

NGL Energy Partners LP
Form 10-K
June 15, 2012
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35172

NGL Energy Partners LP

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

27-3427920
(I.R.S. Employer Identification No.)

6120 South Yale Avenue
Suite 805
Tulsa, Oklahoma
(Address of Principal Executive Offices)

74136
(Zip code)

(918) 481-1119

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Units Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value as of September 30, 2011 of the Common Units held by non-affiliates of the registrant, based on the reported closing price of the Common Units on the New York Stock Exchange on such date (\$21.50 per Common Unit) was approximately \$97,026,985. For purposes of this computation, all executive officers, directors and 10% owners of the registrant are deemed to be affiliates. Such a determination should not be deemed an admission that such executive officers, directors and 10% beneficial owners are affiliates.

As of June 11, 2012, there were 24,046,253 common units and 5,919,346 subordinated units issued and outstanding.

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Forward-Looking Statements

This annual report contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this annual report, words such as anticipate, project, expect, plan, goal, forecast, estimate, intend, could, believe, may, will and similar expressions and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that the expectations on which such forward-looking statements are based are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties, and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected, or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

- the prices and market demand for propane;
- energy prices generally;
- the prices of propane compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability and price of propane supplies;
- the level of domestic oil, propane and natural gas production;
- the availability of imported oil and natural gas;
- the ability to obtain adequate supplies of propane for retail sale in the event of an interruption in supply or transportation and the availability of capacity to transport propane to market areas;
- actions taken by foreign oil and gas producing nations;
- the political and economic stability of petroleum producing nations;

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- the effect of weather conditions on demand for oil, natural gas and propane;
- availability of local, intrastate and interstate transportation systems;
- availability and marketing of competitive fuels;
- the impact of energy conservation efforts;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
- hazards or operating risks incidental to the transporting and distributing of propane that may not be fully covered by insurance;
- the maturity of the propane industry and competition from other propane distributors;
- loss of key personnel;
- the fees we charge and the margins we realize for our terminal services;
- the nonpayment or nonperformance by our customers;
- the availability and cost of capital and our ability to access certain capital sources;

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- a deterioration of the credit and capital markets;
- the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results and to successfully integrate acquired businesses;
- changes in laws and regulations to which we are subject, including tax, environmental, transportation and employment regulations or new interpretations by regulatory agencies concerning such laws and regulations; and
- the costs and effects of legal and administrative proceedings.

You should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this annual report. Except as required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks described under Item 1A Risk Factors.

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PART I

References in this annual report to (i) NGL Energy Partners LP, we, our, us or similar terms refer to NGL Energy Partners LP and its operating subsidiaries (ii) NGL Energy Holdings LLC or general partner refers to NGL Energy Holdings LLC, our general partner, (iii) NGL Energy Operating LLC or operating company refers to NGL Energy Operating LLC, the direct operating subsidiary of NGL Energy Partners LP, (iv) NGL Supply refers to NGL Supply, Inc. for periods prior to our formation and refers to NGL Supply, LLC, a wholly owned subsidiary of NGL Energy Operating LLC, for periods after our formation (v) Hicksgas refers to the combined assets and operations of Hicksgas Gifford, Inc., which we refer to as Gifford, and Hicksgas, LLC, a wholly owned subsidiary of NGL Energy Operating LLC, which we refer to as Hicks LLC, (vi) the NGL Energy GP Investor Group refers to, collectively, the 17 individuals and entities that own all of the outstanding membership interests in our general partner (vii) the NGL Energy LP Investor Group refers to, collectively, the 15 individuals and entities that owned all of our outstanding common units before the closing date of our initial public offering, and (viii) the NGL Energy Investor Group refers to, collectively, the NGL Energy GP Investor Group and the NGL Energy LP Investor Group.

We have presented various operational data in Item 1 Business for the year ended March 31, 2012. The operational data does not include information related to assets we have acquired or other developments that have occurred after the end of the year ended March 31, 2012.

Item 1. Business

Overview

We are a Delaware limited partnership formed in September 2010. As part of our formation, we acquired and combined the assets and operations of NGL Supply, primarily a wholesale propane and terminaling business founded in 1967, and Hicksgas, primarily a retail propane business founded in 1940. During the year ended March 31, 2012, we significantly expanded our operations through four business combination agreements. We and our subsidiaries own and operate a vertically integrated propane business with three primary businesses: midstream; wholesale supply and marketing; and retail propane. We engage in the following activities through our operating segments:

- our midstream business, which currently consists of our natural gas liquids terminaling and rail car business, takes delivery of natural gas liquids from pipelines, trucks, and rail cars at our terminals and transfers the product to third party transport trucks for delivery to retailers, wholesalers and other customers and also transports propane and other natural gas liquids by rail car, primarily in the service of our wholesale supply and marketing business;
- our wholesale supply and marketing business supplies propane and other natural gas liquids and provides related storage to retailers, wholesalers and refiners; and
- our retail propane business sells propane and petroleum distillates to end users consisting of residential, agricultural, commercial, and industrial customers.

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For more information regarding our operating segments, please see Note 15 to our consolidated financial statements included elsewhere in this annual report.

We serve more than 224,000 retail propane customers in 24 states and more than 14,000 retail distillate customers in six states. We serve approximately 420 wholesale supply and marketing customers in 44 states and approximately 195 midstream customers in 12 states. For the year ended March 31, 2012:

- we transferred approximately 223.8 million gallons of propane to our midstream customers through our propane terminals and transported approximately 31.4 million gallons of propane and other natural gas liquids with our rail cars (most of which are leased);
- we sold approximately 397.9 million gallons of propane to third party retailers, 253.3 million gallons of propane through ownership transfers of propane held in storage, 79.5 million gallons of propane to our retail propane business and 131.4 million gallons of other natural gas liquids (primarily butane and natural gasoline) to refiners; and
- we sold approximately 78.2 million gallons of propane and 1.7 million gallons of petroleum distillates to retail customers.

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Our businesses represent a combination of fee-based, cost-plus and margin-based revenue generating operations. Our midstream business generates fee-based revenues derived from a cents-per-gallon charge for the transfer of propane volumes, also known as throughput, at our propane terminals and for the transportation of volumes via rail car and truck. Our wholesale supply and marketing business generates cost-plus revenues. Cost-plus represents our aggregate total propane supply cost plus a margin to cover our replacement cost consisting of cost of capital, storage, transportation, fuel surcharges and an appropriate competitive margin. Our retail propane business generates margin-based revenues, meaning our gross margin depends on the difference between our propane sales price and our total propane supply cost.

Historically, the principal factors affecting our businesses have been demand and our cost of supply, as well as our ability to maintain or expand our realized margin from our margin-based and cost-plus operations. In particular, fluctuations in the price of propane have a direct impact on our reported revenues and may affect our margins depending on our success of passing cost increases on to our retail propane and wholesale supply and marketing customers.

Initial Public Offering

On May 17, 2011, we completed our initial public offering of 3,500,000 common units at a price of \$21.00 per common unit. Our common units are listed on the NYSE under the symbol NGL. We received gross offering proceeds of \$73.5 million less approximately \$8.2 million for underwriting discounts and commissions, a structuring fee and offering expenses. We used the net offering proceeds of \$65.3 million to repay approximately \$65.0 million of borrowings under our revolving credit facility and for general partnership purposes.

On May 18, 2011, the underwriters exercised in full their option to purchase an additional 525,000 common units from us at the initial public offering price. We received gross proceeds of approximately \$11.0 million less approximately \$825,000 for underwriting discounts and commissions, a structuring fee and offering expenses. We used the net offering proceeds of \$10.2 million to redeem 175,000 common units from the members of the NGL Energy LP Investor Group on a pro rata basis at a price per unit equal to the proceeds per common unit before expenses but after deducting underwriting discounts and commissions and a structuring fee and for general partnership purposes.

Upon completion of our initial public offering and the underwriters exercise in full of their option to purchase additional common units from us and the redemption, we had outstanding 8,864,222 common units, 5,919,346 subordinated units, a 0.1% general partner interest and incentive distribution rights, or IDRs. The public owned an approximately 27.2% limited partner interest in us and the NGL Energy LP Investor Group owned an approximately 72.7% limited partner interest in us. IDRs entitle the holder to specified increasing percentages of cash distributions as our per-unit cash distributions increase above specified levels.

Acquisitions Subsequent to Initial Public Offering

- On October 3, 2011, we closed a business combination transaction with E. Osterman Propane, Inc., its affiliated companies and members of the Osterman family, which we collectively refer to as Osterman or the Osterman Associated Companies, for retail propane operations in the northeastern United States. We issued 4,000,000 common units and paid \$96 million in exchange for the receipt of the assets and operations from Osterman.

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- On November 1, 2011, we closed a business combination transaction with SemStream, L.P., or SemStream, for substantially all of SemStream's natural gas liquids business and assets. We issued 8,932,031 common units and paid approximately \$93.1 million in exchange for the receipt of the assets and operations of SemStream, of which \$2.1 million was later returned due to a working capital adjustment provision in the agreement.
- On January 3, 2012 we closed a business combination with seven companies associated with Pacer Propane Holding, L.P., which we collectively refer to as Pacer, for substantially all of Pacer's retail propane operations and assets. We paid \$32.2 million and issued 1,500,000 of our common units in exchange for the Pacer assets and operations.
- On February 3, 2012, we completed a business combination with North American Propane, Inc. and its affiliated companies, which we collectively refer to as North American, for substantially all of North American's assets and operations. We paid cash of \$69.8 million in exchange for North American's assets and operations, including working capital.
- During April and May 2012, we completed three separate business combinations to acquire retail propane and distillate operations in Georgia, Kansas, Maine, and New Hampshire. On a combined basis, we paid \$55.2 million and issued 750,000 common units in exchange for the receipt of these assets. We expect to pay additional cash and issue additional common units once certain calculations of acquired working capital have been completed for two of the business combinations. In addition, a combined amount of approximately \$1.9 million will be payable either as deferred payments on the purchase price or under non-compete agreements.

Pending Acquisition

On May 18, 2012, we entered into a merger agreement with High Sierra Energy, LP, or High Sierra, and our general partner entered into a merger agreement with High Sierra Energy GP, LLC, the general partner of High Sierra. High Sierra is a Denver, Colorado based limited partnership with three core business segments: crude oil gathering, transportation and marketing; water treatment, disposal, recycling and transportation; and natural gas liquids transportation and marketing. Upon completion of the mergers, we expect that we will be able to provide multiple services to upstream customers with our combined fleet of more than 3,000 rail cars, 18 natural gas liquids terminals, three crude oil terminals, over 90 trucks and a substantial wholesale marketing and supply network.

We and our general partner will pay aggregate merger consideration of \$693 million less High Sierra's net indebtedness and unpaid transaction expenses. High Sierra unitholders will be entitled to receive 82% of the aggregate merger consideration consisting of our common units, based on a value of \$21.50 per common unit, and \$100 million in cash. The members of the general partner of High Sierra will be entitled to receive 18% of the aggregate merger consideration consisting of membership interests in our general partner and \$50 million in cash. We expect to close the mergers in June 2012, subject to the satisfaction or waiver of certain conditions to closing, including that we have obtained financing to complete the mergers on terms reasonably acceptable to us and customary regulatory approvals.

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Our Business Strategies

Our principal business objective is to increase the quarterly distributions that we pay to our unitholders over time while ensuring the ongoing stability of our business. We expect to achieve this objective by executing the following strategies:

- Grow through strategic acquisitions that complement our existing vertically integrated propane business model and expand our operations into the natural gas midstream business.
- Achieve organic growth by pursuing opportunities to grow volumes and margins and invest in new assets that will enhance our operations with an attractive rate of return.
- Focus on consistent annual cash flows by adding operations that generate fee-based, cost-plus, or margin-based revenues.
- Maintain a disciplined capital structure characterized by lower levels of financial leverage and a cash distribution policy that complements our acquisition and organic growth strategies.

