion of our Series A subordinated units into common units.

The GAAP measure most directly comparable to Adjusted EBITDA and distributable cash flow is net income. The supplemental measures of Adjusted EBITDA and distributable cash flow should not be considered as alternatives to GAAP net income. These measures have important limitations as an analytical tool because they exclude some but not all items that affect net income. You should not consider Adjusted EBITDA or distributable cash flow in isolation or as a substitute for net income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP. Because Adjusted EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definition of Adjusted EBITDA and distributable cash flow may not be comparable to similarly titled measures of other companies, thereby diminishing its utility.

Management compensates for the limitations of Adjusted EBITDA and distributable cash flow as analytical tools by reviewing the comparable GAAP measure, understanding the differences between such measures and net income, and incorporating this knowledge into its decision-making processes. We believe that investors benefit from having access to the same financial measures that our management uses in evaluating our operating results.

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The following table presents a reconciliation of each of these supplemental financial measures of Adjusted EBITDA and distributable cash flow to the GAAP financial measure of net income on a historical basis.

	Predecessor				Successor	
	August 18, through December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	January 1 through September 2, 2009	September 3 through December 31, 2009
Adjusted EBITDA reconciliation						
Net income	\$ 1,696	\$ 12,713	\$ 18,006	\$ 19,586	\$ 15,518	\$ 2,488
Income tax expense				887	473	
Interest expense, net of amounts capitalized	1,684	8,389	7,108	4,941	4,352	4,262
Depreciation, depletion and amortization	1,223	3,986	4,520	6,245	8,054	3,578
Selected items impacting EBITDA						
Equity compensation expense		515	553	(110)	304	1,467
Mark-to-market of open derivative positions		1,792	(524)	(548)		370
Adjusted EBITDA	\$ 4,603	\$ 27,395	\$ 29,663	\$ 31,001	\$ 28,701	\$ 12,165
Distributable cash flow reconciliation						
Net income	\$ 1,696	\$ 12,713	\$ 18,006	\$ 19,586	\$ 15,518	\$ 2,488
Depreciation, depletion and amortization	1,223	3,986	4,520	6,245	8,054	3,578
Income tax expense				887	473	
Maintenance capital expenditures				(377)	(384)	(320)
Other non-cash items:						
Non-cash equity compensation expense		515	154	(216)	304	1,084
Mark-to-market of open derivative positions		1,792	(524)	(548)		370
Distributable cash flow	\$ 2,919	\$ 19,006	\$ 22,156	\$ 25,577	\$ 23,965	\$ 7,200

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RISK FACTORS

Limited partner units are inherently different from 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 similar businesses. We urge you to 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 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 the minimum quarterly distribution on our common units, the trading price of our common units could decline and you could lose all or part of your investment in us.

Risks Related to Our Business

We may not have sufficient cash following the establishment of reserves and payment of fees and expenses, including cost reimbursements to our general partner, to enable us to pay the minimum quarterly distribution to holders of our common units and Series A subordinated units.

In order to pay the minimum quarterly distribution of \$ per common unit and Series A subordinated unit per quarter, or \$ per common unit and Series A subordinated unit per year, we will require available cash of approximately \$ million per quarter, or \$ million per year, based on the number of common units and Series A subordinated units to be outstanding immediately after completion of this offering, regardless of whether or not the underwriters exercise their option to purchase additional common units. We may not have sufficient available cash from distributable cash flow each quarter to enable us to pay the minimum quarterly distribution. 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 rates we charge for storage services and the amount of natural gas storage services our customers purchase from us;

the overall balance between the supply of and demand for natural gas, on a seasonal and long-term basis, which impacts the level of demand for the natural gas storage services we provide and the rates we are able to charge for such services;

regulatory action affecting the rates we can charge for the services we provide, the demand for natural gas, the supply of natural gas, how we contract for services, our existing contracts, our operating and capital costs and our operating flexibility;

the creditworthiness of our customers;

the level of competition from other providers of natural gas storage services;

the level of our operating and maintenance and general and administrative costs; and

prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, 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 debt agreements to which we are a party; and

the amount of cash reserves established by our general partner.

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

On a pro forma basis, we would not have had sufficient available cash from distributable cash flow to pay the full minimum quarterly distribution on our common units or any distributions on our Class A subordinated units for the year ended December 31, 2009.

The amount of available cash from distributable cash flow we need to pay the minimum quarterly distribution for four quarters on all of our common units and Series A Subordinated units outstanding immediately after this offering is approximately \$. The amount of our pro forma available cash from distributable cash flow generated during the year ended December 31, 2009 would have been sufficient to allow us to pay only % of the minimum quarterly distribution on our common units during this period and would not have been sufficient to pay any distributions on our Series A subordinated units during this period. For a calculation of our ability to make distributions to unitholders based on our pro forma results for the year ended December 31, 2009 and for the twelve months ending June 30, 2011, please read, Our Cash Distribution Policy and Restrictions on Distributions.

The amount of cash we have available for distribution to holders of our common units and Series A subordinated units depends primarily on our cash flow rather than on our profitability, which may prevent us from making distributions, even during periods in which we record net income.

The amount of cash we have available for distribution depends primarily upon our cash flow and not solely on profitability, 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.

The assumptions underlying our minimum estimated distributable cash flow included in Our Cash Distribution Policy and Restrictions on Distributions are inherently uncertain and subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those estimated.

Our estimate of available cash from distributable cash flow set forth in Our Cash Distribution Policy and Restrictions on Distributions has been prepared by management, and we have not received an opinion or report on it from our or any other independent registered public accounting firm. The assumptions underlying the forecast 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. If we do not achieve the forecasted results, we may not be able to pay the full minimum quarterly distribution or any amount on our common units or Series A subordinated units, in which event the market price of our common units may decline materially. For further discussion on our ability to pay our minimum quarterly distribution, please read Our Cash Distribution Policy and Restrictions on Distributions.

Increased competition from other companies that provide natural gas storage services or services that can substitute for storage services could have a negative impact on the demand for our services, which could adversely affect our financial results.

We compete primarily with other providers of natural gas storage services who own or operate salt-dome, depleted reservoir and/or converted aquifer gas storage facilities. Such competitors include independent storage developers and operators, local distribution companies, utilities, interstate and intrastate gas transmission companies with storage facilities connected to their pipelines and midstream energy companies. FERC has adopted policies that favor the

development of new storage projects and there are numerous projects, including expansions of existing facilities and greenfield construction projects, at various stages of development in the markets where Pine Prairie and Bluewater operate. According to FERC data, since 2000, permits have been issued by the FERC for new interstate gas storage facilities or expansions in the Gulf Coast (excluding intrastate facilities and FERC pre-filings for additional storage capacity) representing aggregate additional working gas capacity of approximately 576 Bcf. These projects, if developed and placed into service, may

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compete with our storage operations. The principal elements of competition among storage facilities are rates, terms of service, types of service, deliverability, supply and market access, flexibility and reliability of service.

We also compete with certain pipelines, marketers and LNG facilities that provide services that can substitute for certain of the storage services we offer. In addition, natural gas as a fuel competes with other forms of energy available to end-users, including electricity, coal and liquid fuels. Increased demand for such forms of energy at the expense of natural gas could lead to a reduction in demand for natural gas storage services.

All of these competitive pressures could make it more difficult for us to retain our existing customers and/or attract new customers as we seek to expand our business. This could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions. In addition, competition could intensify the negative impact of factors that decrease demand for natural gas storage in our markets, such as adverse economic conditions, weather, higher fuel costs and taxes or other governmental or regulatory actions that directly or indirectly increase the cost or limit the use of natural gas.

Our natural gas storage operations are subject to regulation by federal, state and local regulatory authorities; regulatory measures adopted by such authorities could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions.

Our natural gas storage operations are subject to federal, state and local laws and regulations administered by a number of authorities. Because we store natural gas that is transported in interstate commerce, our natural gas storage facilities are subject to comprehensive regulation by the FERC under the Natural Gas Act of 1938, or NGA. Federal regulation under the NGA extends to such matters as:

- rates, operating terms and conditions of service;
- the form of tariffs governing service;
- the types of services we may offer to our customers;
- the certification and construction of new, or the expansion of existing, facilities;
- the acquisition, extension, disposition or abandonment of facilities;
- contracts for service between storage providers and their customers;
- creditworthiness and credit support requirements;
- the maintenance of accounts and records;
- relationships among affiliated companies involved in certain aspects of the natural gas business;
- the initiation and discontinuation of services; and
- various other matters.

The NGA requires that tariff rates for our interstate gas storage facilities be just and reasonable. In addition, under the NGA and applicable FERC regulations, we are prohibited from unduly preferring or unreasonably discriminating against any person with respect to rates or terms and conditions of service.

The rates and terms and conditions for interstate services provided by our Pine Prairie and Bluewater facilities are set forth in FERC-approved tariffs, which currently permit both Pine Prairie and Bluewater to charge market-based rates. Market-based rate authority allows Pine Prairie and Bluewater to negotiate rates with individual customers based on market demand. This right to charge market-based rates may be challenged by a party filing a complaint with FERC. Our market-based rate authorization may also be re-examined if we add substantial new storage capacity through expansion or acquisition and as a result obtain market power. Any successful complaint or protest against our rates could have an adverse impact on our revenues associated with providing storage services.

Should we fail to comply with all applicable FERC-administered statutes, rules, regulations and orders, we could be subject to substantial penalties and fines. Under the Energy Policy Act of 2005, or EPCA 2005,

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FERC has civil penalty authority under the NGA to impose penalties for certain violations of up to \$1,000,000 per day for each violation. FERC also has the authority to order disgorgement of profits from transactions deemed to violate the NGA and the EPAct 2005. Please read Business Regulation.

Finally, new rules, regulations or laws may be passed or implemented that impose additional costs, burdens or restrictions on us. We cannot give any assurance regarding the likelihood of such future rules, regulations or laws or the effect they could have on our business, financial condition, results of operations or ability to make distributions to you.

Pine Prairie's and Bluewater's authorizations to charge market-based rates are subject to the continued existence of certain conditions related to these facilities' competitive position in their respective markets and, if those conditions change, the right to charge market-based rates could be terminated.

The rates Pine Prairie and Bluewater charge for storage services are regulated by FERC pursuant to its market-based rate policy, which allows regulated entities to charge rates different from, and in some cases, less than, those which would be permitted under traditional cost-of-service regulation. Pine Prairie's and Bluewater's authorization to charge market-based rates is based on determinations by FERC that neither Pine Prairie nor Bluewater have market power in their respective markets. The determination that storage facilities lack market power is subject to review and revision by FERC if there is a change in circumstances that could affect the ability of additional storage or interconnected pipeline facilities at Pine Prairie or Bluewater to exercise market power. Among the sorts of changes in circumstances that could raise market power concerns would be an expansion of Pine Prairie's or Bluewater's capacity, acquisitions, or other changes in market dynamics. If the FERC were to conclude that Pine Prairie or Bluewater may have acquired and cannot mitigate market power, their rates could become subject to cost-of-service regulation.

If Pine Prairie or Bluewater's rates become subject to cost-of-service regulation, the maximum rates that may be charged for storage services would be established through FERC's ratemaking process, and Pine Prairie or Bluewater would no longer be able to charge a rate demanded by the market. Generally, cost-of-service based rates for interstate natural gas services are based on the cost of providing service including recovery of, and a reasonable return on, the entity's actual prudent historical cost investment for providing jurisdictional service. Key determinants in the ratemaking process are costs of providing service, allowed rate of return, and billing determinants, which are based upon storage volumes and contractual capacity commitment assumptions. Rate design and the allocation of costs underlying cost-of-service based rates must also be approved by FERC as part of each rate case. The resolution of these key determinants, particularly the allowed rate of return and billing determinants that would underlie the cost-of-service based rates through the FERC's ratemaking process, could adversely impact Pine Prairie or Bluewater's profitability, and have adverse consequences on our cash flow and our ability to make distributions. Additionally, changes in generally applicable FERC ratemaking policies could also affect Bluewater and Pine Prairie.

Certain risks are amplified by the current economic environment.

During 2007, the U.S. and many key countries began to exhibit signs of economic weakness, which continued throughout 2008 and 2009, and into 2010. This weakness had a severe adverse impact on the global financial system, stressing a number of large financial institutions to the point of failure, merger or requiring government assistance and resulting in a severe reduction in available capital. Capital constraints coupled with significant energy price volatility have produced pervasive liquidity issues for many companies. Such events have created pronounced uncertainty in the economic outlook, and have amplified the potential impact and likelihood of the occurrence of certain risks inherent in our business. Such amplified risks include:

increased cost of capital and increased difficulties accessing capital to fund expansion and acquisition activities as well as routine operating requirements;

the inability or unwillingness of lenders to honor their contractual commitments;

the failure of customers to timely or fully pay amounts due to us;

the failure of suppliers to pay third parties under obligations for which we have potential contingent liabilities;

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the potential for adverse actions by rating agencies;

potentially adverse changes in tax laws;

the failure of counterparties to fulfill their delivery or purchase obligations; and

business failures by vendors, suppliers or customers.

Any significant and prolonged change in or stabilization of natural gas prices could have a negative impact on the demand for our natural gas storage services, which could adversely affect our financial results.

Historically, natural gas prices have been seasonal and volatile, which has enhanced demand for our storage services. The storage business has benefited from significant price fluctuations resulting from seasonal price sensitivity, which impacts the level of demand for our services and the rates we are able to charge for such services. On a system-wide basis, natural gas is typically injected into storage between April and October when natural gas prices are generally lower and withdrawn during the winter months of November through March when natural gas prices are typically higher. However, the market for natural gas may not continue to experience volatility and seasonal price sensitivity in the future at the levels previously seen. If volatility and seasonality in the natural gas industry decrease, because of increased production capacity or otherwise, the demand for our services and the prices that we will be able to charge for those services may decline.

We may not be able to maintain or replace expiring storage contracts.

Our primary exposure to market risk occurs at the time our existing storage contracts expire and are subject to renegotiation and renewal. Effective as of April 1, 2010, the weighted average remaining tenor of our existing portfolio of firm storage contracts will be approximately 3.9 years at Pine Prairie and approximately 2.2 years at Bluewater. For the year ended December 31, 2009, Iberdrola Renewables, Inc. and Guardian Pipeline, LLC accounted for approximately 17% and 13% of our revenues, respectively. The extension or replacement of existing contracts, including our contracts with Iberdrola Renewables, Inc. and Guardian Pipeline, LLC, depends on a number of factors beyond our control, including:

the level of existing and new competition to provide storage services to our markets;

the balance of supply and demand, on a short-term, seasonal and long-term basis, in our markets;

the extent to which the customers in our markets are willing to contract on a long-term basis; and

the effects of federal, state or local regulations on the contracting practices of our customers.

Any failure to extend or replace a significant portion of our existing contracts, or extending or replacing them at unfavorable or lower rates, could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions.

Our storage business depends on third-party pipelines connected to our storage facilities, and we could be negatively impacted by circumstances beyond our control that temporarily or permanently interrupt the operation of such pipelines.

We depend on the continued operation of third-party pipelines and other facilities that provide delivery options to and from our storage facilities. For example, at our Pine Prairie facility, we have nine separate interconnect points with eight different interstate pipelines, and at our Bluewater facility, we are connected to three interstate and three intrastate natural gas pipelines. Because we do not own the pipelines that are interconnected to our facilities, their continued operation is not within our control. If any of the pipelines to which we are connected were to become unavailable for current or future withdrawals or injections of natural gas due to repairs, damage to the facility, lack of capacity or any other reason, our ability to operate efficiently and satisfy our customers needs could be compromised, thereby potentially reducing our revenues. Any temporary or permanent interruption at any key pipeline or other interconnect point with our gas storage facilities that caused a material reduction in the volume of storage services provided by us could have a material adverse effect on our business, financial condition, results of operation and ability to make distributions.

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In addition, the rates charged by pipelines interconnected with our storage facilities for transportation to and from our facilities affects the utilization and value of the storage services we provide. Significant changes in the rates charged by these pipelines or their competitors could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions.

We may not be able to achieve our current expansion plans at our Pine Prairie facility on economically viable terms.

Our current expansion plans include the addition of 31 Bcf of working gas storage capacity at our Pine Prairie facility, 28 Bcf of which we expect to place into service by mid-2012, including 10 Bcf of new capacity that is substantially complete and that we currently expect to place into service during the second quarter of 2010. In connection with these expansion efforts, we may encounter difficulties in the drilling required to access subsurface storage caverns, the drilling of raw water wells or salt water disposal wells and the completion of the wells. These risks include the following:

unexpected operational events;

adverse weather conditions;

facility or equipment malfunctions or breakdowns;

unusual or unexpected geological formations;

drill bit or drill pipe difficulties;

collapses of wellbore, casing or other tubulars or other loss of drilling hole;

unexpected problems associated with filling the caverns with base gas and conducting pressure and mechanical integrity tests;

unexpected problems associated with leaching the caverns, filtration of extracted water and offsite disposal of water; and

risks associated with subcontractors services, supplies, cost escalation and personnel.

Specifically, the creation of a salt-cavern storage facility requires sourcing, injecting, withdrawing and disposing of significant volume of water. For example, to create 10 Bcf of working capacity, a salt cavern requires approximately 73 million barrels of raw water supply and an equivalent volume of salt water disposal. Additionally, the rate of access to raw water and the rate of disposal of salt water have a direct impact on the time it takes to create a salt cavern. Any physical or regulatory restriction imposed on our current operations with respect to accessing raw water or disposing of salt water would have an adverse impact on our ability to timely and fully expand our facility at Pine Prairie. During the initial construction of Pine Prairie, we encountered challenges related to many of the factors listed above and specifically with respect to the ability to efficiently dispose of salt water, all of which resulted in substantial delays and the incurrence of significant costs in excess of our original estimates. There can be no assurance that we will not encounter similar situations in the future or that our ability to access raw water or dispose of salt water will not be adversely impacted in the future. Additionally, the occurrence of uninsured or under-insured losses, delays or operating cost overruns associated with these drilling efforts could have a negative impact on our operations and financial results.

We may not be able to increase the capacity of our Pine Prairie facility beyond our current expansion plans.

While we have both the property rights and operational capacity necessary to expand our Pine Prairie facility beyond the currently permitted capacity of 48 Bcf to a potential of over 150 Bcf of total working gas storage capacity, we may not be able to secure the financing or permits necessary to pursue such expansion and the necessary infrastructure modifications that would be needed to accommodate such expansion. Additionally, such expansion will be subject to market demand, the successful execution of any expansion projects and the availability of sufficient third-party interstate and intrastate pipelines receipt and deliverability capacity to accommodate the increased capacity. Any combination of these factors may prevent us from expanding our Pine Prairie facility beyond its current permitted capacity.

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We are exposed to the credit risk of our customers in the ordinary course our business.

As a normal part of our business we extend credit to our customers. As a result, we are exposed to the risk of loss resulting from the nonpayment and/or nonperformance of our customers. While we have established credit policies that include assessing the creditworthiness of our customers as permitted by Pine Prairie's and Bluewater's tariffs and requiring appropriate terms or credit support from them based on the results of such assessments, there can be no assurance that we have adequately assessed the creditworthiness of our existing or future customers or that there will not be unanticipated deterioration in their creditworthiness. Resulting nonpayment and/or nonperformance by our customers could have a material adverse effect on our business, financial condition, results of operation and ability to make distributions.

Additionally, in instances where we loan natural gas to third parties, the magnitude of our credit risk is significantly increased, as the failure of the third party to return the loaned volumes would result in losses equal to the full value of the loaned natural gas rather than, in the case of firm storage or hub services contracts, losses equal to fees on volumes nominated for injection or withdrawal.

For various operating and commercial reasons, we may not be able to perform all of our obligations under our contracts, which could lead to increased costs and negatively impact our financial results.

Various operational and commercial factors could result in an inability on our part to satisfy our contractual commitments and obligations. For example, in connection with our provision of firm storage services and hub services to our customers, we enter into contracts that obligate us to honor our customers' requests to inject gas into our storage facilities, withdraw gas from our facilities and wheel gas through our facilities, in each case subject to volume, timing and other limitations set forth in such contracts. The following factors could adversely impact our ability to perform our obligations under these contracts:

- a failure on the part of our storage facilities to perform as we expect them to, whether due to malfunction of equipment or facilities or realization of other operational risks;

- the operating pressure of our storage facilities:

 - the operating pressure of our depleted reservoir storage facilities is driven primarily by the total volume of working and base gas contained in the reservoir, which depends primarily on the amount of base gas purchased by us and injected into the facility, the amount of base gas we may have loaned to third parties and the aggregate injection or withdrawal demands of our customers; and

 - the operating pressure of our salt-cavern storage facilities is directly affected by the volume and temperature of natural gas within each facility. The total volume of gas in our salt caverns is driven by the same factors mentioned above for our depleted reservoirs. The temperature of the natural gas stored in a salt cavern is driven by a number of factors, including the ambient subsurface temperature for such cavern (i.e., the static subsurface temperature to which the stored gas will naturally return over time) and the rate of injection or withdrawal of gas from such cavern (due to the fact that sustained periods of high rates of withdrawal reduce the temperature of the remaining gas and sustained periods of high rates of injection have the opposite effect). Higher than normal temperatures generally equate with higher than normal pressures and require more space to store the same volume of gas and remain in compliance with maximum pressure limitations imposed by prudent operating practices or regulations. Lower than normal temperatures generally equate with lower than normal pressures and require more base gas to meet contractual withdrawal obligations and remain in compliance with minimum pressure limitations imposed by prudent operating practices or regulations;

a variety of commercial decisions we make from time to time in connection with the management and operation of our storage facilities. Examples include, without limitation, decisions with respect to matters such as (i) the aggregate amount of commitments we are willing to make with respect to wheeling, injection, and withdrawal services, which could exceed our capabilities at any given time for various reasons, (ii) the timing of scheduled and unplanned maintenance or repairs, which can impact equipment availability and capacity, (iii) the schedule for and rate at which we conduct leaching

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activities at our Pine Prairie facility in connection with the creation of new salt caverns or the expansion of existing caverns, which can impact the amount of storage capacity we have available to satisfy our customers requests, (iv) the timing and aggregate volume of any base gas park and/or loan transactions we consummate, which can directly affect the operating pressure of our storage facilities and (v) the amount of compression capacity and other gas handling equipment that we install at our facilities to support gas wheeling, injection and withdrawal activities; and

adverse operating conditions due to hurricanes, extreme weather events or conditions, and operational problems or issues with third party pipelines, storage or production facilities.

Although we manage and monitor all of these various factors in connection with the ongoing operation of our natural gas storage facilities with the goal of performing all of our contractual commitments and obligations and optimizing our revenue, one or more of the above factors may adversely impact our ability to satisfy our injection, withdrawal or wheeling obligations under our storage contracts. In such event, we may be liable to our customers for losses or damages they suffer and/or we may need to incur costs or expenses in order to permit us to satisfy our obligations and avoid a breach or increase our costs in doing so.

For example, if Pine Prairie experiences sustained periods of high injections as it approaches full capacity and the resulting cavern temperature and pressure would otherwise exceed the maximum operating pressure, we may be required to loan a portion of our base gas to third parties in order to create the space we need to permit us to honor our customers injection requests. In connection with any such base gas loans, we will be required to pay fees that could be significant. Conversely, if Pine Prairie experiences sustained periods of high withdrawals as customers withdraw their inventory and an abnormally low cavern temperature results in a significant reduction in pressure, we may be required to borrow gas from a third party and inject it into our facility or inject raw water into our facility, in each case in order to maintain our minimum operating pressure or create the operating pressure needed to satisfy our customers withdrawal requests. In such a circumstance we would have to (i) pay fees to a third party to borrow additional gas or (ii) incur operating costs associated with raw water injection, removal and disposal and opportunity costs associated with the temporary loss of usable storage capacity displaced by the injected water.

Our marketing activities could result in financial losses.

Without altering our basic commercial strategy of committing a high percentage of our storage capacity under multi-year firm storage contracts at attractive rates, we intend to establish a dedicated commercial marketing group that will capture short-term market opportunities by utilizing a portion of our owned or leased storage capacity for our own account and engaging in related commercial marketing activities. Through these transactions, we will seek to maintain a position that is substantially balanced between purchases on the one hand and sales or future delivery obligations on the other hand. Our general policy will be (i) to purchase natural gas only in situations where we have a market for such gas, (ii) to utilize physical natural gas inventory and financial derivatives to manage and optimize seasonal and spread risks inherent in our operations and commercial management activities and to structure our transactions so that commodity price fluctuations will not have a material adverse impact on our cash flow and (iii) not to acquire or hold natural gas, futures contracts or other derivative products for the purpose of speculating on outright commodity price changes. While we intend to conduct these transactions within these pre-defined risk parameters, these policies will not eliminate all risks. For example, any event that disrupts our anticipated physical supply of or market for natural gas could expose us to significant costs or expenses in order to enable us to satisfy our obligations to store or deliver contracted natural gas volumes.

We are subject to environmental laws and regulations that may expose us to significant costs and liabilities.