Our Competitive Strengths

We believe that we are well-positioned to successfully execute our business strategies and achieve our principal business objective because of the following competitive strengths:

- Our experienced management team with extensive acquisition and integration experience.
- Our vertically integrated and diversified operations help us generate more predictable cash flows on a year-to-year basis.
- Our high percentage of retail sales to residential customers, who are generally more stable purchasers of propane and generate higher margins than other customers.

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- Our wholesale supply and marketing business, which provides us with a growing income stream as well as valuable market intelligence that helps us identify potential acquisition opportunities.
- Our state-of-the-art natural gas liquids terminals and capacity on the ConocoPhillips Blue Line Pipeline.

Our Businesses

Midstream

Overview. Our midstream business, which currently consists of our propane terminaling and rail car business, takes delivery of propane from a pipeline or truck at our propane terminals and transfers the propane to third party trucks for delivery to propane retailers, wholesalers and other customers and also transports propane and other natural gas liquids, primarily in the service of our wholesale supply and marketing business.

Operations. Our midstream assets consist of our 16 natural gas liquids terminals in Arizona, Arkansas, Illinois, Indiana, Maine, Minnesota, Missouri, Montana, Washington, Wisconsin, and St. Catharines, Ontario. All of our terminals have on-site staff and state-of-the-art technology, including environmental and safety systems, online information systems, automatic loading and unloading of propane, and security cameras. Our terminals also have automated truck loading and unloading facilities that operate 24 hours a day. These automated facilities provide for control of security, allocations, credit and carrier certification by remote input of data.

Our throughput volumes from our terminals were 223.8 million gallons during the year ended March 31, 2012. We have the ability to expand our storage and loading and unloading capacity and the opportunity to increase annual throughputs at each of our natural gas liquids terminals with relatively minimal additional operating costs.

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The following chart shows the approximate maximum daily throughput capacity at each of our propane terminals:

Facility	Throughput Capacity (in gallons per day)
Rosemount, Minnesota	1,441,000
Lebanon, Indiana	1,058,000
West Memphis, Arkansas	1,058,000
Dexter, Missouri	930,000
East St. Louis, Illinois	883,000
Jefferson City, Missouri	883,000
St. Catherines, Ontario	700,000
Janesville, Wisconsin	553,000
Light, Arkansas	524,400
Rixie, Arkansas	524,400
Winslow, Arizona	500,000
Kingsland, Arkansas	405,000
Portland, Maine	360,000
Green Bay, Wisconsin	310,000
Tokio, Washington	198,000
Sidney, Montana	180,000
Total	10,507,800

We have operating agreements with third parties for certain of our terminals. The terminals in East St. Louis, Illinois and Jefferson City, Missouri are operated for us by ConocoPhillips for a monthly fee under an operating and maintenance agreement that has a term that expires in 2017 at our option. Our facility in Ontario is operated by a third party under a year to-year agreement.

We own the terminal assets. We own the land on which nine of the terminals are located and we either have easements or lease the land on which seven of the terminals are located. The propane terminals in Missouri and Illinois have perpetual easements, and the propane terminal in Ontario has a long-term lease that expires in 2022.

We own 10 rail cars and lease 409 additional rail cars. Many of the rail car leases expire in 2012, although certain leases expire in 2013 and 2014. Many of the rail car leases contain renewal options.

Customers. We are the exclusive service provider at each of our natural gas liquids terminals, serving approximately 195 customers. During times of allocation and supply disruptions on competing common carrier pipeline terminals, our terminaling coverage area extends to customers located in areas beyond the immediate vicinity of our terminals.

Seasonality. The volumes we transfer in our midstream business are based on retail and wholesale propane sales. As a result, our midstream business is affected by the weather in a manner similar to our retail propane and wholesale supply and marketing businesses.

Wholesale Supply and Marketing

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Overview. Our wholesale supply and marketing business provides propane procurement, storage, transportation and supply services to customers through assets owned by us and third parties. Our wholesale supply and marketing business also supplies the majority of the propane for our retail propane business. We also sell butanes and natural gasolines to refiners for use as blending stocks.

Operations. We procure propane from refiners, gas processing plants, producers and other resellers for delivery to leased storage space, common carrier pipelines, rail car terminals and direct to certain customers. Our customers take delivery by loading natural gas liquids into transport vehicles from common carrier pipeline terminals, private terminals, our terminals, directly from refineries and rail terminals and by rail car.

Approximately 34% of our wholesale propane gallons are presold to third party retailers and wholesalers at a fixed price under back-to-back contractual arrangements. Back-to-back arrangements, in which we balance our contractual portfolio by buying propane supply when we have a matching purchase commitment from our wholesale customers, protects our margins, and mitigates

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commodity price risk. Pre-sales also reduce the impact of warm weather because the customer is required to take delivery of the propane regardless of the weather. We generally require cash deposits from these customers. In addition, on a daily basis we have the ability to balance our inventory by buying or selling propane, butanes, and natural gasoline to refiners, resellers, and propane producers through pipeline inventory transfers at major storage hubs.

In order to secure available supply during the heating season, we are often required to purchase volumes of propane during the off season. In order to mitigate storage costs, we sell those volumes in place through ownership transfers at a lesser margin than we earn in our wholesale truck and rail business. For the year ended March 31, 2012, this activity consisted of approximately 133 million gallons.

The following map shows certain assets owned by us and third parties that we utilize in our wholesale supply and marketing business, including seven common carrier pipelines, refinery terminals, railcar terminals, leased storage facilities, and our propane terminals:

We lease propane storage space to accommodate the supply requirements and contractual needs of our retail and wholesale customers. We have leased propane storage space at the ConocoPhillips facility in Borger, Texas. This agreement was recently renewed and has a term that expires in March 2014. In addition to our leased propane storage space at the Borger facility, we lease approximately 167 million gallons of storage space for propane and other natural gas liquids in various storage hubs in Arizona, Canada, Kansas, Michigan, Mississippi, Missouri, and Texas.

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The following chart shows our leased storage space at propane storage facilities and interconnects to those facilities:

Storage Facility	Leased Storage Space (in gallons)	Storage Interconnects
Conway, Kansas	101,850,000	Connected to Enterprise Mid-America and NuStar Pipelines
Borger, Texas	35,700,000	Connected to ConocoPhillips Blue Line Pipeline
Bushton, Kansas	16,590,000	Connected to ONEOK North System Pipeline
Mont Belvieu, Texas	14,700,000	Connected to Enterprise Texas Eastern Products Pipeline
Carthage, Missouri	7,560,000	Connected to Mid-America Pipeline
Regina, Saskatchewan, Canada	6,300,000	Connected to Cochin Pipeline
Marysville, Michigan	6,300,000	Connected to Cochin Pipeline
Hattiesburg, Mississippi	5,250,000	Connected to Enterprise Dixie Pipeline
Redwater, Alberta, Canada	6,215,118	Connected to Cochin Pipeline
Adamana, Arizona	1,680,000	Rail facility
Ft. Saskatchewan, Alberta, Canada	1,320,900	Connected to Cochin Pipeline
Total	203,466,018	

During the typical heating season from September 15 through March 15 each year, we have the right to utilize ConocoPhillips capacity as a shipper on the Blue Line pipeline to transport propane from our leased storage space to our terminals in East St. Louis, Illinois and Jefferson City, Missouri. During the remainder of the year, we have access to available capacity on the Blue Line pipeline on the same basis as other shippers.

Customers. Our wholesale supply and marketing business serves approximately 420 customers in 44 states concentrated in the Mid-Continent, Northeast, and Southeast. Our wholesale supply and marketing business serves national, regional and independent retail, industrial, wholesale, petrochemical, refiner and propane production customers. Our wholesale supply and marketing business also supplies the majority of the propane for our retail propane business. We deliver the propane supply to our customer at terminals located on seven common carrier pipeline systems, four rail terminals, five refineries, and major U.S. propane storage hubs. For the year ended March 31, 2012, our 5 largest wholesale customers represented only 23.1% of the total sales of our wholesale supply and marketing business.

Seasonality. Our wholesale supply and marketing business is affected by the weather in a similar manner as our retail propane business. However, we are able to partially mitigate the effects of seasonality by pre-selling approximately 34% of our wholesale supply and marketing volumes to retailers and wholesalers and requiring the customer to take delivery regardless of the weather.

Retail Propane

Overview. Our retail propane business consists of the retail marketing, sale and distribution of propane, including the sale and lease of propane tanks, equipment and supplies, to more than 224,000 residential, agricultural, commercial and industrial customers. Based on industry statistics from LPGas magazine, we believe that we are the 8th largest domestic retail propane distribution company by volume. We purchase the majority of the propane sold in our retail propane business from our wholesale supply and marketing business, which provides our retail propane business with a stable and secure supply of propane.

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Operations. We market retail propane through our customer service locations using the Hicksgas, Propane Central, Brantley Gas, Osterman, Pacer, and Energy USA regional brand names. We sell propane primarily in rural areas, but we also have a number of customers in suburban areas where energy alternatives to propane such as natural gas are not generally available. We own or lease 76 customer service locations and 92 satellite distribution locations, with aggregate above ground propane storage capacity of approximately four million gallons. Our customer service locations are staffed and operated to service a defined geographic market area and typically include a business office, product showroom, and secondary propane storage. Our bulk delivery trucks refill their propane supply at our satellite distribution locations, which are unmanned above ground storage tanks, allowing our customer service centers to serve an extended market area.

Our customer service locations in Illinois and Indiana also rent approximately 15,000 water softeners and filters, primarily to residential customers in rural areas to treat well water or other problem water. We sell water conditioning equipment and treatment

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supplies as well. Although the water conditioning portion of our retail propane business is small, it generates steady year round revenues. The customer bases in Illinois and Indiana for retail propane and water conditioning have significant overlap, providing the opportunity to cross-sell both products between those customer bases.

The following table shows the number of our customer service locations and satellite distribution locations by state:

State	Number of Customer Service Locations	Number of Satellite Distribution Locations
Illinois	25	19
Massachusetts	10	10
Kansas	9	34
Georgia	8	7
Indiana	5	4
Connecticut	3	2
Mississippi	3	3
Oregon	2	1
Pennsylvania	2	3
North Carolina	2	
Washington	2	
Colorado	1	
Maine	1	1
Maryland	1	1
Rhode Island	1	1
Utah	1	1
Delaware		1
New Hampshire		2
New Jersey		1
Vermont		1
Total	76	92

Retail deliveries of propane are usually made to customers by means of our fleet of bulk delivery trucks. Propane is pumped from the bulk delivery truck, which generally holds 2,400 to 5,000 gallons, into an above ground storage tank at the customer's premises. The capacity of these storage tanks ranges from approximately 100 to 350 gallons in milder climates and 500 to 1,000 gallons in colder climates. We also deliver propane to retail customers in portable cylinders, which typically have a capacity of five to 25 gallons. These cylinders are picked up on a delivery route, refilled at our customer service locations, and then returned to the retail customer. Customers can also bring the cylinders to our customer service centers to be refilled.

Approximately 50% of our residential customers receive their propane supply via our automatic route delivery program, which allows us to maximize our delivery efficiency. For these customers, our delivery forecasting software system utilizes a customer's historical consumption patterns combined with current weather conditions to more accurately predict the optimal time to refill their tank. The delivery information is then uploaded to routing software to calculate the most cost effective delivery route. Our automatic delivery program eliminates the customer's need to make an affirmative purchase decision, promotes customer retention by ensuring an uninterrupted supply of propane and enables us to efficiently route deliveries on a regular basis. Some of our purchase plans, such as level payment billing, fixed price and price cap programs, further promote our automatic delivery program.

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Customers. Our retail propane customers fall into three broad categories: residential; agricultural; and commercial and industrial. At March 31, 2012, our retail propane customers were comprised of approximately:

- 55% residential customers;
- 15% agricultural customers; and

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- 30% commercial and industrial customers.

No single customer accounted for more than 1% of our retail propane volumes during the year ended March 31, 2012.