Our natural gas storage operations are subject to stringent and complex federal, state and local environmental laws and regulations. We may incur substantial costs in order to conduct our operations in compliance with these laws and regulations. These laws and regulations may impose numerous obligations that

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are applicable to our operations, including the acquisition of permits to conduct certain activities, increases in operating expenses or curtailment of certain operations to limit or prevent releases of materials from our facilities, the incurrence of capital expenditures associated with the installation of pollution control equipment, and the imposition of substantial liabilities for pollution resulting from our operations. Moreover, new, stricter environmental laws, regulations or enforcement policies could be implemented that significantly increase our compliance costs or the costs of any remediation of environmental contamination that may become necessary, and these costs could be material. For example, the adoption and implementation of any climate change legislation or regulations imposing reporting obligations with respect to, or limiting emissions of, greenhouse gases could result in increased operating costs and adversely affect demand for natural gas.

Numerous governmental authorities, such as the U.S. Environmental Protection Agency and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly corrective actions. Failure to comply with these laws, regulations and permits may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or preventing some or all of our operations. In addition, joint and several liability or strict liability may be imposed under certain environmental laws, which could cause us to become liable for the conduct of others or for consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. Private parties may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage that may result from environmental and other impacts of our operations. We may not be able to recover all or any of these costs through insurance or other means, which may have a material adverse effect on our business, financial condition, results of operation and ability to make distributions. Please read **Business Environmental Matters** for more information.

If we do not complete expansion projects or make and integrate acquisitions, our future growth may be limited.

A principal focus of our strategy is to continue to grow the cash distributions on our units by expanding our business. Our ability to grow depends on our ability to complete expansion projects and make acquisitions that result in an increase in cash generated from operations on a per unit basis (i.e., are accretive). We may be unable to complete successful, accretive expansion projects or acquisitions for any of the following reasons:

we are unable to identify attractive expansion projects or acquisition candidates that satisfy our economic and other criteria, or we are outbid for such opportunities by our competitors;

we are unable to raise financing for such expansion projects or acquisitions on economically acceptable terms;

we are unable to secure adequate customer commitments to use the facilities to be expanded or acquired; or

we are unable to obtain governmental approvals or other rights, licenses or consents needed to complete such expansion projects or acquisitions.

Acquisitions or expansion projects that we complete may not perform as anticipated and could result in a reduction of our distributable cash flow on a per unit basis.

Even if we complete expansion projects or acquisitions that we believe will be accretive, such projects or acquisitions may nevertheless reduce our available cash from distributable cash flow on a per unit basis due to the following factors:

mistaken assumptions about storage capacity, deliverability, base gas needs, geological integrity, revenues, synergies, costs (including operating and general and administrative, capital, debt and equity costs), customer demand, growth potential, assumed liabilities and other factors;

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an inability to complete expansion projects on schedule and within applicable budgets due to various factors, including cost overruns, schedule delays, and the inability to obtain necessary permits or approvals;

the failure to receive cash flows from an expansion project or newly acquired asset due to delays in the commencement of operations for any reason;

unforeseen operational issues or the realization of liabilities that were not known to us at the time the acquisition or expansion project was completed;

the inability to attract new customers or retain acquired customers to the extent assumed in connection with the expansion or acquisition project;

the failure to successfully integrate expansion projects or acquired assets or businesses into our operations and/or the loss of key employees; or

the impact of regulatory, environmental, political and legal uncertainties that are beyond our control.

If we consummate any future expansion projects or 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. If any expansion projects or acquisitions we ultimately complete are not accretive to our distributable cash flow per common unit and Series A subordinated unit, our ability to make distributions may be reduced.

We could lose the benefits of the Pine Prairie tax abatement.

In May 2006, we entered into an arrangement with the Industrial Development Board No. 1 of the Parish of Evangeline, State of Louisiana Inc. (the Industrial Development Board), pursuant to which we sold a portion of the Pine Prairie facility located in the parish to the Industrial Development Board and entered into a 15-year agreement, which commenced in January of 2008, to lease back such portion of the facility. Pursuant to this arrangement and in exchange for certain payments in lieu of taxes, we are not subject to ad valorem property tax in Evangeline Parish except for ad valorem tax on inventory. As of December 31, 2009, the present value of the tax abatement was approximately \$23 million. We classify the present value of the tax abatement as an intangible asset, so if we were to lose the tax abatement due to a successful legal challenge of the arrangement, our violation of the terms of the lease, or for any other reason, it would be a charge to our earnings and could have an adverse impact on our results of operations and ability to make distributions. See Business Title to Properties and Rights-of-Way.

Our natural gas storage facilities are new and have limited operating history. The facilities may not be able to deliver as anticipated, which could prevent us from meeting our contractual obligations and cause us to incur significant costs.

Although we believe that our operating gas storage facilities at Bluewater and Pine Prairie have been designed to meet our contractual obligations with respect to wheeling, injection, withdrawal and gas specifications, the facilities are new and have a limited operating history. If we fail to wheel, inject or withdraw natural gas at contracted rates, or cannot deliver natural gas consistent with contractual quality specifications, we could incur significant costs to satisfy our contractual obligations. These costs could have an adverse impact on our business, financial condition, results of operations and ability to make distributions.

Our business involves many hazards and operational risks, some of which may not be fully covered by insurance. If a significant accident or event occurs for which we are not fully insured, our operations and financial results could be adversely affected.

Our operations are subject to all of the risks and hazards inherent in the natural gas storage business, including:

reduction of our available storage capacity at our salt caverns over time due to (i) unexpected increases in the temperature of our caverns, which reduces capacity as a result of the expansion of the stored natural gas, (ii) the long-term effect of pressure differentials between the caverns and the surrounding salt formations (known as salt creep) or (iii) problems with the structural integrity of our salt caverns;

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subsidence of the geological structures where we store natural gas;

risks and hazards inherent in drilling operations associated with the development of new caverns and/or the drilling of raw water wells or salt water disposal wells;

problems maintaining the wellbores and related equipment and facilities that form a part of the infrastructure that is critical to the operation of our storage facilities;

impacts to our operations due to the unavailability of raw water for any reason or the inability to dispose of salt water through our salt water disposal wells for any reason;

damage to our storage facilities, related equipment and connecting pipelines and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters and acts of terrorism;

inadvertent damage from third parties, including construction, farm and utility equipment;

leaks of natural gas and other hydrocarbons or losses of natural gas as a result of the malfunction of equipment or facilities;

collapse of storage caverns;

operator error;

environmental pollution or other environmental issues, including drinking water contamination, associated with our raw water or water disposal wells or our water treatment facilities;

damage associated with equipment or material failures, pipeline or vessel ruptures or corrosion, explosions, fires and other incidents; and

other hazards that could result in personal injury and loss of life, pollution and suspension of operations.

These risks could result in substantial losses due to breaches of contractual commitments, personal injury and/or loss of life, damage to and destruction of property and equipment and pollution or other environmental damage. These risks may also result in curtailment or suspension of our operations. A natural disaster or other hazard affecting the areas in which we operate could have a material adverse effect on our operations. We are not fully insured against all risks inherent in our business. In addition, we are not insured against all environmental accidents that might occur, some of which may result in toxic tort claims. If a significant accident or event occurs for which we are not fully insured, it could result in a material adverse effect on our business, financial condition, results of operations and ability to make distributions. Furthermore, we may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies may substantially increase. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. Additionally, we may be unable to recover from prior owners of our assets, pursuant to our indemnification rights, for potential environmental liabilities.

In addition, we share insurance coverage with PAA, for which we reimburse PAA's general partner pursuant to the terms of the omnibus agreement. To the extent PAA experiences covered losses under the insurance policies, the limit of our coverage for potential losses may be decreased.

If leakage or migration of natural gas or other hydrocarbons occurs from any of our storage facilities, our operations and financial results could be adversely affected.

Our operations are subject to the risk that natural gas or other hydrocarbons could leak or migrate from our storage facilities, causing a loss of volumes stored in the storage facilities. This risk could cause substantial losses due to our inability to deliver the stored volumes back to our customers. Furthermore, we may not be able to obtain insurance to protect against this risk and we may not be able to maintain insurance of the type and amount we desire at reasonable rates to insure against this risk.

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Restrictions in our anticipated credit facility could adversely affect our business, financial condition, results of operations, ability to make distributions to unitholders and value of our units.

We expect to have a credit facility available to us concurrent with the closing of the offering. Our credit facility is likely to restrict our ability to, among other things:

- incur additional debt;
- make distributions on or redeem or repurchase units;
- make certain investments and acquisitions;
- incur or permit certain liens to exist;
- enter into certain types of transactions with affiliates;
- merge, consolidate or amalgamate with another company; and
- transfer or otherwise dispose of assets.

Furthermore, our credit facility may contain covenants requiring us to maintain certain financial ratios.

The provisions of our credit facility may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our credit facility could result in an event of default which could enable our lenders, subject to the terms and conditions of the anticipated credit facility, to declare the outstanding principal of that debt, together with accrued interest, to be immediately due and payable. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and the holders of our units could experience a partial or total loss of their investment.

Debt we incur in the future may limit our flexibility to obtain financing and to pursue other business opportunities.

Our future 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;
- our funds available for operations, future business opportunities and distributions to unitholders will be reduced by that portion of our cash flow required to make interest payments on our debt;
- we may be more vulnerable to competitive pressures or a downturn in our business or the economy generally; and
- our flexibility in responding to changing business and economic conditions may be limited.

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, some of which are beyond our control. If our operating results are not sufficient to service any 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 or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms or at all.

For more information regarding our debt agreements, please read Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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We are considered a subsidiary of PAA under its debt instruments and, as such, we may be directly or indirectly subject to and impacted by certain restrictions in PAA's existing and future credit facilities and indentures. These restrictions may limit our access to credit, prevent us from engaging in beneficial activities, and in certain circumstances, require us to guarantee PAA's indebtedness.

Under the terms of PAA's indebtedness, we are considered a subsidiary of PAA and, although we are not contractually bound by and are not liable for PAA's debt under its debt instruments, we are subject to and indirectly affected by certain restrictions and covenants contained in them. As a result, our ability to take certain actions, including incurring certain types of indebtedness, may be prohibited or affected and result in our not obtaining the most advantageous financing terms or prevent us from engaging in certain transactions that might otherwise be considered beneficial. For example, the amount of secured indebtedness that PAA and certain of its subsidiaries, including us, may incur without having to secure certain PAA notes on an equal and ratable basis is limited. Additionally, if we or any of our subsidiaries were to guarantee indebtedness for borrowed money of PAA or any other subsidiary of PAA (including if one of our own subsidiaries guarantees any of our debt), the entity providing such guarantee would also be required to guarantee PAA's outstanding debt. Although we and PAA believe that the restrictions in PAA's debt instruments will not have a material impact on our operations or access to credit, no assurance can be given to that effect and PAA's and our ability to comply with any restrictions in PAA's debt instruments may be affected by events beyond its and our control.

Any debt instruments that PAA enters into in the future, including any amendments to its existing credit facilities, may include additional or more restrictive limitations on our ability to conduct our business. If we are considered a restricted subsidiary under PAA's existing or future credit facilities or indentures, we will be subject to the restrictive covenants included in PAA's debt instruments at that time. These additional restrictions could adversely affect our ability to finance our future operations or capital needs or engage in, expand or pursue our business activities. In addition, PAA has the ability to prevent us from taking actions that would cause PAA to violate any covenants in its credit facilities or indentures, or otherwise to be in default under any of its debt instruments. In deciding whether to prevent us from taking any such action, PAA will have no fiduciary duty to us or our unitholders.

The credit and risk profile of our general partner and its owner, PAA, could adversely affect our credit ratings and risk profile, which could increase our borrowing costs or hinder our ability to raise capital.

The credit and business risk profiles of our general partner and PAA may be factors considered in credit evaluations of us. This is because our general partner, which is owned by PAA, controls our business activities, including our cash distribution policy and expansion strategy. Any adverse change in the financial condition of PAA, including the degree of its financial leverage and its dependence on cash flow from us to service its indebtedness, may adversely affect our credit ratings and risk profile.

If we were to seek a credit rating in the future, our credit rating may be adversely affected by the leverage of our general partner or PAA, as credit rating agencies such as Standard & Poor's Ratings Services and Moody's Investors Service may consider the leverage and credit profile of PAA and its affiliates because of their ownership interest in and control of us. Any adverse effect on our credit rating would increase our cost of borrowing or hinder our ability to raise financing in the capital markets, which would impair our ability to grow our business and make distributions to unitholders.

Increases in interest rates could adversely impact our unit price, our ability to issue equity or incur debt for acquisitions or other purposes, and our ability to make cash distributions at our intended levels.

Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price is impacted by the level of our

cash distributions and our implied distribution yield. The distribution yield is often used by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on our unit price, our ability

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to issue equity or incur debt for acquisitions or other purposes and to make cash distributions at our intended levels.

If we fail to develop or maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud, which would likely have a negative impact on the market price of our common units.

Prior to this offering, we have not been required to file reports with the SEC. Upon the completion of this offering, we will become subject to the public reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We prepare our consolidated financial statements in accordance with GAAP, but our internal accounting controls may not currently meet all standards applicable to companies with publicly traded securities. Effective internal controls are necessary for us to provide reliable financial reports, prevent fraud and to operate successfully as a publicly traded partnership. Our efforts to develop and maintain our internal controls may not be successful, and we may be unable to maintain effective controls over our financial processes and reporting in the future or to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002, which we refer to as Section 404. For example, Section 404 will require us, among other things, to annually review and report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal controls over financial reporting. We must comply with Section 404 for our fiscal year ending December 31, 2011. Any failure to develop, implement or maintain effective internal controls or to improve our internal controls could harm our operating results or cause us to fail to meet our reporting obligations. Given the difficulties inherent in the design and operation of internal controls over financial reporting, we can provide no assurance as to our, or our independent registered public accounting firm's, conclusions about the effectiveness of our internal controls, and we may incur significant costs in our efforts to comply with Section 404. Ineffective internal controls will subject us to regulatory scrutiny and a loss of confidence in our reported financial information, which could have an adverse effect on our business and would likely have a negative effect on the trading price of our common units.

Risks Inherent in an Investment in Us

Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions.

We expect that we will distribute all of our available cash to our unitholders and will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, to fund our acquisitions and expansion capital expenditures. As a result, 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 that of 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. There are no limitations in our partnership agreement 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.

Cost reimbursements due to PAA's general partner and our general partner for services provided to us or on our behalf will be substantial and will reduce our cash available for distribution to you. The amount and timing of such reimbursements will be determined by PAA's general partner.

Prior to making distributions on our common units, we will reimburse PAA's general partner and its affiliates for all expenses they incur on our behalf. These expenses will include all costs incurred by PAA, its general partner or our

general partner in managing and operating us. These operating expense reimbursements and the reimbursement of incremental general and administrative expenses we will incur as a result of becoming a publicly traded partnership are not capped. In addition, PAA and our general partner will have

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substantial discretion in incurring third-party expenses on our behalf. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. The reimbursements to PAA's general partner and our general partner will reduce the amount of cash otherwise available for distribution to our unitholders.

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

Our general partner has the right, at any time when there are no Series A subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our distributions at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution and each target distribution level will be reset to the correspondingly higher amount that causes such reset target distribution level to exceed the reset minimum quarterly distribution by the same percentage that such distribution level exceeds the then-current minimum quarterly distribution.

If our general partner elects to reset the target distribution levels, it will be entitled to receive a number of common units and will retain its then-current general partner interest. The number of common units to be issued to our general partner will equal the number of common units which would have entitled their holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion. It is possible, however, that our general partner could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may, therefore, desire to be issued common units rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that our common unitholders would have otherwise received had we not issued new common units to our general partner in connection with resetting the target distribution levels. Please read Provisions of Our Partnership Agreement Relating to Cash Distributions – General Partner's Right to Reset Target Distribution Levels.

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 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 an 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 both for the obligations of the assignor to make contributions to the partnership that were known to the substituted limited partner at the time it became a limited partner and for those obligations that were unknown if the liabilities could have been determined from the partnership agreement. Neither liabilities to partners on account of their partnership interest nor liabilities that are non-recourse to the partnership are counted for purposes of determining whether a distribution is permitted.

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

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general partner. Our partnership is organized under Delaware law, and we conduct business in 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 states in which we do business or may do business in from time to time in the future. You could be liable for any and all of our obligations as if you were a general partner if a court or government agency were to determine 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 our general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitutes control of our business.

For a discussion of the implications of the limitations of liability on a unitholder, please read "The Partnership Agreement - Limited Liability."

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 have no right on an annual or ongoing basis to elect our general partner or its board of directors. The board of directors of our general partner will be chosen by PAA. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove 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. 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 limiting the unitholders' ability to influence the manner or direction of management.

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

The unitholders initially will be unable 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 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 our general partner. Following the closing of this offering, PAA will own an aggregate of approximately 66% of our outstanding voting 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 Series A subordinated units and Series B 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 Series A subordinated units and Series B subordinated units, which would otherwise have continued until we had met certain distribution, performance and operational tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud, gross negligence 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 our general partner because of the unitholder's 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 Series A subordinated units and Series B subordinated units to common units.

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Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

Unitholders' voting rights are further restricted by a provision of our partnership agreement 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, 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 general partner interest or the 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 PAA to transfer 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 designees and thereby exert significant control over the decisions made by the board of directors and officers.

Upon closing of the offering, investors in our common units will experience immediate and substantial dilution in pro forma net tangible book value of \$ per common unit.

The estimated initial public offering price of \$ per common unit exceeds our pro forma net tangible book value of \$ per common unit. Based on the estimated initial public offering price of \$ per common unit, you will incur immediate and substantial dilution of \$ per common unit. This dilution results primarily because the assets contributed by our general partner and its affiliates are recorded in accordance with GAAP at their historical cost, and not their fair value. Please read Dilution.

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

Our partnership agreement does not limit the number of additional limited partner interests that we may issue at any time without the approval of our unitholders. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

our existing 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 Series A 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.

PAA may sell units in the public or private markets, and such sales could have an adverse impact on the trading price of the common units.

After the sale of the common units offered by this prospectus, assuming that the underwriters do not exercise their option to purchase additional common units, PAA will hold common units, Series A subordinated units and Series B subordinated units. All of the Series A subordinated units will convert into common units at the end of the subordination period and may convert earlier under certain circumstances. The Series B subordinated units are also eligible for conversion into common units if certain operational and financial conditions are satisfied and the end of the subordination period has occurred. The sale of these units in the public or private markets could have an adverse impact on the price of the common

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units or on any trading market that may develop. A sale or transfer, including certain deemed transfers, by PAA of all or portions of its interests in us may cause our partnership to terminate for federal income tax purposes. For a discussion of the impact this could have on common unitholders, please read Tax Risks to Common Unitholders. 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.

There is no existing market for our common units, and a trading market that will provide you with adequate liquidity may not develop. The price of our common units may fluctuate significantly, and you could lose all or part of your investment.

Prior to this offering, there has been no public market for our common units. After this offering, there will be only publicly traded common units, assuming no exercise of the underwriters' option to purchase additional common units. We do not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. You may not be able to resell your common units at or above the initial public offering price. Additionally, the lack of liquidity may result in wide bid-ask spreads, contribute to significant fluctuations in the market price of the common units and limit the number of investors who are able to buy the common units.

The initial public offering price for the common units will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of the market price of the common units that will prevail in the trading market. The market price of our common units may decline below the initial public offering price. The market price of our common units may also be influenced by many factors, some of which are beyond our control, including:

our quarterly or annual earnings or those of other companies in our industry;

the loss of a large customer;

announcements by us or our competitors of significant contracts or acquisitions;

changes in accounting standards, policies, guidance, interpretations or principles;

general economic conditions;

the failure of securities analysts to cover our common units after this offering or changes in financial estimates by analysts;

future sales of our common units; and

other factors described in these Risk Factors.

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

We have no history operating as a publicly traded partnership. As a publicly traded partnership, we will incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002 and related rules subsequently implemented by the SEC and the New York Stock Exchange, or the NYSE, have required changes in the 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 partnership, we are required to have at least three independent directors, create an audit

committee 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 partnership reporting requirements. We also expect these new rules and regulations to make it more difficult and more expensive for our general partner to obtain director and officer liability insurance and to possibly result in our general partner having to accept reduced policy limits and coverage. As a result, it may be more difficult for our general partner to attract and retain qualified persons to serve on its board of directors or as executive officers. We have included \$2.6 million of estimated incremental costs per year associated with being a publicly traded

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partnership in our financial forecast included elsewhere in this prospectus. However, it is possible that our actual incremental costs of being a publicly traded partnership will be higher than we currently estimate.

Risks Related to Conflicts of Interest

PAA owns and controls our general partner, which has sole responsibility for conducting our business and managing our operations. PAA and our general partner have conflicts of interest and may favor PAA's interests to your detriment.

Following this offering, PAA will own and control our general partner, as well as appoint all of the officers and directors of our general partner, some of whom will also be officers of PAA's general partner. Although our general partner has a fiduciary duty to manage us in a manner that is beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in a manner that is beneficial to its owner, PAA. Conflicts of interest may arise between PAA and our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of PAA over our interests and the interests of our unitholders. These conflicts include the following situations, among others:

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

while PAA has stated that it intends to utilize our partnership as the primary vehicle through which it will participate in the natural gas storage business, PAA and its affiliates are not limited in their ability to compete with us;

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

certain of the officers of our general partner will also devote significant time to the business of PAA and will be compensated by PAA's general partner accordingly;

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

our partnership agreement contains provisions designed to facilitate PAA's ability to provide us with financial support while reducing concerns regarding conflicts of interest by defining certain potential financing transactions between PAA and us as fair to our unitholders;

except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;

our general partner determines the amount and timing of asset purchases and sales, borrowings, issuances of additional partnership securities and the creation, reduction or increase of cash reserves. Each of these determinations can affect the amount of cash that is distributed to our unitholders and to our general partner, the ability of the Series A subordinated units to convert to common units and the achievement of the financial conditions necessary for the Series B subordinated units to convert to Series A subordinated units or common units;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is classified as a maintenance capital expenditure, which reduces distributable cash flow. These determinations can affect the amount of cash that is distributed to our unitholders and to our general partner, the ability of the Series A subordinated units to convert to common units and the Series B subordinated units to convert to Series A subordinated units or common units;

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our general partner will determine the amount and timing of the planned expansions of our Pine Prairie facility, and as a result, the achievement of the operational conditions necessary for the Series B subordinated units to convert to Series A subordinated units or common units, as applicable;

our general partner determines which costs incurred by it are reimbursable by us;

our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the Series A subordinated units, to make incentive distributions or to make distributions to achieve the financial conditions necessary for the Series B subordinated units to convert to Series A subordinated units for the Series A subordinated units to convert to common units;

our partnership agreement permits us to distribute up to \$40 million from capital sources without treating such distribution as a distribution from capital;

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;

our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if they own more than 80% of the common units;

our general partner controls the enforcement of the obligations that it and its affiliates owe to us;

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

our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our general partner's incentive distribution rights without the approval of the conflicts committee of the board of directors of our general partner or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

Please read [Conflicts of Interest and Fiduciary Duties](#).

PAA may engage in competition with us.

Although PAA has stated that it intends to utilize our partnership as the primary vehicle through which it will participate in the natural gas storage business, PAA and its affiliates are not limited in their ability to compete with us.

Our partnership agreement defines our general partner's fiduciary duties, and limits remedies available, to holders of our common and subordinated units in ways that without such definition or limitation, might constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that modify the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, or otherwise

free of fiduciary duties to us and our unitholders. This entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples of decisions that our general partner may make in its individual capacity include:

how to allocate corporate opportunities among us and our general partner's affiliates;

whether to exercise its limited call right;

how to exercise its voting rights with respect to the units it owns;

whether to exercise its registration rights;

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whether to elect to reset target distribution levels; and

whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

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

Our partnership agreement defines and modifies the duties of our general partner and restricts the remedies available to holders of our common and subordinated units for actions taken by our general partner.

Our partnership agreement contains provisions that define the standard of care that our general partner must exercise and restrict the remedies available to unitholders for actions taken by our general partner in accordance with that standard of care, including in circumstances that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement:

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

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 such decisions are made in good faith, meaning that it believed that the decision was in, or not opposed to, the best interests of our partnership;

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or their assignees resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers and directors, as the case may be, 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 our general partner will not be in breach of its obligations under the partnership agreement or its fiduciary duties to us or our unitholders if a transaction with an affiliate or the resolution of a conflict of interest is:

- (a) approved by the conflicts committee of the board of directors of our general partner, although our general partner is not obligated to seek such approval;
- (b) approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and its affiliates;
- (c) on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- (d) fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be favorable or advantageous to us.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, any determination by our general partner must be made in good faith. If an affiliate transaction or the resolution of a conflict of interest is not approved by our common unitholders or the conflicts committee and the board of directors of our general partner determines that the resolution or course of action taken with respect to the affiliate transaction or conflict of interest satisfies either of the standards set forth in subclauses (c) and (d) above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

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

Our general partner intends to limit its liability under contractual arrangements so that the counterparties to such arrangements have recourse only against our assets, and not against our general partner or its assets. Our general partner may therefore cause us to incur indebtedness or other obligations that are nonrecourse to our general partner. Our partnership agreement provides that any action taken by our general partner to limit its liability is not a breach of our general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability. In addition, we are obligated to reimburse or indemnify our general partner to the extent that it incurs obligations on our behalf. Any such reimbursement or indemnification payments would reduce the amount of cash otherwise available for distribution to our unitholders.