Seasonality. The retail propane business is largely seasonal due to the primary use of propane as a heating fuel. In particular, residential and agricultural customers who use propane to heat homes and livestock buildings generally only need to purchase propane during the typical fall and winter heating season. Propane sales to agricultural customers who use propane for crop drying are also seasonal, although the impact on our retail propane volumes sold varies from year to year depending on the moisture content of the crop and the ambient temperature at the time of harvest. Propane sales to commercial and industrial customers, while affected by economic patterns, are not as seasonal as are sales to residential and agricultural customers.

Competition

Overview. Our retail propane, wholesale supply and marketing and midstream businesses all face significant competition. The primary factors on which we compete are:

- price;
- availability of supply;
- level and quality of service;
- available space on common carrier pipelines;
- storage availability;
- obtaining and retaining customers; and

- the acquisition of businesses.

Our competitors generally include other propane retailers and wholesalers, companies involved in the propane and other natural gas liquids midstream industry (such as terminal and refinery operations) and companies involved in the sale of natural gas, fuel oil and electricity, some of which have greater financial resources than we do.

Midstream. We encounter competition in our midstream business, primarily from companies that own terminal facilities close to our terminals. However, due to the location of our terminals and our ability to move natural gas liquids to and from such locations, we believe we are the primary terminal and wholesale supplier of propane in an area surrounding our terminals. We are the exclusive service provider at each of our terminals, which allows us to serve additional markets and increase our throughput during periods of supply disruption among our competitors.

Wholesale Supply and Marketing. The wholesale supply and marketing business is also highly competitive. Our competitors include producers and independent regional wholesalers. Propane sales to retail distributors and large volume, direct shipment industrial end users are more price sensitive and frequently involve a competitive bidding process. Although the wholesale supply and marketing business has lower margins than the retail propane business, we believe that our wholesale supply and marketing business provides us with a stronger regional presence and a stable and secure supply base for our retail propane business and positions us well for expansion through acquisitions or start-up operations in new markets.

We compete with integrated petroleum companies, independent terminal companies and distribution companies to purchase and lease propane storage. We believe the storage portion of our wholesale supply and marketing business is well-positioned in the markets we serve. All of our leased propane storage spaces are located at facilities connected to common carrier pipeline systems.

Retail Propane. In our retail propane business, we compete with alternative energy sources and with other companies engaged in the retail propane distribution business. Competition with other retail propane distributors in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service, multi state propane marketers, smaller local independent marketers and farm cooperatives. Our customer service locations generally have one to five competitors in their market area. According to statistics in LPGas magazine:

- the ten largest retailers account for less than 33% of the total retail sales of propane in the United States;

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- no single retail propane business has a greater than 10% share of the total retail propane market in the United States; and
- the propane retailers nationally range in size from less than 100,000 gallons to over 850 million gallons sold annually.

The competitive landscape of the markets that we serve has been fairly stable. Each customer service location operates in its own competitive environment since retailers are located in close proximity to their customers because of delivery economics. Our customer service locations generally have an effective marketing radius of approximately 25-50 miles, although in certain areas the marketing radius may be extended by satellite distribution locations.

The ability to compete effectively depends on the ability to provide superior customer service, which includes reliability of supply, quality equipment, well-trained service staff, efficient delivery, 24-hours-a-day service for emergency repairs and deliveries, multiple payment and purchase options and the ability to maintain competitive prices. Additionally, we believe that our safety programs, policies and procedures are more comprehensive than many of our smaller, independent competitors, which ensures a higher level of service to our customers. We also believe that our overall service capabilities and customer responsiveness differentiate us from many of these smaller competitors.

Supply

For the year ended March 31, 2012, five suppliers accounted for approximately 62% of our wholesale supply and marketing segment's total cost of sales. We believe that our diversification of suppliers will enable us to purchase all of our natural gas liquids supply needs at market prices without a material disruption of our operations if supplies are interrupted from a particular source.

The supply of propane for our wholesale supply and marketing business is obtained through multiple sources, but primarily through natural gas processing plants, fractionators and refineries under long-term contractual purchase agreements. The purchase contracts are usually tied to the Oil Price Information Service, or OPIS, index on a daily or weekly basis.

We use pipelines and contract with common carriers, owner operators and railroad tank cars to transport the propane from our sources of supply. Our customer service locations and satellite distribution locations typically have one or more 12,000 to 60,000 gallon storage tanks. Additionally, we lease underground propane storage space from third parties under annual lease agreements.

We purchased all of our natural gas liquids supply from North American suppliers during the year ended March 31, 2012. With the exception of our propane supply agreement with ConocoPhillips described below, all of our term purchase contracts are year-to-year. The percentage of our natural gas liquids supply obtained from contract purchases varies from year to year, with the balance purchased on the spot market. Supply contracts generally provide for pricing in accordance with OPIS based pricing at the time of delivery or the current spot market prices at major storage locations.

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We have a propane supply agreement with ConocoPhillips pursuant to which ConocoPhillips supplies us with weekly volumes of propane. The term of this agreement expires in 2017.

Pricing Policy

Midstream. In our midstream business, we primarily earn fees derived from a cents-per-gallon charge for the volumes transferred through our natural gas liquids terminals. As a result, our midstream business is not directly impacted by fluctuations in the price of natural gas liquids.

Wholesale Supply and Marketing. In our wholesale supply and marketing business, we offer our customers three categories of contracts for propane sourced from common carrier pipelines:

- customer pre-buys, which typically require deposits based on market pricing conditions and have terms ranging from 60 to 365 days;
- rack barrel, which is a posted price at time of delivery; and

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- load package, a firm price agreement for customers seeking to purchase specific volumes delivered during a specific time period.

We use back-to-back contractual agreements for a majority of our wholesale supply and marketing sales to limit exposure to commodity price risk and protect our margins. We are able to match our supply and sales commitments by offering our customers purchase contracts with flexible price, location, storage, and ratable delivery. However, certain common carrier pipelines require us to keep minimum in-line inventory balances year round to conduct our daily business, and these volumes may not be matched with a purchase commitment.

We generally require deposits from our customers for fixed priced future delivery of propane if the delivery date is more than 30 days after the time of sale.

Retail Propane. Our pricing policy is an essential element in the successful marketing of retail propane. We protect our margin by adjusting our retail propane pricing based on, among other things, prevailing supply costs, local market conditions, and input from management at our customer service locations. We rely on our regional management to set prices based on these factors. Our regional managers are advised regularly of any changes in the delivered cost of propane, potential supply disruptions, changes in industry inventory levels and possible trends in the future cost of propane. We believe the market intelligence provided by our wholesale supply and marketing business combined with our propane pricing methods allows us to respond to changes in supply costs in a manner that protects our customer base and our margins.

Billing and Collection Procedures

Midstream. In our midstream business, we have a mix of customers similar to that of our wholesale supply and marketing business. We perform similar credit approval and receivable monitoring procedures as we do for our wholesale supply and marketing business. Our midstream customers include independent distributors, regional propane companies, and large U.S. marketers. We utilize similar contracts at all of our terminals. Since we do not allow other companies to market natural gas liquids through our terminals, we are able to monitor our customer mix, allowing us to better control our credit risk.

Wholesale Supply and Marketing. Our wholesale supply and marketing customers consist of commercial accounts varying in size from local independent distributors to large regional and national retailers. These sales tend to be large volume transactions that can range from approximately 10,000 gallons to as much as 1,000,000 gallons, and deliveries can occur over time periods extending from days to as much as a year. We perform credit analysis, require credit approvals, establish credit limits, and follow monitoring procedures on our wholesale customers. We believe the following procedures enhance our collection efforts with our wholesale customers:

- we require certain customers to prepay or place deposits for their purchases;
- we require certain customers to take delivery of their contracted volume ratably to help control the account balance rather than allowing them to take delivery of propane at their discretion;

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- we review receivable aging analyses regularly to identify issues or trends that may develop; and
- we require our sales personnel to manage their wholesale customers' receivable position and tie a portion of our sales personnel's compensation to their ability to manage their accounts and minimize and collect past due balances.

Retail Propane. In our retail propane business, our customer service locations are typically responsible for customer billing and account collection. We believe that this decentralized and more personal approach is beneficial because our local staff has more detailed knowledge of our customers, their needs, and their history than would an employee at a remote billing center. Our local staff often develop relationships with our customers that are beneficial in reducing payment time for a number of reasons:

- customers are billed on a timely basis;
- customers tend to keep accounts receivable balances current when paying a local business and people they know;
- many customers prefer the convenience of paying in person and feel paying locally helps support their community; and

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- billing issues may be handled more quickly because local personnel have current account information and detailed customer history available to them at all times to answer customer inquiries.

Our retail propane customers must comply with our standards for extending credit, which typically includes submitting a credit application, supplying credit references and undergoing a credit check with an appropriate credit agency.

Trademark and Tradenames

We use a variety of trademarks and tradenames that we own, including NGL, Hicksgas, Propane Central, Brantley Gas, Osterman, Pacer, and Energy USA. We intend to retain and continue to use the names of the companies that we acquire and believe that this will help maintain the local identification of these companies and will contribute to their continued success though in certain transactions we may change or be required to change the names of such companies. We regard our trademarks, tradenames, and other proprietary rights as valuable assets and believe that they have significant value in the marketing of our products.

Employees

As of March 31, 2012, we had 890 full-time employees, of which 868 were operational and 22 were general and administrative employees. Twenty-four of our employees at three of our locations are members of a labor union. We believe that our relations with our employees are satisfactory.

Government Regulation

Environmental

We are subject to various federal, state, and local environmental, health and safety laws and regulations governing the storage, distribution and transportation of propane and the operation of bulk storage LPG terminals, as well as laws and regulations governing environmental protection, including those addressing the discharge of materials into the environment or otherwise relating to protection of the environment or occupational health and safety. Generally, these laws (i) regulate air and water quality and impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes; (ii) subject our operations to certain permitting and registration requirements; (iii) may result in the suspension or revocation of necessary permits, licenses and authorizations; (iv) impose substantial liabilities on us for pollution resulting from our operations; (v) require remedial measures to mitigate pollution from former or ongoing operations; (vi) and may result in the assessment of administrative, civil and criminal penalties for failure to comply with such laws. These laws include, among others, the Resource Conservation and Recovery Act, or RCRA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the Clean Air Act, the Occupational Safety and Health Act, the Homeland Security Act of 2002, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes.

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CERCLA, also known as the Superfund law, and similar state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of potentially responsible persons that are considered to have contributed to the release of a hazardous substance into the environment. These persons include the current and past owner or operator of the site where the release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. While propane is not a hazardous substance within the meaning of CERCLA, other chemicals used in our operations may be classified as hazardous. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to strict and joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

RCRA, and comparable state statutes and their implementing regulations, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the EPA, most states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Federal and state regulatory agencies can seek to impose administrative, civil and criminal penalties for alleged non-compliance with RCRA and analogous state requirements. Certain petroleum products are exempt from regulation as hazardous waste under Subtitle C of RCRA. These wastes, instead, are regulated under RCRA's less stringent solid waste provisions, state laws or other federal laws. It is possible, however, that certain wastes now classified as non-hazardous could be classified as hazardous wastes in the future and therefore be subject to more rigorous and costly disposal requirements. Indeed, legislation has been proposed from time to time in Congress to re-categorize certain oil and natural gas wastes as hazardous wastes. Any such change could result in an increase in our costs to manage and dispose of wastes, which could have a material adverse effect on our results of operations and financial position.

We currently own, lease, or operate numerous properties where hydrocarbons are being or have been handled. Although we believe that we are in substantial compliance with the requirements of CERCLA, RCRA, and related state and local laws and regulations, that we hold all necessary and up-to-date permits, registrations and other authorizations required under such laws and regulations and that we have utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes, or hydrocarbons may have been released on, under or from the properties owned or leased by us, or on, under or from other locations, including off-site locations, where such substances have been taken for disposal. In addition, some of our properties have been operated by third parties or by previous owners or operators whose treatment and disposal of hazardous substances, wastes, or hydrocarbons was not under our control. These properties and the substances disposed or released on, under or from them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to undertake response or corrective measures, which could include removal or remediation of previously disposed substances and wastes (including wastes disposed of or released by prior owners or operators), clean up of contaminated properties (including contaminated groundwater) or performance of remedial operations to prevent future contamination.