Our general partner has a limited call right that may require you to sell your 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, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price that is 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 may also incur a tax liability upon a sale of your units. At the completion of this offering, and assuming no exercise of the underwriters' option to purchase additional common units, PAA will own approximately % of our outstanding common units. At the end of the subordination period, assuming no additional issuances of common units (other than upon the conversion of the Series A subordinated units), PAA will own approximately % of our outstanding common units. Upon the satisfaction of certain operational and financial conditions and the end of the subordination period having occurred, assuming no additional issuances of common units (other than upon the conversion of the Series A subordinated units and the ultimate conversion of the Series B subordinated units to common units), PAA will own approximately % of our outstanding common units. For additional information about this right, please read The Partnership Agreement Limited Call Right.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, you should read Material Income Tax Consequences for a more complete discussion of the expected material federal income tax consequences of owning and disposing of 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 additional entity-level taxation by individual states. If the IRS were to treat us as a corporation for federal income tax purposes or we were to become subject to material additional amounts of entity-level taxation for state tax purposes, then our cash available for distribution to you could be substantially reduced.

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

Despite the fact that we are classified as a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe, based upon our current operations, that we will be so treated, a change in our business (or a change in current law) could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

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, deductions or credits would flow through to you. Because a tax

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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 the 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 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. Specifically, we will be subject to an entity-level tax on any portion of our income that is generated in Texas in the prior year. Imposition of any such additional taxes on us will reduce the cash available for distribution to our unitholders. Our 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 income tax purposes, our target distribution amounts will be adjusted to reflect the impact of that law on us.

Our 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 may be adjusted to reflect the impact of that law on us.

The tax treatment of (i) publicly traded partnerships or (ii) an investment in our units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present U.S. federal income tax treatment of (i) publicly traded partnerships, including us, or (ii) an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that affect publicly traded partnerships. Any modification to the U.S. federal income tax laws and interpretations thereof may or may not be applied retroactively and could make it more difficult or impossible to meet the exception for certain publicly traded partnerships to be treated as partnerships for U.S. federal income tax purposes. Although the considered legislation would not appear to have affected our treatment as a partnership, we are unable to predict whether any of these changes, or other proposals will be reintroduced or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

You will 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 that 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 whether or not you receive 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 that income.

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 our partnership 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. Immediately following this offering, PAA will own more than 50% of the total interests in our capital and profits interests. Therefore, a transfer by PAA of all or a portion of its interests in us, including a deemed transfer as a result of a termination of PAA's partnership for federal income tax purposes, could result in a termination of our partnership for federal income

tax purposes. 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. In the case of a unitholder reporting on a taxable year

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other than a fiscal year ending December 31, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. Please read

Material Income Tax Consequences Disposition of Common Units Constructive Termination for a discussion of the consequences of our termination for federal income tax purposes.

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. Because distributions in excess of your allocable share of our net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder's share of our nonrecourse liabilities, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale. Please read Material Income Tax Consequences Disposition of Common Units Recognition of Gain or Loss for a further discussion of the foregoing.

Tax-exempt entities and non-U.S. 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 employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs 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 U.S. federal tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

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

The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with some or all of 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. Our 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.

We will treat each purchaser of our common units as having the same tax benefits without regard to the actual common 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, we will adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. 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

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read **Material Income Tax Consequences** **Tax Consequences of Unit Ownership** **Section 754 Election** for a further discussion of the effect of the depreciation and amortization positions we adopt.

We will adopt certain valuation methodologies that may result in a shift of income, gain, loss and deduction between our general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and our general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between our general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

We will prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

Our method of proration of items of income, gain, loss and deduction between transferors and transferees may not be permitted under existing Treasury regulations, and, accordingly, our counsel is unable to opine as to the validity of this method. If the IRS were to challenge this method or new Treasury regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Please read **Material Income Tax Consequences** **Disposition of Common Units** **Allocations Between Transferors and Transferees**.

A unitholder whose common units are loaned to a short seller to cover a short sale of common units may be considered as having disposed of those common units. If so, he would no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.

Because there is no tax concept of loaning a partnership interest, a unitholder whose common units are loaned to a short seller to cover a short sale of common units may be considered as having disposed of the loaned units. In that case, he may no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their common units.

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

In addition to federal income taxes, you will likely be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or own property, even if you do not live in any of those jurisdictions. You will likely 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 will initially own assets and conduct business in the states of Louisiana and Michigan. Each of these states currently imposes a personal income tax and also impose income taxes on corporations and other entities. As we make acquisitions or expand our business, we may own assets or conduct business in additional states or foreign jurisdictions that impose a personal income tax. It is your responsibility to file all U.S. federal, foreign, state and local tax returns. Our counsel has not rendered an opinion on the foreign, state or local tax consequences of an investment in our common units.

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USE OF PROCEEDS

We expect to receive net proceeds of approximately \$ million, after deducting underwriting discounts and commissions but before paying offering expenses, from the issuance and sale of common units offered by this prospectus. We expect to use these net proceeds, together with borrowings under our new credit facility, to repay intercompany indebtedness owed to PAA in the amount of approximately \$. Thus, PAA expects to use all or a portion of these proceeds to repay amounts outstanding under its credit facilities and for general partnership purposes.

As of December 31, 2009, we had approximately \$451 million of intercompany indebtedness outstanding to PAA with a fixed interest rate of 6.5% incurred to refinance project debt and for capital expenditures.

Our estimates assume an initial public offering price of \$ per common unit and no exercise of the underwriters option to purchase additional common units. An increase or decrease in the initial public offering price of \$1.00 per common unit would cause the net proceeds from the offering, after deducting underwriting discounts, to increase or decrease by \$ million. If the proceeds increase due to a higher initial public offering price, we will use the additional proceeds to repay any remaining amounts under the intercompany indebtedness owed to PAA and for general partnership purposes. If the proceeds decrease due to a lower initial public offering price, we will decrease the amount of our repayment of the intercompany indebtedness owed to PAA.

The proceeds from any exercise of the underwriters option to purchase additional common units will be used to redeem from PAA a number of common units corresponding to the number of common units issued upon such exercise, at a price per common unit equal to the proceeds per common unit before expenses but after underwriting discounts.

Affiliates of Barclays Capital Inc. and UBS Securities LLC are lenders under PAA's credit facilities and will receive their proportionate share of any repayment by PAA of its credit facilities in connection with this transaction.

Table of Contents**CAPITALIZATION**

The following table shows:

our historical capitalization as of December 31, 2009; and

our as adjusted capitalization as of December 31, 2009, reflecting this offering of common units at an assumed initial public offering price of \$, the other formation transactions described under Summary Formation Transactions and Partnership Structure and the application of the net proceeds from this offering as described under Use of Proceeds.

We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical consolidated 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, 2009	
	Historical	As Adjusted
	(in thousands)	
Cash and cash equivalents	\$ 3,124	\$
Revolving credit facility		
Note payable to PAA	450,523	
Total debt	450,523	
Members' equity	432,744	
Total capitalization	\$ 883,267	\$

Table of Contents**DILUTION**

Dilution is the amount by which the offering price paid by the purchasers of common units sold in this offering will exceed the pro forma net tangible book value per common unit after the offering. On a pro forma basis as of December 31, 2009, after giving effect to the offering of common units and the application of the related net proceeds, and assuming the underwriters' option to purchase additional common units is not exercised, our net tangible book value was \$ million, or \$ per common unit. Net tangible book value excludes \$47 million of net goodwill and intangible assets. Purchasers of common units in this offering will experience immediate and substantial dilution in net tangible book value per common unit for financial accounting purposes, as illustrated in the following table:

Assumed initial public offering price per common unit	\$
Net tangible book value per common unit before the offering(1)	
Increase in net tangible book value per common unit attributable to purchasers in the offering	
Less: Pro forma net tangible book value per common unit after the offering(2)	
Immediate dilution in tangible net book value per common unit to purchasers in the offering(3)	\$

- (1) Determined by dividing the number of units (common units, Series A subordinated units, Series B subordinated units and the corresponding value for the 2% general partner interest to be issued to our general partner and its affiliates, including PAA, for the contribution of assets and liabilities to us) into the net tangible book value of the contributed assets and liabilities.
- (2) Determined by dividing the total number of units to be outstanding after the offering (common units, Series A subordinated units, Series B subordinated units and the corresponding value for the 2% general partner interest) into our pro forma net tangible book value, after giving effect to the application of the expected net proceeds of the offering.
- (3) If the initial public offering price were to increase or decrease by \$1.00 per common unit, then dilution in net tangible book value per common unit would equal \$ and \$, respectively.

The following table sets forth the number of units that we will issue and the total consideration contributed to us by our general partner and its affiliates and by the purchasers of common units in this offering upon consummation of the transactions contemplated by this prospectus:

	Units Acquired		Total Consideration	
	Number	Percent	Amount	Percent
			(in thousands)	
General partner and affiliates(1)(2)(3)		%	\$	%
Purchasers in the offering		%	\$	%

Total	100.0%	\$	100.0%
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- (1) The units acquired by our general partner and its affiliates, including PAA, consist of common units, Series A subordinated units and Series B subordinated units. Our general partner also owns a 2.0% general partner interest in us.
- (2) The assets contributed by our general partner and its affiliates were recorded at historical cost in accordance with GAAP. Book value of the consideration provided by our general partner and its affiliates, as of , 2010, equals parent net investment, which was \$ million and is not affected by this offering.
- (3) Assumes the underwriters option to purchase additional common units is not exercised.

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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 Assumptions and Considerations below, which includes the factors and assumptions upon which we base our cash distribution policy. In addition, please read Forward-Looking Statements and Risk Factors for information regarding statements that do not relate strictly to historical or current facts and certain risks inherent in our business. For additional information regarding our historical operating results, you should refer to our historical consolidated financial statements, and the notes thereto, 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 cash distribution policy reflects a fundamental judgment that our unitholders generally will be better served by our distributing rather than retaining our available cash. Basically, our available cash is our (i) cash on hand at the end of a quarter after the payment of our expenses and the establishment of cash reserves and (ii) cash on hand resulting from working capital borrowings made after the end of the quarter. Because we are not subject to an entity-level federal income tax, we have more cash to distribute to our unitholders than would be the case were we subject to federal income tax.

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy. There is no guarantee that our unitholders will receive quarterly distributions from us. We do not have a legal obligation to pay the minimum quarterly distribution or any other distribution except to distribute available cash as provided in our partnership agreement. Our cash distribution policy may be changed at any time and is subject to certain restrictions, including the following:

Our cash distribution policy may be subject to restrictions on distributions under our new credit facility or other debt agreements entered into in the future. We expect that our new credit facility will contain material financial tests and covenants that we must satisfy. Should we be unable to satisfy these restrictions under our credit facility, we may be prohibited from making cash distributions to you notwithstanding our stated cash distribution policy. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources New Credit Facility.

Our general partner will have the authority to establish cash reserves for the prudent conduct of our business and for future cash distributions to our unitholders, and the establishment or increase of those cash reserves could result in a reduction in cash distributions to you from the levels we currently anticipate pursuant to our stated distribution policy. Any determination to establish cash reserves made by our general partner in good faith will be binding on our unitholders. Our partnership agreement provides that in order for a determination by our general partner to be made in good faith, our general partner must subjectively believe that the determination is in, or not opposed to, the best interests of our partnership.

Although our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including the provisions contained therein that require us to make cash distributions, may be amended. Our partnership agreement generally may not be amended during the subordination period without the approval of our public common unitholders. However, our partnership agreement can be amended with the consent of our general partner and the approval of a majority of the outstanding common units (including common units held by PAA), voting as a single class after the subordination period has ended. At the closing of this offering, PAA will own our general partner and an aggregate of approximately % of our total

outstanding 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 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.

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We may lack sufficient cash to pay distributions to our unitholders due to revenue shortfalls attributable to a number of operational, commercial or other factors as well as increases in our operating or general and administrative expense, principal and interest payments on our debt, tax expenses, working capital requirements and anticipated cash needs. Our cash available for distribution to unitholders is directly impacted by our cash expenses necessary to run our business and will be reduced dollar for dollar to the extent such uses of cash increase. Please read Provisions of Our Partnership Agreement Relating to Cash Distributions Distributions of Available Cash.

If and to the extent our distributable cash flow materially declines, we may elect to reduce our quarterly distribution in order to service or repay our debt or fund expansion capital expenditures.

Our ability to make distributions to our unitholders depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, the provisions of existing and future indebtedness, applicable state partnership and limited liability company laws and other laws and regulations.

Our Ability to Grow is Dependent on Our Ability to Access External Expansion Capital. Our partnership agreement requires us to 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, to fund our acquisitions and expansion capital expenditures. To the extent we are unable to access such external sources to finance our growth, our cash distribution policy could significantly impair our ability to grow. In addition, because we distribute all of our available cash, our growth may not be as fast as that of 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. There are no limitations in our partnership agreement 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 Minimum Quarterly Distribution

Upon completion of this offering, the board of directors of our general partner will establish an initial minimum quarterly distribution of \$ per common unit and Series A subordinated unit per complete quarter, or \$ per common unit and Series A subordinated unit per year, to be paid no later than 45 days after the end of each fiscal quarter beginning with the quarter ending June 30, 2010. This equates to an aggregate cash distribution of \$ million per quarter, or \$ million per year, based on the number of common units, Series A subordinated units and the 2.0% general partner interest to be outstanding immediately after the completion of this offering. Our ability to make cash distributions at the minimum quarterly 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.

If and to the extent the underwriters exercise their option to purchase additional common units, the number of units purchased by the underwriters pursuant to such exercise will be issued to the public and we will use the net proceeds from the sale of these additional common units to redeem from PAA a number of common units equal to those issued upon exercise of the underwriters option, at a price per common unit equal to the proceeds per common unit before expenses, but after underwriting discounts. Accordingly, the exercise of the underwriters option will not affect the total number of common units outstanding or the amount of cash needed to pay the minimum quarterly distribution on all common units and Series A subordinated units.

As of the date of this offering, our general partner will be entitled to 2.0% of all distributions that we make prior to our liquidation. In the future, our general partner's initial 2.0% interest in these distributions may be reduced if we issue additional units and our general partner does not contribute a proportionate amount of capital to us to maintain its initial 2.0% general partner interest.

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The table below sets forth the assumed number of outstanding common units and Series A subordinated units upon the closing of this offering, assuming the underwriters do not exercise their option to purchase additional common units, and the aggregate distribution amounts payable on such units and the 2.0% general partner interest during the year following the closing of this offering at our minimum quarterly distribution rate of \$ per common unit and Series A subordinated unit per quarter (\$ per common unit and Series A subordinated unit on an annualized basis).

	Minimum Quarterly Distributions		
	Number of Units	One Quarter	Annualized
Publicly held common units		\$	\$
Common units held by PAA			
Series A subordinated units held by PAA			
2.0% general partner interest			
Total		\$	\$

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 10th day prior to such payment date. 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 June 30, 2010 based on the actual length of the period.

Series A Subordinated Units

PAA will initially own all of our Series A subordinated units. The principal difference between our common units and Series A subordinated units is that in any quarter during the subordination period, holders of the Series A subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Series A subordinated units will not accrue arrearages.

The subordination period for the Series A subordinated units generally will end if we have earned and paid from distributable cash flow at least \$ on each outstanding common unit and Series A subordinated unit and the corresponding distribution on our general partner's 2.0% interest for each of three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2013. If we have earned and paid from distributable cash flow at least \$ (150.0% of the minimum quarterly distribution, which is \$ on an annualized basis) on each outstanding common unit and Series A subordinated unit and the corresponding distribution on our general partner's 2.0% interest for each quarter in any four-quarter period ending on or after June 30, 2011, the subordination period will terminate automatically and all of the Series A subordinated units will convert into an equal number of common units. When the subordination period ends, all of the Series A subordinated units will convert into an equal number of common units. Please read the Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

To the extent we do not pay the minimum quarterly distribution on our common units, our common unitholders will not be entitled to receive such payments in the future except during the subordination period. To the extent we have available cash in any future quarter during the subordination period in excess of the amount necessary to pay the minimum quarterly distribution to holders of our common units, we will use this excess available cash to pay any distribution arrearages on common units related to prior quarters before any cash distribution is made to holders of

Series A subordinated units. Please read Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period.

Series B Subordinated Units

The Series B subordinated units that will be outstanding upon the consummation of this offering are not entitled to cash distributions unless and until they convert to Series A subordinated units or common units. The Series B subordinated units are designed to compensate PAA for prior capital expenditures made by it to expand the working gas storage capacity at Pine Prairie and the future financial contribution expected to result

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from such investment. We currently do not expect any of the Series B subordinated units to convert to Series A subordinated units or common units before June 30, 2011. As a result, we would not expect any Series B subordinated units to receive any distributions for the twelve-month period ending June 30, 2011. We may, however, make acquisitions or take other actions that could cause Series B subordinated units to convert to Series A subordinated units during this period. In order for Series B Subordinated units to convert to Series A subordinated units, the following financial and operating conditions must be satisfied:

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 29.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters);

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 35.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters); and

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 41.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters).

To the extent that the above operational and financial tests are satisfied, the Series B subordinated units will convert into Series A subordinated units and participate in the quarterly distribution payable to Series A subordinated units with respect to the second consecutive quarter for which the operational and financial tests described above have been satisfied.

Following conversion of any Series B subordinated units into Series A subordinated units, such converted Series B subordinated units will further convert into common units (together with any other outstanding Series A subordinated units) to the extent that the Series A subordination tests are satisfied. In determining whether the subordination tests have been satisfied, the Series B subordinated units that have converted into Series A subordinated units will be treated as Series A subordinated units from and after the date of their conversion into Series A subordinated units.

In the sections that follow, we present in detail the basis for our belief that we will be able to fully fund our minimum quarterly distribution of \$ per common unit and Series A subordinated unit each quarter for the twelve months ending June 30, 2011. In those sections, we present the following two tables:

Unaudited Pro Forma Distributable Cash Flow, in which we present the amount of available cash we would have had from distributable cash flow on a pro forma basis for our year ended December 31, 2009, as adjusted to give pro forma effect to the offering and the formation transactions as if the offering and such transactions

had occurred on January 1, 2009; and

Statement of Minimum Estimated Distributable Cash Flow, in which we demonstrate our anticipated ability to generate the minimum estimated distributable cash flow necessary for us to pay the minimum

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quarterly distribution on all common units and Series A subordinated units for the twelve months ending June 30, 2011.

We define distributable cash flow as net income adjusted for (i) any gain or loss from the sale of assets not in the ordinary course of business, (ii) any gain or loss as a result of a change in accounting principles, (iii) any non-cash gains or items of income and any non-cash losses or expenses, including mark-to-market activity associated with hedging and with non-cash revaluation and/or fair valuation of assets or liabilities; (iv) any acquisition-related expenses associated with (a) successful acquisitions or (b) all other acquisitions until the earlier to occur of the abandonment of such acquisition or one year and (v) earnings or losses from unconsolidated subsidiaries except to the extent of actual cash distributions received; plus depreciation, depletion and amortization expense; and less maintenance capital expenditures.

Unaudited Pro Forma Distributable Cash Flow for the Year Ended December 31, 2009

If we had completed the transactions contemplated in this prospectus on January 1, 2009, pro forma distributable cash flow generated for the year ended December 31, 2009 would have been approximately \$36.6 million and would have enabled us to make a distribution of \$ (% of the minimum quarterly distribution) on the common units and no distribution on the Series A subordinated units. These distributions are significantly less than the amounts that would have been required to pay the minimum quarterly distribution of \$ per common unit and Series A subordinated unit per quarter (\$ per common unit and Series A subordinated unit on an annualized basis).

Unaudited pro forma distributable cash flow also includes incremental general and administrative expenses we will incur as a result of 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, Sarbanes-Oxley compliance, New York Stock Exchange listing, investor relations activities, registrar and transfer agent fees, director and officer liability insurance costs and director compensation. We expect our incremental general and administrative expenses associated with being a publicly traded limited partnership to total approximately \$2.6 million per year. Such incremental general and administrative expenses are not reflected in our historical financial statements.

The following table illustrates, on a pro forma basis, for the year ended December 31, 2009, the amount of our distributable cash flow, assuming that this offering had been consummated at the beginning of such period. Each of the pro forma adjustments presented below is explained in the footnotes to such adjustments.

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 historical consolidated financial statements have been prepared on an accrual basis. As a result, you should view the amount of pro forma distributable cash flow only as a general indication of the amount of distributable cash flow that we might have generated had we been formed in earlier periods.

Table of Contents**PAA Natural Gas Storage, L.P.****Unaudited Pro Forma Distributable Cash Flow**

	Year Ended December 31, 2009 (in millions, except per unit data)
Net income(1)	\$ 18.0
Add:	
Interest expense, net of capitalized interest(1)(2)	8.6
Income tax expense(1)(2)(3)	0.5
Depreciation, depletion and amortization(1)(2)	11.6
Equity compensation expense(2)(4)	1.8
Mark-to-market on open derivative positions(1)(2)	0.4
Adjusted EBITDA(5)	\$ 40.9
Adjusted for:	
Incremental general and administrative expense of being a public company(6)	(2.6)
Pro forma cash interest expense(7)	(0.8)
Cash paid for equity compensation	(0.4)
Acquisition related cost	0.2
Maintenance capital expenditures(8)	(0.7)
Pro forma distributable cash flow	\$ 36.6
Pro forma cash distributions	
Distributions on publicly held common units(9)	\$
Distributions on common units held by PAA(9)	
Distributions on Series A subordinated units held by PAA(9)	
Distributions on 2% general partner interest held by PAA(9)	
Total distributions	
Excess/(Shortfall)	\$
Percent of minimum quarterly distributions payable to common unitholders	
Percent of minimum quarterly distributions payable to Series A subordinated unitholders	
Interest coverage ratio(10)	
Leverage ratio(10)	

(1) The unaudited pro forma financial information for the year ended December 31, 2009 is provided for informational purposes and reflects net income derived by combining our Predecessor and Successor historical financial results for the year ended December 31, 2009.

- (2) Reflects adjustments necessary to reconcile net income to Adjusted EBITDA.
- (3) Reflects primarily Michigan state income tax.
- (4) Represents expense associated with grants under PAA's long-term incentive plans to employees that are dedicated to our operations.
- (5) We define Adjusted EBITDA as earnings before interest expense, taxes, depreciation, depletion and amortization, equity compensation plan charges, gains and losses from derivative activities and selected items that are generally unusual or non-recurring. Because Adjusted EBITDA excludes some, but not all, items that affect net income and may be defined differently by other companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted 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 and Segment Financial Measures.

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- (6) Reflects an adjustment to our Adjusted 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, Sarbanes-Oxley compliance, New York Stock Exchange listing, investor relations activities, registrar and transfer agent fees, director and officer liability insurance costs and director compensation.
- (7) In connection with the closing of this offering, we expect to enter into a new \$400 million credit agreement under which we expect to incur approximately \$200 million of borrowings. The pro forma cash interest expense reflects interest expense and commitment fees related to borrowings under our credit facility, net of capitalized interest, made in connection with this offering.
- (8) Maintenance capital expenditures are expenditures for the replacement of partially or fully depreciated assets in order to maintain the service capability, level of production, and/or functionality of our existing assets. Examples of maintenance capital expenditures include capital expenditures associated with maintaining the storage capacity of our facilities as well as ongoing maintenance or replacement costs for the various injection, withdrawal and related equipment costs associated with those facilities, to replace expected reductions in our storage, injection or withdrawal capacities (which we refer to as operating capacity).
- (9) The table below sets forth the assumed number of outstanding common units and Series A subordinated units upon the closing of this offering and the estimated per common unit and Series A subordinated unit and aggregate distribution amounts payable on our common units and Series A subordinated units, as well as the aggregate distribution amount payable on the 2% general partner interest for four quarters at our initial distribution rate of \$ per common unit per quarter (\$ per common unit on an annualized basis).

	Number of Units	Distributions for Four Quarters	
		Per Unit	Aggregate
Pro forma distributions on publicly-held common units			
Pro forma distributions on common units held by PAA			
Pro forma distributions on Series A subordinated units held by PAA			
Pro forma distributions on 2% general partner interest			
Total			

The Series B subordinated units that will be outstanding upon the consummation of this offering are not entitled to cash distributions unless and until they convert to Series A subordinated units or common units. Please read Series B Subordinated Units above.

- (10) We expect that our credit agreement will prohibit us from making distributions of available cash to unitholders if any default or event of default (as defined in the credit agreement) exists. In addition, we expect our credit agreement will contain other various covenants. If an event of default exists under the credit agreement, we expect that the lenders will be able to accelerate the maturity of the credit agreement and exercise other rights and remedies. The credit agreement is subject to a number of conditions, including the negotiation, execution and delivery of definitive documentation.

Minimum Estimated Distributable Cash Flow for the Twelve Months Ending June 30, 2011

In order to fund distributions to our unitholders at our initial minimum quarterly distribution of \$ per common unit and Series A subordinated unit for the twelve months ending June 30, 2011, our minimum estimated distributable cash flow for the twelve months ending June 30, 2011 must be at least \$ million. This minimum estimated distributable cash flow should not be viewed as management's projection of the actual amount of distributable cash flow that we will generate during the twelve month period ending June 30, 2011. We believe that we will be able to generate this minimum estimated distributable cash flow based on the assumptions discussed in Assumptions and Considerations below.