Safety and Transportation

All states in which we operate have adopted fire safety codes that regulate the storage and distribution of propane. In some states, state agencies administer these laws. In others, municipalities administer them. We conduct training programs to help ensure that our operations comply with applicable governmental regulations. With respect to general operations, each state in which we operate adopts National Fire Protection Association, or NFPA, Pamphlets No. 54 and No. 58, or comparable regulations, which establish a set of rules and procedures governing the safe handling of propane. We believe that the policies and procedures currently in effect at all of our facilities for the handling, storage and distribution of propane and related service and installation operations are consistent with industry standards and are in compliance in all material respects with applicable environmental, health and safety laws.

With respect to the transportation of propane by truck, we are subject to regulations promulgated under federal legislation, including the Federal Motor Carrier Safety Act and the Homeland Security Act of 2002. Regulations under these statutes cover the security and transportation of hazardous materials and are administered by the United States Department of Transportation, or DOT. We maintain various permits necessary to ensure that our operations comply with applicable regulations. The Natural Gas Safety Act of 1968 required the DOT to develop and enforce minimum safety regulations for the transportation of gases by pipeline. The DOT's pipeline safety regulations apply to, among other things, a propane gas system which supplies 10 or more residential customers or 2 or more commercial customers from a single source, as well as a propane gas system, any portion of which is located in a public place. The code requires operators of all gas systems to provide training and

written instructions for employees, establish written procedures

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to minimize the hazards resulting from gas pipeline emergencies, and conduct and keep records of inspections and testing. Operators are subject to the Pipeline Safety Improvement Act of 2002, which, among other things, protects employees from adverse employment actions if they provide information to their employers or to the federal government as to pipeline safety.

Greenhouse Gas Regulation

There is a growing concern, both nationally and internationally, about climate change and the contribution of greenhouse gas emissions, most notably carbon dioxide, to global warming. In June 2009, the U.S. House of Representatives passed the ACES Act, also known as the Waxman Markey Bill. The ACES Act did not pass the Senate, however, and so was not enacted by the 111th Congress. The ACES Act would have established an economy-wide cap on emissions of greenhouse gases in the United States and would have required most sources of greenhouse gas emissions to obtain and hold allowances corresponding to their annual emissions of greenhouse gases. By steadily reducing the number of available allowances over time, the ACES Act would have required a 17% reduction in greenhouse gas emissions from 2005 levels by 2020 and just over an 80% reduction of such emissions by 2050. Under such a cap and trade system, certain sources of greenhouse gas emissions would be required to obtain greenhouse gas emission allowances corresponding to their annual emissions of greenhouse gases. The number of emission allowances issued each year would decline as necessary to meet overall emission reduction goals. As the number of greenhouse gas emission allowances declines each year, the cost or value of allowances is expected to escalate significantly. The ultimate outcome of any possible future legislative initiatives is uncertain. In addition, over one-third of the states have already adopted some legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap-and-trade programs, although in recent years some states have scaled back their commitment to GHG initiatives.

On December 15, 2009, the EPA published its findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings allowed the EPA to adopt and implement regulations to restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Accordingly, the EPA has adopted two sets of regulations addressing greenhouse gas emissions under the Clean Air Act. The first, the motor vehicle rule, limits emissions of greenhouse gases from motor vehicles beginning with the 2012 model year. EPA has asserted that these final motor vehicle greenhouse gas emission standards trigger Clean Air Act construction and operating permit requirements for stationary sources, commencing when the motor vehicle standards took effect on January 2, 2011. On June 3, 2010, the EPA published its final rule, the stationary source rule, to address the permitting of greenhouse gas emissions from stationary sources under the Prevention of Significant Deterioration, or the PSD, and Title V permitting programs. This rule tailors these permitting programs to apply to certain stationary sources of greenhouse gas emissions in a multi-step process, with the largest sources first subject to permitting. It is widely expected that facilities required to obtain PSD permits for their greenhouse gas emissions will be required to also reduce those emissions according to best available control technology, or BACT, standards for greenhouse gases that have yet to be developed. Any regulatory or permitting obligation that limits emissions of greenhouse gases could require us to incur costs to reduce emissions of greenhouse gases associated with our operations and also could adversely affect demand for the propane and other natural gas liquids that we transport, store, process, or otherwise handle in connection with our services. The stationary source rule became effective in January 2011, although it remains the subject of several pending lawsuits filed by industry groups.

In addition, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas sources in the United States on an annual basis, beginning in 2011 for emissions occurring after January 1, 2010. In November 2010, the EPA published a final rule expanding this GHG reporting rule to include onshore oil and natural gas production, processing, transmission, storage, and distribution facilities. This rule requires reporting of GHG emissions from such facilities on an annual basis, with reporting beginning in 2012 for emissions occurring in 2011.

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Some scientists have suggested climate change from greenhouse gases could increase the severity of extreme weather, such as increased hurricanes and floods, which could damage our facilities. Another possible consequence of climate change is increased volatility in seasonal temperatures. The market for our propane is generally improved by periods of colder weather and impaired by periods of warmer weather, so any changes in climate could affect the market for our products and services. If there is an overall trend of warmer temperatures, it would be expected to have an adverse effect on our business.

Because propane is considered a clean alternative fuel under the federal Clean Air Act Amendments of 1990, new climate change regulations may provide us with a competitive advantage over other sources of energy, such as fuel oil and coal.

The trend of more expansive and stringent environmental legislation and regulations, including greenhouse gas regulation, could continue, resulting in increased costs of doing business and consequently affecting our profitability. To the extent laws are enacted or other governmental action is taken that restricts certain aspects of our business or imposes more stringent and costly operating, waste handling, disposal and cleanup requirements, our business and prospects could be adversely affected.

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Item 1A. 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 consider carefully the following risk factors together with all of the other information included in this annual report 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 be unable 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 to enable us to pay the minimum quarterly distribution to our unitholders following the establishment of cash reserves by our general partner and the payment of costs and expenses, including reimbursement of expenses to our general partner.

We may not have sufficient cash each quarter to enable us to pay the minimum quarterly distribution. The amount of cash we can distribute on our common and subordinated units principally depends on the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- weather conditions in our operating areas;
- the cost of propane that we buy for resale and whether we are able to pass along cost increases to our customers;
- the volume of propane throughput in our terminals;
- disruptions in the availability of propane supply;
- the level of competition from other propane companies and other energy providers; and

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- prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution also depends on other factors, some of which are beyond our control, including:

- the level of capital expenditures we make;
- the cost of acquisitions, if any;
- restrictions contained in our revolving credit facility and other debt service requirements;
- fluctuations in working capital needs;
- our ability to borrow funds and access capital markets;
- the amount, if any, of cash reserves established by our general partner; and
- other business risks discussed in this annual report that potentially affect our cash levels.

Because of all these factors, we may not have sufficient available cash each quarter to be able to pay the minimum quarterly distribution.

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The amount of cash we have available for distribution to our unitholders depends primarily on our cash flow rather than on our profitability, which may prevent us from making distributions, even during periods in which we realize net income.

The amount of cash we have available for distribution depends primarily on 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 net losses for financial accounting purposes and may not make cash distributions during periods when we record net income for financial accounting purposes.

Current conditions in the global capital and credit markets, and general economic pressures, may adversely affect our financial position and results of operations.

Our business and operating results are materially affected by worldwide economic conditions. Current conditions in the global capital and credit markets and general economic pressures have led to declining consumer and business confidence, increased market volatility and widespread reduction of business activity generally. As a result of this turmoil, coupled with increasing energy prices, our customers may experience cash flow shortages which may lead to delayed or cancelled plans to purchase our products, and affect the ability of our customers to pay for our products. In addition, disruptions in the U.S. residential mortgage market, increases in mortgage foreclosure rates and failures of lending institutions may adversely affect retail customer demand for our products (in particular, products used for home heating and home comfort equipment) and our business and results of operations.

The majority of our retail propane operations are concentrated in the Midwest and Northeast, and localized warmer weather and/or economic downturns may adversely affect demand for propane in those regions, thereby affecting our financial condition and results of operations.

A substantial portion of our retail propane sales are to residential customers located in the Midwest and Northeast who rely heavily on propane for heating purposes. A significant percentage of our retail propane volume is attributable to sales during the peak heating season of October through March. Warmer weather may result in reduced sales volumes that could adversely impact our operating results and financial condition. In addition, adverse economic conditions in areas where our retail propane operations are concentrated may cause our residential customers to reduce their use of propane regardless of weather conditions. Localized warmer weather and/or economic downturns may have a significantly greater impact on our operating results and financial condition than if our retail propane business were less concentrated.

Widely fluctuating propane prices could adversely affect our ability to finance our working capital needs.

The price for propane is subject to wide fluctuations and depends on numerous factors beyond our control. If propane prices were to increase substantially, our working capital needs would increase to the extent that we are required to maintain propane inventory that has not been pre-sold and our ability to finance our working capital could be adversely affected. If propane prices were to decline significantly for a prolonged period, the decreased value of our propane inventory could potentially result in a reduction of the borrowing base under our working capital facility and we could be required to liquidate propane inventory that we have already pre-sold.

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We have certain agreements with ConocoPhillips related to the operation and maintenance of two of our propane terminals, our propane supply, the lease of a propane storage facility in Borger, Texas and the right to utilize ConocoPhillips capacity as a shipper on the Blue Line pipeline. The termination of, or significant modification to, these agreements could have a negative impact on our financial condition and results of operations.

In connection with the purchase by NGL Supply of the propane terminals of ConocoPhillips, we executed several agreements in November 2002, including the following:

- an operating and maintenance agreement for the propane terminals and common facilities located in East St. Louis, Illinois and Jefferson City, Missouri;
- a propane supply agreement under which we are able to purchase, exchange and deliver specified gallons of propane per week and access the ConocoPhillips Blue Line pipeline to ship propane from Borger, Texas and the Conway, Kansas storage hubs to our propane terminal locations in East St. Louis, Illinois and Jefferson City, Missouri, including the right to utilize ConocoPhillips capacity as a shipper on the Blue Line pipeline from September 15 through March 15 each year; and
- a propane storage lease agreement under which we have leased storage space in Borger, Texas.

The operating and maintenance agreement and the propane supply agreement each expire in November 2017. The propane storage lease agreement expires in

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March 2014. Significant changes to such agreements or our inability to extend such agreements could have a negative effect on our financial condition and results of operations.

Our future financial performance and growth may be limited by our ability to successfully complete accretive acquisitions on economically acceptable terms.

The propane industry is a mature industry. We anticipate only limited growth in total national demand for propane in the near future. Increased competition from alternative energy sources has limited growth in the propane industry, and year-to-year industry volumes are primarily impacted by fluctuations in weather and economic conditions. In addition, our retail propane business concentrates on sales to residential customers, but because of longstanding customer relationships that are typical in the retail residential propane industry, the inconvenience of switching tanks and suppliers and propane's generally higher cost as compared to certain other energy sources, we may have difficulty in increasing our retail customer base other than through acquisitions. Therefore, while our business strategy includes expanding our existing operations through internal growth, our ability to grow within the industry will depend principally on acquisitions.

Our ability to consummate accretive acquisitions on economically acceptable terms may be limited by various factors, including, but not limited to:

- Increased competition for attractive acquisitions due to consolidation in the retail propane industry;
- Covenants in our revolving credit facility that limit the amount and types of indebtedness that we may incur to finance acquisitions and which may adversely affect our ability to make distributions to our unitholders;
- Lack of available cash or external capital to pay for acquisitions; and
- Possible unwillingness of prospective sellers to accept units as consideration and the potential dilutive effect to our existing unitholders caused by an issuance of units in an acquisition.

There can be no assurance that we will identify attractive acquisition candidates in the future, that we will be able to acquire such businesses on economically acceptable terms, that any acquisitions will not be dilutive to earnings and distributions or that any additional debt that we incur to finance an acquisition will not affect our ability to make distributions to unitholders. Furthermore, if we consummate any future acquisitions, our capitalization and results of operations may change significantly, and unitholders 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.