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We can give you no assurance, however, that we will generate the minimum estimated distributable cash flow. There will likely be differences between our minimum estimated distributable cash flow and our actual results and those differences could be material. If we fail to generate the minimum estimated distributable cash flow, we may not be able to pay the minimum quarterly distribution on our common units.

We define distributable cash flow as net income adjusted for (i) any gain or loss from the sale of assets not in the ordinary course of business, (ii) any gain or loss as a result of a change in accounting principles, (iii) any non-cash gains or items of income and any non-cash losses or expenses, including mark-to-market activity associated with hedging and with non-cash revaluation and/or fair valuation of assets or liabilities (iv) any acquisition-related expenses associated with (a) successful acquisitions or (b) all other acquisitions until the earlier to occur of the abandonment of such acquisition or one year and (v) earnings or losses from unconsolidated subsidiaries except to the extent of actual cash distributions received; plus depreciation, depletion and amortization expense; and less maintenance capital expenditures.

Management has prepared the minimum estimated distributable cash flow and related assumptions set forth below to substantiate our belief that we will have sufficient distributable cash flow to pay the minimum quarterly distribution to all our common unitholders and Series A unitholders for the twelve months ending June 30, 2011. This forecast is a forward-looking statement and should be read together with the historical financial statements and the accompanying notes included elsewhere in this prospectus and Management's Discussion and Analysis of Financial Condition and Results of Operations. The accompanying prospective financial information was not prepared with a view toward complying with the published guidelines of the Securities and Exchange Commission or 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 management's knowledge and belief, the assumptions on which we base our belief that we can generate the minimum estimated distributable cash flow necessary for us to pay the minimum quarterly distribution to all common unitholders and Series A subordinated unitholders for the twelve months ending June 30, 2011. 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 registration statement has been prepared by, and is the responsibility of, our management. PricewaterhouseCoopers LLP has neither compiled nor performed any procedures with respect to 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 registration statement relates to our historical financial information. It does not extend to the prospective financial information and should not be read to do so.

When considering our financial forecast, you should keep in mind the risk factors and other cautionary statements under Risk Factors. Any of the risks discussed in this prospectus, to the extent they are realized, could cause our actual results of operations to vary significantly from those which would enable us to generate the minimum estimated distributable cash flow.

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 to reflect events or circumstances after the date of this prospectus. Therefore, you are cautioned not to place undue reliance on this information.

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PAA Natural Gas Storage, L.P.
Unaudited Minimum Estimated Distributable Cash Flow

		Twelve Months Ending June 30, 2011 (in millions, except per unit data)
Firm storage services	\$	107.9
Hub services		16.4
Other		2.2
Total revenue		126.4
Storage related costs		16.7
Operating costs		9.2
Fuel expense		14.5
General and administrative expenses		13.1
Depreciation, depletion and amortization		12.6
Total costs and expenses		66.1
Operating income		60.3
Interest expense, net of capitalized interest		4.4
Income tax expense(1)		
Net income	\$	55.9
Add:		
Depreciation, depletion and amortization		12.6
Interest expense, net of capitalized interest		4.4
Equity compensation expense(2)		1.3
Income tax expense(1)		
Adjusted EBITDA(3)		74.3
Less:		
Equity compensation expense cash(2)		0.3
Interest expense, net of capitalized interest		4.4
Maintenance capital expenditures		0.4
Expansion capital expenditures		80.0
Income tax expense cash(1)		
Cash reserves		6.6
Add:		
Borrowings to fund expansion capital expenditures		80.0
Acquisition costs(4)		
Minimum estimated distributable cash flow	\$	62.5
Per unit minimum annual distribution		
Annual distributions to:		
Publicly held common units		

Common units held by PAA
Series A subordinated units held by PAA
2.0% general partner interest held by PAA

Total minimum annual cash distributions

Interest coverage ratio(5)

Leverage ratio(5)

- (1) Michigan state income tax is an apportionment tax and, based on the size of our operations at Pine Prairie, such amounts are expected to be immaterial in future years.
- (2) Reflects our estimate of expense associated with grants under our and PAA's long-term incentive plans.

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- (3) We define Adjusted EBITDA as earnings before interest expense, taxes, depreciation, depletion and amortization, equity compensation plan charges, gains and losses from derivative activities and selected items that are generally unusual or non-recurring. Because Adjusted EBITDA excludes some, but not all, items that affect net income and may be defined differently by other companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted 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 Summary Historical Financial and Operating Data Non-GAAP and Segment Financial Measures.
- (4) Pursuant to our definition of distributable cash flow, we will exclude the impact of costs associated with an acquisition until the earlier to occur of the abandonment of such acquisition or one year from the date of incurrence.
- (5) We expect that our credit agreement will prohibit us from making distributions of available cash to unitholders if any default or event of default (as defined in the credit agreement) exists. In addition, we expect our credit agreement will contain other various covenants. If an event of default exists under the credit agreement, we expect that the lenders will be able to accelerate the maturity of the credit agreement and exercise other rights and remedies. The credit agreement is subject to a number of conditions, including the negotiation, execution and delivery of definitive documentation.

Assumptions and Considerations

We believe our estimated minimum distributable cash flow for the twelve months ending June 30, 2011 will not be less than \$ million. This amount of estimated minimum distributable cash flow is approximately \$ million, or %, more than the unaudited pro forma distributable cash flow for the year ended December 31, 2009. The December 31, 2009 financial information used in the pro forma table is derived by combining the Predecessor period ended September 2, 2009 with the Successor period ended December 31, 2009 from our historical financial statements. This significant increase in distributable cash flow is primarily attributable to in service dates for additional storage capacity at Pine Prairie as described in detail below. Our estimates do not assume any incremental revenue, expenses or related start-up costs associated with our expected establishment of a commercial marketing group or any acquisitions we might pursue. We believe that the estimates, assumptions and considerations incorporated into the minimum estimated distributable cash flow are reasonable, and include the following:

Operating Revenue

We estimate that we will generate \$126 million in revenues for the twelve months ending June 30, 2011, as follows:

Revenues from Firm Storage. We estimate that approximately 85%, or approximately \$108 million, of our total revenue will be generated from firm storage services. This compares to approximately 92%, or approximately \$67 million, of our total revenues that were generated from firm storage revenues during the 12 month period ended December 31, 2009. Furthermore, we have assumed that:

- (i) Approximately 73% of our total revenue (i) will be generated from firm storage services provided under contracts in existence as of January 22, 2010, which cover 46.5 Bcf of our approximate 50 Bcf of total owned and leased working gas capacity as of April 1, 2010, including the 10 Bcf of additional capacity we expect to place into service during the second quarter of 2010; and

- (ii) Approximately 12% of our total revenue will be generated from firm storage services provided under contracts entered into after January 22, 2010 that will cover (a) the remaining 3.5 Bcf of our approximate 50 Bcf of working gas capacity as of April 1, 2010, (b) the 8 Bcf of additional working gas capacity we expect to place into service during the second quarter of 2011 and (c) renewals of existing firm storage contracts covering approximately 11 Bcf of working gas capacity at our Bluewater facility, the terms of which expire on March 31, 2011. With respect to such contracts to be entered into after January 22, 2010, we have assumed we will earn storage

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rates on such capacity that are consistent with our rates for new contracts entered into over the last 18 months.

Revenues from Hub Services. We estimate that approximately 13%, or approximately \$16 million, of our total revenues will be generated from hub services, which includes non-seasonal parks and loans, wheeling and balancing services and interruptible storage services. This compares to approximately 7%, or approximately \$5 million, of revenues from hub services generated during the twelve-month period ended December 31, 2009. Our estimate with respect to the level of hub services revenues for the forecast period incorporates assumptions with respect to increased natural gas flows and related hub service opportunities at Pine Prairie associated with (i) an approximate 115% increase relative to our weighted average storage capacity during 2009, (ii) increased flexibility provided both by an approximate 50% increase in compression capacity and an approximate 115% increase in base gas relative to the 2009 period and (iii) a continuation of volatility related to market conditions and weather consistent with those experienced over the last five years.

Other Revenues. We estimate that approximately 2%, or approximately \$2.2 million, of our total revenues will be generated from the sale of crude oil and other liquid hydrocarbons produced in conjunction with the operation of our Bluewater facility. This compares to approximately 1%, or approximately \$0.9 million, of other revenues generated during the twelve-month period ended December 31, 2009. Fuel related revenue for both firm and hub services is based on an average natural gas price of \$6.18 per mcf, which approximates the average price quoted on NYMEX in late January 2010 for the twelve months ended June 30, 2011. No gains or losses were assumed with respect to the sale of excess fuel collections.

Incremental storage capacity additions related to our ongoing expansion at Pine Prairie constitute the primary driver for the approximate \$54 million increase in estimated firm storage and hub services revenues, as:

our second cavern began generating revenue on April 1, 2009, and thus revenue associated with the added 9 Bcf of incremental storage capacity is only included for nine months of the twelve-month period ended December 31, 2009;

our third cavern is expected to begin generating revenue by April 1, 2010 and be placed into full service during the second quarter of 2010, providing an expected 10 Bcf of incremental storage capacity for the entire twelve-month period ending June 30, 2011; and

our fourth cavern is expected to begin generating revenue on April 1, 2011 and be placed into full service during the second quarter of 2011, providing an expected 8 Bcf of incremental storage capacity for the final three months of the twelve-month period ending June 30, 2011.

As a result of these expansions, our weighted average working gas capacity at Pine Prairie will increase from approximately 12 Bcf for the twelve-month period ended December 31, 2009 to approximately 26 Bcf for the twelve-month period ending June 30, 2011.

Our Expenses

We estimate that operating, fuel and leased storage costs and transportation expenses will be \$40.3 million for the twelve months ending June 30, 2011, as compared to \$26.3 million for the year ended December 31, 2009. This increase is generally attributable to costs associated with the incremental storage capacity related to the ongoing expansion at our Pine Prairie facility. We do not expect our operating expenses to increase proportionately with our capacity additions, both because these additions do not require significant additions of

operating employees and because the revenues associated with the additions have the benefit of the tax exemption we have obtained at Pine Prairie. See Business Title to Properties and Rights-of-way.

We estimate that our total general and administrative expense will be \$13.1 million for the twelve months ended June 30, 2011, as compared to \$7.6 million for the year ended December 31, 2009. This

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projected increase includes additional personnel and related costs associated with our preparation to become a publicly traded limited partnership, an increased level of acquisition activity and approximately \$2.6 million of incremental external costs we expect to begin incurring upon becoming a publicly traded limited partnership. These general and administrative expenses include corporate general and administrative expense to be allocated from PAA. Such general and administrative expense reflects twelve months of increased allocations from PAA consistent with historical allocations subsequent to the PAA Ownership Transaction.

We have not included any amounts related to the Michigan state income tax applicable to our operations in the twelve months ending June 30, 2011. This tax is an apportionment tax and, because of the size of our operations at Pine Prairie, is expected to be immaterial in the forecast period.

Our Capital Expenditures

We estimate that our maintenance capital expenditures will be approximately \$0.4 million for the twelve months ending June 30, 2011, as compared to \$0.7 million for the year ended December 31, 2009. Our maintenance capital expenditures are not significant in the forecast period because our storage facilities and related equipment are relatively new. We would expect maintenance capital expenditures to increase periodically as we undertake scheduled maintenance on our caverns and related equipment. While these periodic costs may increase our maintenance capital expenditures from time to time, we do not expect these increases to materially impact our operating results or distributable cash flow.

We estimate that our expansion capital expenditures, which include the purchase of base gas and capitalized interest, will be approximately \$80 million for the twelve months ending June 30, 2011, as compared to \$90 million for the year ended December 31, 2009. The substantial majority of this capital is attributable to the capacity additions at our Pine Prairie facility.

Our Financing

We estimate that at the closing of this offering we will borrow \$200 million in revolving debt under our new \$400 million credit facility. We estimate that the borrowings will bear interest at a weighted average rate of 4%. In addition, we have assumed that we will fund our expansion capital expenditures for the twelve months ended June 30, 2011 by borrowing an additional \$80 million under our new credit facility.

Our aggregate interest expense is forecast to be \$ million, net of \$ million in capitalized interest.

Our Regulatory, Industry and Economic Factors

Our estimate incorporates assumptions that (i) there will not be any new federal, state or local regulations or any new interpretations of existing regulations, that would materially impact our or our customers' operations, and (ii) there will not be any major adverse economic changes in the portions of the energy industry in which we operate, or in general economic conditions, that would be materially adverse to our business during the twelve months ending June 30, 2011.

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PROVISIONS OF OUR PARTNERSHIP AGREEMENT RELATING TO CASH DISTRIBUTIONS

Set forth below is a summary of the significant provisions of our partnership agreement that relate to cash distributions.

Distributions of Available Cash

General. Our partnership agreement requires that, within 45 days after the end of each quarter, beginning with the quarter ending June 30, 2010, we distribute all of our available cash to unitholders of record on the applicable record date. We will adjust the minimum quarterly distribution for the period from the closing of the offering through June 30, 2010.

Definition of Available Cash. Available cash, for any quarter, consists of all cash on hand at the end of that quarter:

less, the amount of cash reserves established by our general partner to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments or other agreements; or

provide funds for distributions to our unitholders for any one or more of the next four quarters;

plus, if our general partner so determines, all or a portion of cash on hand on the date of determination of available cash for the quarter resulting from borrowings, including working capital borrowings, made after the end of the quarter.

Working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners. In addition, all such borrowings are required to be reduced to a relatively small amount each year for an economically meaningful period of time.

Intent to Distribute the Minimum Quarterly Distribution. We intend to distribute to the holders of common units and Series A subordinated units on a quarterly basis at least the minimum quarterly distribution of \$ per unit, or \$ per year, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

General Partner Interest and Incentive Distribution Rights. Initially, our general partner will be entitled to 2.0% of all quarterly distributions that we make after inception and prior to our liquidation. The general partner interest will be represented by a 2.0% general partner interest. The 2.0% general partner interest is not deemed outstanding for purposes of voting and such interest represents a non-voting general partner interest. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. Our general partner's initial 2.0% interest in our distributions may be reduced if we issue additional limited partner units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2.0% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50.0%, of the cash we distribute from distributable cash flow in excess of \$ per common unit and Series A subordinated unit per quarter. The maximum distribution of 50.0% includes distributions paid to our general partner on its 2.0% general partner interest and assumes that our general partner maintains its general partner interest at 2.0%. The maximum distribution of 50.0% does not include any distributions that our general partner may receive on limited partner units that it owns.

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Distributable Cash Flow and Capital Surplus

General. All cash distributed to unitholders will be characterized as either distributable cash flow or capital surplus. Our partnership agreement requires that we distribute available cash from distributable cash flow differently than available cash from capital surplus.

Distributable Cash Flow. Distributable cash flow consists of:

net income; *plus*

depreciation, depletion and amortization expense; *less*

maintenance capital expenditures.

For purposes of this definition, net income does not include or will be adjusted for:

any gain or loss from the sale of assets not in the ordinary course of business;

any gain or loss as a result of a change in accounting principles;

any non-cash gains or items of income and any non-cash losses or expenses, including mark-to-market activity associated with hedging and with non-cash revaluation and/or fair valuation of assets or liabilities;

any acquisition-related expenses associated with (i) successful acquisitions or (ii) all other acquisitions until the earlier to occur of the abandonment of such acquisition or one year; and

earnings or losses from unconsolidated subsidiaries will be adjusted to reflect only actual cash distributions received.

As described above, distributable cash flow does not reflect actual cash on hand that is available for distribution to our unitholders.

Characterization of Cash Distributions. Our partnership agreement requires that we treat all available cash distributed as coming from distributable cash flow until the sum of all available cash distributed since the closing of this offering equals the distributable cash flow as of the most recent date of determination of available cash. Our partnership agreement requires that we treat any amount distributed in excess of distributable cash flow, regardless of its source, as capital surplus. However, our partnership agreement includes a provision that will enable us, if we choose, to distribute up to \$40 million of cash we receive in the future from sources other than distributable cash flow, such as asset sales, issuances of securities and borrowings, without being required to classify such distribution as a distribution from capital surplus under our partnership agreement. We do not anticipate that we will make any distributions from capital surplus.

Maintenance Capital Expenditures

For purposes of determining distributable cash flow, maintenance capital expenditures are expenditures for the replacement of partially or fully depreciated assets in order to maintain the service capability, level of production, and/or functionality of our existing assets. Examples of maintenance capital expenditures include capital expenditures

associated with maintaining the storage capacity of our facilities as well as ongoing maintenance or replacement costs for the various injection, withdrawal and related equipment associated with those facilities, and capital expenditures to replace expected reductions in our storage, injection or withdrawal capacities (which we refer to as operating capacity).

Subordination Period

General. Our partnership agreement provides that, during the subordination period (which we define below), the common units will have the right to receive distributions of available cash from distributable cash flow each quarter in an amount equal to \$ per common unit, which amount is defined in our partnership agreement as the minimum quarterly distribution, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from

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distributable cash flow may be made on the Series A subordinated units. These Series A subordinated units are deemed subordinated because for a period of time, referred to as the subordination period, the Series A subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on the Series A subordinated units. The practical effect of the Series A subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units. The Series B subordinated units will not be entitled to receive any distributions until they are converted to either Series A subordinated units or common units, at which time they will be treated as other Series A subordinated units or common units, as applicable, are treated.

Series A Subordinated Units and Subordination Period. PAA will initially own all of our Series A subordinated units. The subordination period will extend until the first business day of any quarter beginning after June 30, 2013, that each of the following tests are met:

distributions of available cash from distributable cash flow on each of the outstanding common units, Series A subordinated units and the general partner interest equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the distributable cash flow generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and Series A subordinated units and the general partner interest during those periods on a fully diluted basis; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

Early Termination of Subordination Period. Notwithstanding the foregoing, the subordination period will automatically terminate and all of the Series A subordinated units will convert into common units on a one-for-one basis on the first business day of any quarter beginning after June 30, 2011 that each of the following occurs:

distributions of available cash from distributable cash flow equaled or exceeded \$ per quarter (150.0% of the minimum quarterly distribution, which is \$ on an annualized basis) on each outstanding common unit and Series A subordinated unit and the corresponding distribution on our general partner's 2.0% interest for each calendar quarter in the immediately preceding four-quarter period;

the distributable cash flow generated during each calendar quarter in the immediately preceding four-quarter period equaled or exceeded the sum of \$ (150.0% of the minimum quarterly distribution) on each of the outstanding common units and Series A subordinated units and the corresponding distribution on our general partner's 2.0% interest during that period on a fully diluted basis; and

there are no arrearages in payment of the minimum quarterly distributions on the common units.

Expiration of the Subordination Period. When the subordination period ends, each outstanding Series A subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. Any Series B subordinated units that become eligible for conversion after the end of the subordination period will convert to common units on a one-for-one basis and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and no units held by our general partner and its affiliates are voted in favor of such removal:

the subordination period will end and each Series A subordinated unit will immediately convert into one common unit;

each Series B subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

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our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Series B Subordinated Units. PAA will initially own all of the Series B subordinated units. The Series B subordinated units will not be entitled to participate in our quarterly distributions until they convert into Series A subordinated units or common units.

The Series B subordinated units are designed to compensate PAA for prior capital expenditures made by it to expand the working gas storage capacity at Pine Prairie and the future financial contribution expected to result from such investment. As of the closing of this offering, we expect to have approximately 24 Bcf of working gas storage capacity at Pine Prairie, including approximately 10 Bcf of new capacity that is substantially complete and that we currently expect to place into service during the second quarter of 2010. The Series B subordinated units will convert into Series A subordinated units upon satisfaction of the following operational and financial conditions:

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 29.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters);

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 35.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters); and

Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity in service at Pine Prairie totals at least 41.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$ per unit (representing an annualized distribution of \$ per unit) on all outstanding common units, Series A subordinated units and such Series B subordinated units and (c) we make a quarterly distribution of at least \$ per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units (including such Series B subordinated units in the case of the second of such consecutive quarters).

To the extent that the above operational and financial tests are satisfied, the Series B subordinated units will convert into Series A subordinated units and participate in the quarterly distribution payable to Series A subordinated units with respect to the second consecutive quarter for which the operational and financial tests described above have been satisfied.

Any Series B subordinated units that remain outstanding as of December 31, 2018, will automatically be cancelled.

Following conversion of any Series B subordinated units into Series A subordinated units, such converted Series B subordinated units will further convert into common units (together with any other outstanding Series A subordinated units) to the extent that the Series A subordination tests are satisfied. In determining whether the subordination tests

have been satisfied, the Series B subordinated units that have converted into Series A subordinated units will be treated as Series A subordinated units from and after the date of their conversion into Series A subordinated units.

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If at the time the above operational and financial tests are satisfied, the subordination period has already ended and all outstanding Series A subordinated units have converted into common units, the Series B subordinated units will instead convert directly into common units on a one-for-one basis and participate in the quarterly distribution payable to common units with respect to the second consecutive quarter for which the operational and financial tests described above have been satisfied.

Distributions of Available Cash from Distributable Cash Flow During the Subordination Period

Our partnership agreement requires that we make distributions of available cash from distributable cash flow for any quarter during the subordination period in the following manner:

first, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

second, 98.0% to the common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;

third, 98.0% to the Series A subordinated unitholders, pro rata, and 2.0% to our general partner, until we distribute for each Series A subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

thereafter, in the manner described in **General Partner Interest and Incentive Distribution Rights** below.

The preceding discussion is based on the assumptions that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

Distributions of Available Cash From Distributable Cash Flow After the Subordination Period

Our partnership agreement requires that we make distributions of available cash from distributable cash flow for any quarter after the subordination period in the following manner:

first, 98.0% to all common unitholders, pro rata, and 2.0% to our general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

thereafter, in the manner described in **General Partner Interest and Incentive Distribution Rights** below.

The preceding discussion is based on the assumptions that our general partner maintains its 2.0% general partner interest and that we do not issue additional classes of equity securities.

General Partner Interest and Incentive Distribution Rights

Our partnership agreement provides that our general partner initially will be entitled to 2.0% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2.0% general partner interest if we issue additional units. Our general partner's 2.0% interest, and the percentage of our cash distributions to which it is entitled, will be proportionately reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 2.0% general partner interest. Our general partner will be entitled to make a capital contribution in order to maintain its 2.0% general partner interest in the form of the contribution to us of common

units based on the current market value of the contributed common units.

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Incentive distribution rights represent the right to receive an increasing percentage (13.0%, 23.0% and 48.0%) of quarterly distributions of available cash from distributable cash flow after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

The following discussion assumes that our general partner maintains its 2.0% general partner interest, that there are no arrearages on common units and that our general partner continues to own the incentive distribution rights.

If for any quarter:

we have distributed available cash from distributable cash flow to the common unitholders and Series A subordinated unitholders in an amount equal to the minimum quarterly distribution; and

we have distributed available cash from distributable cash flow on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, our partnership agreement requires that we distribute any additional available cash from distributable cash flow for that quarter among the unitholders and the general partner in the following manner:

first, 85.0% to all common unitholders and Series A subordinated unitholders, pro rata, and 15.0% to our general partner, until each such unitholder receives a total of \$ per unit for that quarter (the first target distribution);

second, 75.0% to all common unitholders and Series A subordinated unitholders, pro rata, and 25.0% to our general partner, until each such unitholder receives a total of \$ per unit for that quarter (the second target distribution); and

thereafter, 50.0% to all common unitholders and Series A subordinated unitholders, pro rata, and 50.0% to our general partner.

Percentage Allocations of Available Cash From Distributable Cash Flow

The following table illustrates the percentage allocations of available cash from distributable cash flow between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from distributable cash flow we distribute up to and including the corresponding amount in the column Total Quarterly Distribution per Common Unit and Series A Subordinated Unit. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2.0% general partner interest, assume our general partner has contributed any additional capital to maintain its 2.0% general partner interest and has not transferred its incentive distribution rights and there are no arrearages on common units.

Total Quarterly Distribution per Common Unit and Series A Subordinated Unit	Marginal Percentage Interest in Distributions General Partner	Unitholders
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Minimum Quarterly Distribution	\$		98.0%	2.0%
First Target Distribution	above \$	up to \$	85.0%	15.0%
Second Target Distribution	above \$	up to \$	75.0%	25.0%
Thereafter	above \$		50.0%	50.0%

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General Partner's Right to Reset Incentive Distribution Levels

Our general partner, as the holder of our incentive distribution rights, has the right under our partnership agreement to elect to relinquish the right to receive incentive distribution payments based on the initial cash target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount, and cash target distribution levels upon which the incentive distribution payments to our general partner would be set. Our general partner's right to reset the minimum quarterly distribution amount, and the target distribution levels upon which the incentive distributions payable to our general partner are based, may be exercised, without approval of our unitholders or the conflicts committee of our general partner, at any time when there are no Series A subordinated units outstanding and we have made cash distributions to the holders of the incentive distribution rights at the highest level of incentive distribution for each of the prior four consecutive fiscal quarters. Our general partner will have the right to reset the minimum quarterly distribution whether or not any Series B subordinated units remain outstanding. The reset minimum quarterly distribution amount and target distribution levels will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset such that our general partner will not receive any incentive distributions under the reset target distribution levels until cash distributions per common unit following this event increase as described below. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distribution payments being made to our general partner.