We may be subject to substantial risks in connection with the integration and operation of acquired businesses.

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Any acquisitions we make in pursuit of our growth strategy will be subject to potential risks, including, but not limited to:

- the inability to successfully integrate the operations of recently acquired businesses;
- the assumption of known or unknown liabilities, including environmental liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt or synergies;
- unforeseen difficulties operating in new geographic areas;
- the diversion of management's and employees' attention from other business concerns;
- customer or key employee loss from the acquired businesses; and
- a potential significant increase in our indebtedness and related interest expense.

We undertake significant due diligence efforts in our assessment of acquisitions, but may be unable to identify or fully plan for all issues and risks attendant to a particular acquisition. Even when an issue or risk is identified, we may be unable to obtain adequate contractual protection from the seller. The realization of any of these risks could have a material adverse effect on the success of a particular acquisition or our financial condition, results of operations or future growth.

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Part of our growth strategy includes acquiring businesses with operations that may be distinct and separate from our existing operations, which could subject us to additional business and operating risks.

We may expand our operations into businesses that differ from our existing operations, such as the natural gas midstream business (including, but not limited to, natural gas gathering, processing and transportation). Integration of new businesses is a complex, costly and time-consuming process and may involve assets with which we have limited operating experience. Failure to timely and successfully integrate acquired businesses into our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating new businesses into our existing operations include, among other things: operating distinct businesses that require different operating strategies and different managerial expertise; the necessity of coordinating organizations, systems and facilities in different locations; integrating personnel with diverse business backgrounds and organizational cultures; and consolidating corporate and administrative functions. In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of the new businesses, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial condition or prospects. Furthermore, new businesses will subject us to additional business and operating risks such as the acquisitions not being accretive to our unitholders as a result of decreased profitability, increased interest expense related to debt we incur to make such acquisitions or an inability to successfully integrate those operations into our overall business operation. The realization of any of these risks could have a material adverse effect on our financial condition or results of operations.

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

Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- 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 principal and 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 on, among other things, our future financial and operating performance, which will be affected by prevailing economic and weather conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our 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 be unable to effect any of these actions on satisfactory terms or at all.

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

Our revolving credit facility limits our ability to, among other things:

- incur additional debt or letters of credit;
- redeem or repurchase units;
- make certain loans, investments and acquisitions;
- incur certain liens or permit them to exist;
- engage in sale and leaseback transactions;
- prepay, redeem or purchase certain indebtedness;

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- enter into certain types of transactions with affiliates;
- enter into agreements limiting subsidiary distributions;
- change the nature of our business or enter into a substantially different business;
- merge or consolidate with another company; and
- transfer or otherwise dispose of assets.

We are permitted to make distributions to our unitholders under our revolving credit facility so long as no default or event of default exists both immediately before and after giving effect to the declaration and payment of the distribution and the distribution does not exceed available cash for the applicable quarterly period. Our revolving credit facility also contains covenants requiring us to maintain certain financial ratios. Please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Sources of Capital and Capital Resource Activities Revolving Credit Facility.

The provisions of our revolving 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 revolving credit facility could result in a covenant violation, default or an event of default that could enable our lenders, subject to the terms and conditions of our revolving credit facility, to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If we were unable to repay the accelerated amounts, our lenders could proceed against the collateral we granted them to secure our debts. If the payment of our debt is accelerated, defaults under our other debt instruments, if any then exist, may be triggered, and our assets may be insufficient to repay such debt in full, and our unitholders could experience a partial or total loss of their investment.

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 may increase in the future. As a result, interest rates on our existing and 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 will be impacted by our level of cash distributions and 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 and our ability to issue equity or incur debt for acquisitions or other purposes and to make cash distributions at our intended levels.

Our results of operations could be negatively impacted by price and inventory risk related to our business and management of these risks.

Generally, we attempt to maintain an inventory position that is substantially balanced between our purchases and sales, including our future delivery obligations. We attempt to obtain a certain gross margin for our propane purchases by selling our propane to our wholesale and retail market customers which include third party consumers, other wholesalers and retailers, and others. Our strategy may be ineffective in limiting our price and inventory risks if, for example, market, weather or other conditions prevent or allocate the delivery of physical product during periods of peak demand. If the market price falls below the cost at which we made such purchases, it could adversely affect our profits. Any event that disrupts our expected supply of propane could expose us to a risk of loss through price changes if we were required to obtain supply at increased prices that cannot be passed through to our customers. While we attempt to balance our inventory position through our normal risk management policies and practices, it is not possible to eliminate all price risks.

Our risk management policies cannot eliminate all risks. In addition, any non-compliance with our risk management policies could result in significant financial losses.

Although we have risk management policies and systems that are intended to quantify and manage risk, some degree of exposure to unforeseen fluctuations in market conditions remains. In addition, our wholesale operations involve a level of risk from non-compliance with our stated risk management policies. We monitor processes and procedures to prevent unauthorized trading and to maintain substantial balance between purchases and future sales and delivery obligations. However, we cannot assure you that our processes will detect and prevent all violations of our risk management policies, particularly if such violation involves deception or

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other intentional misconduct. There is no assurance that our risk management procedures will prevent losses that would negatively affect our business, financial condition and results of operations.

The counterparties to our commodity derivative and physical purchase and sale contracts may not be able to perform their obligations to us, which could materially affect our cash flows and results of operations.

We encounter risk of counterparty non-performance primarily in our wholesale supply and marketing business. Disruptions in the supply of propane and in the oil and gas commodities sector overall for an extended or near term period of time could result in counterparty defaults on our derivative and physical purchase and sale contracts. This could impair our ability to obtain supply to fulfill our sales delivery commitments or obtain supply at reasonable prices, which could result in decreased gross margins and profitability, thereby impairing our ability to make distributions to our unitholders.

Our use of derivative financial instruments could have an adverse effect on our results of operations.

We have used derivative financial instruments as a means to protect against commodity price risk or interest rate risk and expect to continue to do so. We may, as a component of our overall business strategy, increase or decrease from time to time our use of such derivative financial instruments in the future. Our use of such derivative financial instruments could cause us to forego the economic benefits we would otherwise realize if commodity prices or interest rates were to change in our favor. In addition, although we monitor such activities in our risk management processes and procedures, such activities could result in losses, which could adversely affect our results of operations and impair our ability to make distributions to our unitholders.

If the price of propane increases suddenly and sharply, we may be unable to pass on the increase to our retail customers and our retail customers may conserve their propane use or convert to alternative energy sources, thereby adversely affecting our profit margins.

The propane industry is a margin-based business in which our realized gross margins depend on the differential of sales prices over our total supply costs. Our profitability is therefore sensitive to changes in the wholesale prices of propane caused by changes in supply or other market conditions. The timing of cost increases by our propane suppliers can significantly affect our gross margins because we may be unable to immediately pass through rapid increases in the wholesale costs of propane to our retail customers, if at all. We have no control over supply or market conditions. In general, product supply contracts permit suppliers to charge posted prices at the time of delivery or the current prices established at major storage points. Sudden and extended wholesale price increases could reduce our gross margins and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

If we fail to maintain an effective system of internal controls, including internal controls over financial reporting, we may be unable 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 our initial public offering, we were not required to file reports with the SEC. Upon the completion of our initial public offering, we became subject to the public reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Effective

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March 31, 2012, we became subject to the obligation under Section 404(a) of the Sarbanes Oxley Act of 2002 to annually review and report on our internal control over financial reporting. Effective March 31, 2013, we will become subject to the obligation under Section 404(b) of the Sarbanes Oxley Act to engage our independent registered public accounting firm to attest to the effectiveness of our internal controls over financial reporting.

Effective internal controls are necessary for us to provide reliable financial reports, prevent fraud, and operate successfully as a publicly traded partnership. Our efforts to maintain our internal controls may be unsuccessful, and we may be unable to maintain effective controls over financial reporting, including our disclosure controls. Any failure to maintain effective internal controls over financial reporting and disclosure 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 internal controls in the future, and we may incur significant costs in our efforts to comply with Section 404. Ineffective internal controls would 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.

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Natural disasters, such as hurricanes, could have an adverse effect on our business, financial condition and results of operations.

Hurricanes and other natural disasters could cause serious damage or destruction to homes, business structures and the operations of our retail and wholesale customers. For example, any such disaster that occurred in the Gulf Coast region could seriously disrupt the supply of propane and cause serious shortages in various areas, including the areas in which we operate. Such disruptions could potentially have a material adverse impact on our business, financial condition, results of operations and cash flows, which could impair our ability to make distributions to our unitholders.

An impairment of goodwill and intangible assets could reduce our earnings.

As of March 31, 2012, we had reported goodwill and intangible assets of approximately \$292.3 million. Such assets are subject to impairment reviews on an annual basis, or at an interim date if information indicates that such asset values have been impaired. Any impairment we would be required to record under GAAP would result in a charge to our income, which would reduce our earnings.

The highly competitive nature of the retail propane business could cause us to lose customers, affect our ability to acquire new customers in our existing locations, thereby reducing our revenues or impairing our ability to expand our operations.

We encounter competition with other retail propane companies who are larger and have substantially greater financial resources than we do, which may provide them with certain advantages. Also, because of relatively low barriers to entry into the retail propane business, numerous small retail propane distributors, as well as companies not engaged in retail propane distribution, may enter our markets and compete with our retail business. Some rural electric cooperatives and fuel oil distributors have expanded their businesses to include propane distribution. As a result, we are subject to the risk of additional competition in the future. The principal factors influencing competition with other retail propane businesses are:

- price;

- reliability and quality of service;

- responsiveness to customer needs;

- safety standards and compliance with such standards;

- long-standing customer relationships;
- the inconvenience of switching tanks and suppliers; and
- the lack of growth in the industry.

We can make no assurances that we will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, we may lose customers, which would reduce our revenues.

If we are unable to purchase propane from our principal suppliers, our results of operations would be adversely affected.

During the year ended March 31, 2012, five of our suppliers accounted for approximately 62% of our wholesale supply and marketing segment's propane purchases. If we are unable to purchase propane from significant suppliers, our failure to obtain alternate sources of supply at competitive prices and on a timely basis would adversely affect our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations.

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Our business requires extensive credit risk management that may not be adequate to protect against customer nonpayment.

The risk of nonpayment by customers is a concern in all of our operating segments, and our procedures may not fully eliminate this risk. We manage our credit risk exposure through credit analysis, credit approvals, establishing credit limits, requiring prepayments (partially or wholly), requiring propane deliveries over defined time periods and credit monitoring. While we believe our procedures are effective, we can provide no assurance that bad debt write-offs in the future may not be significant and any such non-payment problems could impact our results of operations and potentially limit our ability to make distributions to our unitholders.

Our business would be adversely affected if service at our principal storage facilities or on the common carrier pipelines we use is interrupted.

Historically, a substantial portion of our propane supply has originated from storage facilities at Borger, Texas; Conway and Bushton, Kansas; Mt. Belvieu, Texas; and Sarnia, Ontario, Canada and has been shipped to us or by us to our service areas through seven common carrier pipelines. Any significant interruption in the service at these storage facilities or on the common carrier pipelines we use would adversely affect our ability to obtain propane.

We could be required to provide linefill on certain of the pipelines on which we ship product. This could require the use of our working capital, which could potentially impact our ability to borrow additional amounts under our working capital facility to conduct our operations or to make distributions to our unitholders.

We have not historically been required to provide the linefill for certain pipelines on which we transport propane and other natural gas liquids.

Linefill is the pre-determined minimum level of propane a common carrier could require us to maintain in its pipeline and storage in order to facilitate the lifting of product by our customers. If we were required to provide any portion of the linefill, we would have to purchase propane that would have to remain in the pipeline for an extended period of time. Such a requirement would expose us to inventory and price risk and could negatively impact our working capital position, our liquidity, our availability under our working capital facility and our ability to make distributions to our unitholders.

Our propane terminaling operations depend on neighboring pipelines to transport propane.

We own propane terminals in Arizona, Arkansas, Illinois, Indiana, Minnesota, Maine, Missouri, Montana, Washington, Wisconsin, and St. Catharines, Ontario. These facilities depend on pipeline and storage systems that are owned and operated by third parties. Any interruption of service on the pipeline or lateral connections or adverse change in the terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport propane to and from our facilities and have a corresponding material adverse effect on our terminaling revenues. In addition, the rates charged by the interconnected pipelines for transportation to and from our facilities affect the utilization and value of our terminaling services. We have historically been able to pass through the costs of pipeline transportation to our customers. However, if competing pipelines do not have similar annual tariff increases or service fee adjustments, such increases could affect our ability to compete, thereby adversely affecting our terminaling revenues.

Our financial results are seasonal and generally lower in the first and second quarters of our fiscal year, which may require us to borrow money to make distributions to our unitholders during these quarters.

The inventory we have pre-sold to customers is highest during summer months, and our cash receipts are lowest during summer months. As a result, our cash available for distribution for the summer is much lower than for the winter. With lower cash flow during the first and second fiscal quarters, we may be required to borrow money to pay distributions to our unitholders during these quarters. Any restrictions on our ability to borrow money could restrict our ability to pay the minimum quarterly distributions to our unitholders.

We are subject to operating and litigation risks that could adversely affect our operating results to the extent not covered by insurance.

Our operations are subject to all operating hazards and risks incident to handling, storing, transporting and providing customers with combustible liquids such as propane. As a result, we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. We are self-insured for non-catastrophic occurrences, but not for all risks inherent in our business. We may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates in the future. 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. We carry limited environmental insurance, thus, losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance

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coverage. The occurrence of an event that is not covered in full or in part by insurance could have a material adverse impact on our business activities, financial condition and results of operations.

Our results of operations and financial condition may be adversely affected by governmental regulation and associated environmental, transportation, health, and safety costs.

The propane business is subject to a wide range of federal, state and local laws and regulations related to environmental, transportation, health, and safety matters. These laws and regulations may impose numerous obligations that are applicable to our operations, including obtaining, maintaining and complying with permits to conduct regulated activities, incurring capital or operating expenditures to limit or prevent releases of materials from our facilities, and imposing substantial liabilities and remedial obligations relating to, among other things, emissions into the air and water, habitat and endangered species degradation and the release and disposal of hazardous substances, that may result from our operations. Numerous governmental authorities, such as the U.S. Environmental Protection Agency, or the EPA, 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 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, the suspension or revocation of necessary permits, licenses and authorizations, the requirement that additional pollution controls be installed and the issuance of injunctions limiting or preventing some or all of our operations. In addition, we may experience a delay in obtaining or be unable to obtain required permits, which may cause us to lose potential and current customers, interrupt our operations and limit our growth and revenues.

Under certain environmental laws that impose strict, joint and several liability, we may be required to remediate our contaminated properties regardless of whether such contamination resulted from the conduct of others or from consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In addition, claims for damages to persons, property or natural resources may result from environmental and other impacts of our operations. Moreover, new or modified environmental, health or safety laws, regulations or enforcement policies could be more stringent and impose unforeseen liabilities or significantly increase compliance costs. Therefore, the costs to comply with environmental, health, or safety laws or regulations or the liabilities incurred in connection with them could significantly and adversely affect our business, financial condition or results of operations.

The United States continues to move towards regulation of greenhouse gases, including methane, a primary component of natural gas, and carbon dioxide, a byproduct of burning natural gas, propane and oil, and over one-third of the states have already adopted some legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap-and-trade programs. There were bills pending before the 111th Congress proposing various forms of greenhouse gas regulation, including the American Clean Energy Security, or ACES, Act that, among other things, would have established a cap-and-trade system to regulate greenhouse gas emissions and would have required an 80% reduction in greenhouse gas emissions from sources within the United States between 2012 and 2050. Although the ACES Act did not pass the Senate and was not enacted by the 111th Congress, the United States Congress is likely to again consider a climate change bill in the future.

In December 2009, the EPA issued an endangerment finding under the federal Clean Air Act, which allowed the agency to adopt and implement greenhouse gas regulations. In 2010, the EPA adopted and proposed regulations requiring certain mandatory reporting of greenhouse gas emissions, including from upstream oil and gas facilities and large stationary sources of air emissions. Broader regulation is in early stages of development in the United States, and, thus, we are currently unable to determine the impact of potential greenhouse gas emission control requirements. Mandatory greenhouse gas emissions reductions may impose increased costs on our business and could adversely impact some of our operations. It is possible that broader national or regional greenhouse gas reduction requirements, including on our suppliers, may have direct or indirect adverse impacts on the propane industry. Please read Item 1 Business Government Regulation.

Competition from alternative energy sources may cause us to lose customers, thereby negatively impacting our financial condition and results of operations.

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. We compete for customers against suppliers of electricity, natural gas and fuel oil. Competition from alternative energy sources, including electricity and natural gas, has increased as a result of reduced regulation of many utilities. Electricity is a major competitor of propane, but propane has historically enjoyed a competitive price advantage over electricity. Except for some industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because such pipelines generally make it possible for the delivered cost of natural gas to be less expensive than the bulk delivery of propane. The expansion of natural gas into traditional propane markets has historically been inhibited by the capital cost required to expand

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distribution and pipeline systems; however, the gradual expansion of the nation's natural gas distribution systems has resulted in natural gas being available in areas that previously depended on propane, which could cause us to lose customers, thereby reducing our revenues. Although propane is similar to fuel oil in some applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to the other and due to the fact that both fuel oil and propane have generally developed their own distinct geographic markets. During the year ended March 31, 2012, we acquired certain retail fuel oil operations, although the volume of this activity is low in relation to our retail propane operations.

We cannot predict the effect that development of alternative energy sources may have on our operations, including whether subsidies of alternative energy sources by local, state, and federal governments might be expanded.

Energy efficiency and new technology may reduce the demand for propane and adversely affect our operating results.

The national trend toward increased conservation and technological advances, such as installation of improved insulation and the development of more efficient furnaces and other heating devices, has adversely affected the demand for propane by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices may reduce demand for propane. In addition, if the price of propane increases, some of our customers may increase their conservation efforts and thereby decrease their consumption of propane.

A significant increase in motor fuel prices may adversely affect our profits.

Motor fuel is a significant operating expense for us in connection with the delivery of propane to our customers. A significant increase in motor fuel prices will result in increased transportation costs to us. The price and supply of motor fuel is unpredictable and fluctuates based on events we cannot control, such as geopolitical developments, supply and demand for oil and gas, actions by oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and weather concerns. As a result, any increases in these prices may adversely affect our profitability and competitiveness.

The risk of terrorism and political unrest in various energy producing regions may adversely affect the economy and the supply of crude oil and the price and availability of propane, fuel oil and other refined fuels and natural gas.

An act of terror in any of the major energy producing regions of the world could potentially result in disruptions in the supply of crude oil and natural gas, the major sources of propane, which could have a material impact on the availability and price of propane. Terrorist attacks in the areas of our operations could negatively impact our ability to transport propane to our locations. These risks could potentially negatively impact our results of operations.

The recent adoption of derivatives legislation by the U.S. Congress could have an adverse effect on our ability to hedge risks associated with our business.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. While we may ultimately be eligible for such exceptions, the scope of these exceptions is currently uncertain at this time, pending further definition through rulemaking proceedings. Among the other provisions of the Dodd-Frank Act that may affect derivative transactions are those relating to establishment of capital and margin requirements for certain derivative participants; establishment of business conduct standards, recordkeeping and reporting requirements; and imposition of position limits. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitely until regulations have been adopted by the SEC and the Commodities Futures Trading Commission. The new legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available counterparties to us.

We depend on the leadership and involvement of key personnel for the success of our businesses.

We have certain key individuals in our senior management who we believe are critical to the success of our business. The loss of leadership and involvement of those key management personnel could potentially have a material adverse impact on our business and possibly on the market value of our units.

Risks Inherent in an Investment in Us

Our partnership agreement limits the fiduciary duties of our general partner to our unitholders and restricts the remedies available to our unitholders for actions taken by our general partner that might otherwise be breaches of fiduciary duty.

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Fiduciary duties owed to our unitholders by our general partner are prescribed by law and our partnership agreement. The Delaware Revised Uniform Limited Partnership Act, or the Delaware LP Act, provides that Delaware limited partnerships may, in their partnership agreements, restrict the fiduciary duties owed by the general partner to limited partners and the partnership. Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement:

- limits the liability and reduces the fiduciary duties of our general partner, while also restricting the remedies available to our unitholders for actions that, without these limitations, might constitute breaches of fiduciary duty. As a result of purchasing common units, our unitholders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;
- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its limited call right, its voting rights with respect to the units it owns and its determination whether or not to consent to any merger or consolidation of the partnership;
- provides that our general partner shall not have any liability to us or our unitholders for decisions made in its capacity as general partner so long as it acted in good faith, meaning our general partner subjectively believed that the decision was in, or not opposed to, the best interests of the partnership;
- generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee and not involving a vote of our unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us; and
- provides that our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct.

By purchasing a common unit, a common unitholder will become bound by the provisions of our partnership agreement, including the provisions described above.

Our general partner and its affiliates have conflicts of interest with us and limited fiduciary duties to our unitholders, and they may favor their own interests to the detriment of us and our unitholders.

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The NGL Energy GP Investor Group owns and controls our general partner and its 0.1% general partner interest in us. Although our general partner has certain fiduciary duties to manage us in a manner beneficial to us and our unitholders, the executive officers and directors of our general partner have a fiduciary duty to manage our general partner in a manner beneficial to its owners. Furthermore, since certain executive officers and directors of our general partner are executive officers or directors of affiliates of our general partner, conflicts of interest may arise between the NGL Energy GP Investor Group and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. Please read Our partnership agreement limits the fiduciary duties of our general partner to our unitholders and restricts the remedies available to our unitholders for actions taken by our general partner that might otherwise be breaches of fiduciary duty. The risk to our unitholders due to such conflicts may arise because of the following factors, among others:

- our general partner is allowed to take into account the interests of parties other than us, such as members of the NGL Energy GP Investor Group, in resolving conflicts of interest;
- neither our partnership agreement nor any other agreement requires owners of our general partner to pursue a business strategy that favors us;
- except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;

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- our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and the creation, reduction or increase of reserves, each of which can affect the amount of cash that is distributed to our unitholders;
- 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 operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and to our general partner and the ability of the subordinated units to convert to common units;
- our general partner determines which costs incurred by it are reimbursable by us;
- our general partner may cause us to borrow funds to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period;
- our partnership agreement permits us to classify up to \$20.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions on our subordinated units or to our general partner in respect of the general partner interest or the incentive distribution rights;
- 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

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- 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.

In addition, certain members of the NGL Energy GP Investor Group and their affiliates currently hold interests in other companies in the energy and natural resource sectors, including the propane industry. Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner and those activities incidental to its ownership interest in us. However, members of the NGL Energy GP Investor Group are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. As a result, they could potentially compete with us for acquisition opportunities and for new business or extensions of the existing services provided by us.

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

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Even if our unitholders are dissatisfied, they 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 is chosen entirely by its members and not by our unitholders. Unlike publicly traded corporations, we will not conduct annual meetings of our unitholders to elect directors or conduct other matters routinely conducted at annual meetings of stockholders of corporations. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have limited 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.

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 direct transferees and their indirect transferees approved by our general partner (which approval may be granted in its sole discretion) and persons who acquired such units with the prior approval 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 the consent of our unitholders.

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 the members of the NGL Energy GP Investor Group to transfer all or a portion of their 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.

The incentive distribution rights of our general partner may be transferred to a third party.

Prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of our initial public offering, a transfer of incentive distribution rights by our general partner requires (except in certain limited circumstances) the consent of a majority of our outstanding common units (excluding common units held by our general partner and its affiliates). However, after the expiration of this period, our general partner may transfer its incentive distribution rights to a third party at any time without the consent of our unitholders. If our general partner transfers its incentive distribution rights to a third party but retains its general partner interest, our general partner may not have the same incentive to grow our partnership and increase quarterly distributions to unitholders over time as it would if it had retained ownership of its incentive distribution rights.

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

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, 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 calculated pursuant to the terms of our partnership agreement. As a result, our unitholders may be required to sell their common units at an undesirable time or price and may not receive any return or a negative return on their investment. Our unitholders may also incur a tax liability upon a sale of their units.

Cost reimbursements to our general partner may be substantial and could reduce our cash available to make quarterly distributions to our unitholders.

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates for all expenses they incur on our behalf, which will be determined by our general partner in its sole discretion in accordance with the terms of our partnership agreement. In determining the costs and expenses allocable to us, our general partner is subject to its fiduciary duty, as modified by our partnership agreement, to the limited partners, which requires it to act in good faith. These expenses will include all costs incurred by our general partner and its affiliates in managing and operating us. We are managed and operated by executive officers and directors of our general partner. The reimbursement of expenses and payment of fees, if any, to our general partner and its affiliates, will reduce the amount of cash available for distribution to our unitholders.

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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 on external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, as well as reserves we have established 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 or our revolving credit facility on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which, in turn, may impact the available cash that we have to distribute to our unitholders.

We may issue additional units without the approval of our unitholders, which would dilute the interests of existing unitholders.

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

Our general partner, without the approval of our unitholders, may elect to cause us to issue common units while also maintaining its general partner interest in connection with a resetting of the target distribution levels related to its incentive distribution rights. This could result in lower distributions to our unitholders.

Our general partner has the right, at any time when there are no subordinated units outstanding and it has received distributions on its incentive distribution rights 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 the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset 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. The number of common units to be issued to our general partner will be equal to that number of common units that 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 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 distributions on its incentive distribution rights 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

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had we not issued new common units and general partner interests to our general partner in connection with resetting the target distribution levels.

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

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

Our 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 LP 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 interests nor liabilities that are non-recourse to the partnership are counted for purposes of determining whether a distribution is permitted. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware LP Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes. We could lose our status as a partnership for a number of reasons, including not having enough qualifying income. If the IRS were to treat us as a corporation for federal income tax purposes, our cash available for distribution to our unitholders would be substantially reduced.

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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 IRS, on this or any other tax matter affecting us.

Despite the fact that we are a limited partnership under Delaware law, a publicly traded partnership such as us will be treated as a corporation for federal income tax purposes unless 90% or more of its gross income from its business activities is qualifying income under Section 7704(d) of the Internal Revenue Code. Qualifying income includes income and gains derived from the exploration, development, production, processing, transportation, storage and marketing of natural gas and natural gas products or other passive types of income such as interest and dividends. Although we do not believe based upon our current operations that we are treated as a corporation, we could be treated as a corporation for federal income tax purposes or otherwise subject to taxation as an entity if our gross income is not properly classified as qualifying income, there is a change in our business or there is a change in current law.

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 our unitholders would generally be taxed again as corporate dividends (to the extent of our current and accumulated earnings and profits), and no income, gains, losses or deductions would flow through to our unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution to our unitholders would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

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, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

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If we were subjected to a material amount of additional entity level taxation by individual states, it would reduce our cash available for distribution to our unitholders.

Changes in current state law may subject us to additional entity level taxation by individual states. 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. Imposition of any such taxes may substantially 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 entity level taxation, 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 publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. Recently, members of Congress have considered substantive changes to the existing federal income tax laws that affect certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although we are unable to predict whether any of these changes, or other proposals, will ultimately be enacted, any such changes could negatively impact the value of an investment 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 our unitholders.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes, the classification of any of the gross income from our business operations as qualifying income under Section 7704 of the Internal Revenue Code, or any other matter affecting us. 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 our counsel's conclusions or the positions we take and such positions may not ultimately be sustained. A court may not agree with some or all of our counsel's conclusions or positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, 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.

Our unitholders will be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

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

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

If unitholders sell their common units, they will recognize a gain or loss equal to the difference between the amount realized and their tax basis in those common units. Because distributions in excess of the unitholder's allocable share of our net taxable income decrease the unitholder's tax basis in their common units, the amount, if any, of such prior excess distributions with respect to the units the unitholder sells will, in effect, become taxable income to the unitholder if they sell such units at a price greater than their tax basis in those units, even if the price they receive is less than their original cost. Furthermore, a substantial portion of the amount realized on any sale of common units, 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 a unitholder sell units, they may incur a tax liability in excess of the amount of cash they receive from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning our 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

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effective tax rate, and non-U.S. persons will be required to file U.S. federal income 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.

We treat each purchaser of 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 and because of other reasons, we have adopted 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.

We have a subsidiary that is treated as a corporation for federal income tax purposes and subject to corporate level income taxes.

We conduct a portion of our operations through a subsidiary that is a corporation for federal income tax purposes. We may elect to conduct additional operations in corporate form in the future. Our corporate subsidiary will be subject to corporate level tax, which will reduce the cash available for distribution to us and, in turn, to our unitholders. If the IRS were to successfully assert that our corporate subsidiary has more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, our cash available for distribution to our unitholders would be further reduced.

We prorate our items of income, gain, loss and deduction for U.S. federal income tax purposes between transferors and transferees of our units each month based on 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.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based on 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 use of this proration method may not be permitted under existing Treasury Regulations. Recently, however, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration 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.

A unitholder whose units are loaned to a short seller to effect a short sale of units may be considered as having disposed of those common units. If so, such unitholder would no longer be treated for federal income 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.

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Because a unitholder whose units are loaned to a short seller to effect a short sale of units may be considered as having disposed of the loaned units, he may no longer be treated for tax purposes as a partner with respect to those 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 units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those 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 are urged to consult a tax advisor to discuss whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

We have adopted certain valuation methodologies and monthly conventions for U.S. federal income tax purposes that may result in a shift of income, gain, loss and deduction between our general partner and our unitholders. The IRS may challenge this treatment, which could adversely affect the value of our 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 the general partner, which may be unfavorable to such unitholders. Moreover, under our current 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

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challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of taxable income, gain, loss and deduction between the 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 taxable 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.

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 technically terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same unit will be counted only once. While we would continue our existence as a Delaware limited partnership, our technical termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1 if relief was not available, as described below) for one fiscal year and could result in a significant deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year 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. A technical termination 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 technical termination occurred. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership will be required to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs.

As a result of investing in our common units, you may become subject to state and local taxes and return filing requirements in jurisdictions where we operate or own or acquire properties.

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 or control property now or in the future, even if you do not live in any of those jurisdictions. You will likely be required to file foreign, 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 own assets and conduct business in a number of states, most of which impose a personal income tax on individuals. Most of these states also impose an income tax on corporations and other entities. As we make acquisitions or expand our business, we may own or control assets or conduct business in additional states that impose a personal income tax. It is your responsibility to file all U.S. federal, foreign, state and local tax returns.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Overview. We believe that we have satisfactory title or valid rights to use all of our material properties. Although some of these properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements entered into in connection with acquisitions and other encumbrances, easements and restrictions, we do not believe that any of these burdens will materially interfere with our continued use of these properties in our business, taken as a whole. Our obligations under our revolving credit facility are secured by liens and mortgages on substantially all of our real and personal property.

In addition, we believe that we have all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and have obtained or made all required material registrations, qualifications and filings with, the various state and local governmental and regulatory authorities that relate to ownership of our properties or the operations of our business.

Our corporate headquarters are in Tulsa, Oklahoma and are leased.

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Midstream. We own 16 propane terminals located in Arizona, Arkansas, Illinois, Indiana, Maine, Minnesota, Missouri, Montana, Washington, Wisconsin, and St. Catherines, Ontario. We own the land on which nine of the terminals are located and we either have easements or lease the land on which seven of the terminals are located. We own 10 rail cars and lease an additional 409 rail cars.

Wholesale Supply and Marketing. We lease approximately 36 million gallons of propane storage space in Borger, Texas from ConocoPhillips. We also lease approximately 167 million gallons of propane storage space at 11 other storage facilities from other third parties under annual lease agreements.

Retail Propane. We own 61 of our 76 customer service centers and 73 of our 92 satellite distribution locations and we lease the remainder. Tank ownership and control at customer locations are important components to our operations and customer retention. As of March 31, 2012, we owned the following propane storage tanks:

- 359 bulk storage tanks with capacities ranging from 1,000 to 80,000 gallons; and
- approximately 228,000 stationary customer storage tanks with capacities ranging from 24 to 30,000 gallons.

We also leased an additional eight bulk storage tanks.

As of March 31, 2012, we owned a fleet of 276 bulk delivery trucks, 30 semi-tractors, 37 propane transport trailers and 520 other service trucks. The average age of our company owned trucks is eight years.

For additional information regarding our properties, please read Item 1 Business.

Item 3. Legal Proceedings

We are not aware of any material legal proceedings, pending or threatened, other than legal proceedings arising in the ordinary course of business. Although we are self-insured for non-catastrophic occurrences, we also maintain insurance policies with insurers in amounts and with coverages and deductibles that our general partner believes are reasonable and prudent. However, we cannot give any assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices.

Item 4. Mine Safety Disclosures

Not Applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common units are listed on the NYSE under the symbol NGL. Our common units began trading on May 12, 2011 at an initial offering price of \$21.00 per unit. Prior to May 12, 2011, our common units were not listed on any exchange or traded in any public market.

As of June 11, 2012, there were approximately 33 common unitholders of record. This number does not include unitholders for whom common units may be held in street name. We have also issued 5,919,346 subordinated units, for which there is no established public trading market. All of the subordinated units are held by the members of the NGL Energy LP Investor Group.

The following table sets forth, for the periods indicated, the high and low closing prices per common unit, as reported on the New York Stock Exchange Composite Transactions tape, and the amount of cash distributions paid per common unit.

2012 Fiscal Year	Price Range		Low	Cash Distribution
	High			
Fourth Quarter	\$ 23.15	\$ 20.59	\$ 0.3500	
Third Quarter	22.05	19.94	0.3375	
Second Quarter	22.70	18.40	0.1669	
First Quarter (May 12, 2011-June 30, 2011)	21.75	18.62		

Cash Distribution Policy**Available Cash**

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement) to unitholders of record on the applicable record date. The distribution for the quarter ended June 30, 2011 was prorated for the period from the closing of our initial public offering on May 17, 2011 to the last day of the quarter on June 30, 2011. Available cash, for any quarter, generally consists of all cash on hand at the end of that quarter less the amount of cash reserves established by our general partner to (i) provide for the proper conduct of our business, (ii) comply with applicable law, any of our debt instruments or other agreements, and (iii) provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters.

Minimum Quarterly Distribution

Our partnership agreement provides that, during the subordination period, the common units are entitled to distributions of available cash each quarter in an amount equal to the minimum quarterly distribution, which is \$0.3375 per common unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash are permitted on the subordinated units. Arrearages do not apply to and therefore will not be paid on the subordinated units. The effect of the subordinated units is to increase the likelihood that, during the subordination period, available cash is sufficient to fully fund cash distributions on the common units in an amount equal to the minimum quarterly distribution.

The subordination period will end on the first business day after we have earned and paid the minimum quarterly distribution on each outstanding common unit and subordinated unit and the corresponding distribution on the general partner interest for each of three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2014. Also, if we have earned and paid at least 150% of the minimum quarterly distribution on each outstanding common unit and subordinated unit, the corresponding distribution on the general partner interest and the related distribution on the incentive distribution rights for each calendar quarter in a four-quarter period, the subordination period will terminate automatically. The subordination period will also terminate automatically if the general partner is removed without cause and the units held by the general partner and its affiliates are not voted in favor of removal. When the subordination period lapses or otherwise terminates, all remaining subordinated units will convert into common units on a one-for-one basis and the common units will no longer be entitled to arrearages.

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General Partner Interest

Our general partner is entitled to 0.1% of all quarterly 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 0.1% general partner interest. Our general partner's interest in our distributions may be reduced if we issue additional limited partner units in the future (other than the issuance of common units upon conversion of outstanding subordinated units or the issuance of common units upon a reset of the IDRs) and our general partner does not contribute a proportionate amount of capital to us to maintain its 0.1% general partner interest.

Incentive Distribution Rights

Our general partner also currently holds incentive distribution rights, or IDRs, which represent a potentially material variable interest in our distributions. IDRs entitle our general partner to receive increasing percentages, up to a maximum of 48.1%, of the cash we distribute from operating surplus (as defined in our partnership agreement) in excess of \$0.388125 per unit per quarter. The maximum distribution of 48.1% includes distributions paid to our general partner on its 0.1% general partner interest and assumes that our general partner maintains its general partner interest at 0.1%. The maximum distribution of 48.1% does not include any distributions that our general partner may receive on common units or subordinated units that it owns.

Restrictions on the Payment of Distributions

As described in Note 9 to our consolidated financial statements included elsewhere in this Annual Report, our revolving credit facility contains covenants limiting our ability to pay distributions if we are in default under the revolving credit facility and to pay distributions that are in excess of available cash, as defined in the credit agreement.

Sales of Unregistered Securities

On May 11, 2011, immediately prior to the effectiveness of the registration statement on Form S-1 (File No. 333-172186) that we filed with the SEC in connection with our initial public offering, each common unit held by the members of the NGL Energy LP Investor Group split into 3,721,900 common units and 5,919,346 common units held by the members of the NGL Energy LP Investor Group converted on a pro rata basis into 5,919,346 subordinated units. We exchanged the common units and the subordinated units with the members of the NGL Energy LP Investor Group exclusively and no commission or other remuneration was paid or given, directly or indirectly, for soliciting such exchange. Accordingly, the subordinated units are exempted securities as contemplated by Section 3(a)(9) of the Securities Act of 1933, as amended, or the Securities Act, and the transaction was exempt from the registration requirements of the Securities Act.

On May 17, 2011, we issued 3,854 notional units to our general partner in exchange for a capital contribution of \$85,000 that our general partner made to us to maintain its 0.1% general partner interest in us in connection with our issuance of common units at the closing of our initial public offering. The notional units were issued to our general partner in a private transaction exempt from the registration requirements of the Securities Act.

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On October 3, 2011, November 1, 2011, and January 3, 2012, we issued 4,004, 8,941, and 1,501 notional units to our general partner, respectively, in exchange for capital contributions of \$82,000, \$185,000, and \$31,000, respectively, that our general partner made to us to maintain its 0.1% general partner interest in us in connection with our issuances of common units to Osterman, SemStream and Pacer, respectively. These notional units were issued to our general partner in private transactions exempt from the registration requirements of the Securities Act.

During the year ended March 31, 2012, we did not issue any other equity securities without registration under the Securities Act in transactions that have not been previously reported in a Current Report on Form 8-K.

Securities Authorized for Issuance Under Equity Compensation Plans

In connection with the completion of our initial public offering, our general partner adopted the NGL Energy Partners LP Long-Term Incentive Plan. Please read "Securities Authorized for Issuance Under Equity Compensation Plan" in Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters," which is incorporated by reference into this Item 5.

Item 6. Selected Financial Data

We were formed on September 8, 2010, but had no operations through September 30, 2010. In October 2010, we acquired the assets and operations of NGL Supply and Hicksgas. We do not have our own historical financial statements for periods prior to our formation. The following table shows selected historical financial and operating data for NGL Energy Partners LP and NGL Supply, Inc., the deemed acquirer for accounting purposes in our combination, for the periods and as of the dates indicated. The financial statements of NGL Supply became our historical financial statements for all periods prior to October 1, 2010. The following table should be read in conjunction with "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this annual report.

The selected consolidated historical financial data (excluding volume information) as of March 31, 2012 and for the year then ended and March 31, 2011 and for the six months then ended are derived from our audited historical consolidated financial statements included elsewhere in this annual report. The selected historical financial data (excluding volume information) as of March 31, 2010 and for the six months ended September 30, 2010 and for the fiscal year ended March 31, 2010 are derived from the audited historical consolidated financial statements of NGL Supply included elsewhere in this annual report. The selected historical financial data as of March 31, 2009 and 2008 and for the fiscal years then ended are derived from our or NGL Supply's financial records.

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	NGL Energy Partners LP		NGL Supply		NGL Supply	
	Year Ended	Six Months Ended	Six Months Ended	2010	Years Ended March 31,	2008
	March 31,	March 31,	September 30,	2010	2009	
	2012	2011	2010			
	(in thousands, except per unit data)					
Income Statement Data (1)						
Total operating revenues	\$ 1,310,473	\$ 622,232	\$ 316,943	\$ 735,506	\$ 734,991	\$ 834,257
Gross margin	93,450	39,200	6,035	27,291	28,573	16,236
Operating income (loss)	15,030	14,837	(3,795)	6,661	9,431	3,162
Interest expense	7,620	2,482	372	668	1,621	1,061
Net income or net income (loss) attributable to parent entity	7,876	12,679	(2,515)	3,636	4,949	1,613
Basic earnings per common unit	0.32	1.16				
Diluted earnings per common unit	0.32	1.16				
Basic earnings (loss) per common share			(128.46)	178.75	242.82	69.17
Diluted earnings (loss) per common share			(128.46)	176.61	239.92	68.35
Cash Flows Data (1)						
Cash flows from operating activities	\$ 90,329	\$ 34,009	\$ (30,749)	\$ 7,480	\$ 22,149	\$ (10,931)
Cash distributions per common unit	0.85					
Cash distributions per common share			357.09			
Capital Expenditures:						
Purchases of long-lived assets	7,544	1,440	280	582	577	496
Acquisitions of businesses, including additional consideration paid on prior period acquisitions	297,401	17,400	123	3,113	3,532	6,237
Balance Sheet Data - Period End						
Total assets	\$ 749,137	\$ 163,833	\$ 148,596	\$ 111,580	\$ 103,434	\$ 111,520
Total long-term obligations, exclusive of current maturities	199,389	65,936	18,940	8,851	9,245	7,830
Redeemable preferred stock				3,000	3,000	3,000

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Equity	405,329	47,353	36,811	46,403	42,691	38,133
Volume Information (in thousand gallons)						
Retail propane sales volumes	79,886	34,932	3,747	15,514	14,033	10,239
Wholesale volumes - propane (2)	659,921	372,504	226,330	623,510	510,255	506,909
Wholesale volumes - other NGLs	134,998	49,465	46,092	53,878	58,523	88,808
Midstream terminal throughput volumes	223,847	110,146	43,704	170,621	136,818	130,348

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- (1) The acquisition of retail propane businesses by NGL Energy Partners LP fiscal year 2012 and in October 2010 and by NGL Supply in fiscal years 2008 through 2010 affects the comparability of this information. The acquisition of wholesale supply and marketing and midstream operations by NGL Energy Partners LP in November 2011 and February 2012 also affects the comparability of this information.
- (2) Includes intercompany volumes sold to our retail propane segment.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a Delaware limited partnership formed in September 2010. As part of our formation, we acquired and combined the assets and operations of NGL Supply, primarily a wholesale propane and terminaling business founded in 1967, and Hicksgas, primarily a retail propane business founded in 1940. We own and, through our subsidiaries, operate a vertically integrated propane business with three operating segments: retail propane; wholesale supply and marketing; and midstream. We engage in the following activities through our operating segments:

- our retail propane business sells propane and petroleum distillates to end users consisting of residential, agricultural, commercial and industrial customers;
- our wholesale supply and marketing business supplies propane and other natural gas liquids and provides related storage to retailers, wholesalers and refiners; and
- our midstream business, which currently consists of our natural gas liquids terminaling and rail car business, takes delivery of natural gas liquids from pipelines, trucks and rail cars at our terminals and transfers the product to third-party transport trucks and rail cars for delivery to retailers, wholesalers and other customers and also transports propane and other natural gas liquids by rail car, primarily in the service of our wholesale supply and marketing business.

As of March 31, 2012, we served more than 224,000 retail propane customers in 24 states, more than 14,000 retail distillate customers in six states, approximately 420 wholesale supply and marketing customers in 44 states, and approximately 195 midstream customers in 12 states. Subsequent to March 31, 2012, we completed three separate retail acquisitions, which added additional retail propane and distillate customers.

Our businesses represent a combination of margin-based, cost-plus and fee-based revenue generating operations. Our retail propane business generates margin-based revenues, meaning our gross margin depends on the difference between our propane sales price and our total propane supply cost. Our wholesale supply and marketing business generates cost-plus revenues. Cost-plus represents our aggregate total propane supply cost plus a margin to cover our replacement cost consisting of cost of capital, storage, transportation, fuel surcharges and an appropriate competitive margin. Our midstream business generates fee-based revenues derived from a cents-per-gallon charge for the transfer of propane volumes, or throughput, at our propane terminals.

Historically, the principal factors affecting our businesses have been demand and our cost of supply, as well as our ability to maintain or expand our realized margin from our margin-based and cost-plus operations. In particular, fluctuations in the price of propane have a direct impact on our reported revenues and may affect our margins depending on our success of passing cost increases on to our retail propane and wholesale supply and marketing customers.

Retail Propane

A significant factor affecting the profitability of our retail propane segment is our ability to maintain or increase our realized gross margin on a cents per gallon basis. Gross margin is the differential between our sales prices and our total product costs, including transportation and storage. Propane prices continued to be volatile during our fiscal years 2010 through 2012. At Conway, Kansas, one of our main pricing hubs, the range of low and high-spot propane prices per gallon for the periods indicated and the prices as of period end were as follows:

	Range of Conway, Kansas Spot Price Per Gallon		Spot Price Per Gallon At Period End
	Low	High	
<u>For the Year Ended March 31, 2012</u>	\$ 0.9000	\$ 1.4900	\$ 0.9800
<u>For the Six Months Ended:</u>			
March 31, 2011	1.1175	1.5850	1.2763
September 30, 2010	0.8813	1.1625	1.1625
<u>For the Year Ended March 31, 2010</u>	0.5563	1.4475	1.0625

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Historically, we have been successful in passing on price increases to our customers. We monitor propane prices daily and adjust our retail prices to maintain expected margins by passing on the wholesale costs to our customers. We believe that volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.

In periods of significant propane price increases we have experienced, and expect to continue to experience, conservation of propane used by our customers that could result in a decline in our sales volumes, revenues and gross margins. In periods of decreasing costs, we have experienced an increase in our gross margin.

The retail propane business is weather-sensitive. Our retail propane business is also subject to seasonal volume variations due to propane's primary use as a heating source in residential and commercial buildings and for agricultural purposes. As a result, operating revenues are generally highest from October through March.

We believe that the recent economic downturn has caused certain of our retail propane customers to conserve and thereby purchase less propane. Although we believe the economic downturn has not currently had a material impact on our cash collections, it is possible that a prolonged economic downturn could have a negative impact on our future cash collections.

Wholesale Supply and Marketing

Through our wholesale supply and marketing segment, we distribute propane and other natural gas liquids to our retail operation and other propane retailers, refiners, wholesalers and other related businesses. Our wholesale business is a cost-plus business that is affected both by price fluctuations and volume variations. We establish our selling price based on a pass through of our product supply, transportation, handling, storage and capital costs plus an acceptable margin. The margins we realize in our wholesale business are substantially less as a percentage of revenues or on a per gallon basis than our retail propane business. We attempt to reduce our exposure to the impact of price fluctuations by using back-to-back contractual agreements and pre-sale agreements which essentially allow us to lock in a margin on a percentage of our winter volumes.

We also use price swaps in the forward market to lock in the cost of supply without having to purchase physical volumes until needed for our delivery obligations. We have not accounted for these derivatives as hedges. Therefore, changes in the fair value of the derivatives are reflected in our statement of operations, classified as cost of sales of our wholesale supply and marketing segment.

Midstream

Our midstream business is a fee-based business that is impacted primarily by throughput volumes at our natural gas liquids terminals. Throughput volumes are impacted by weather, agricultural uses of propane and general economic conditions, all of which are beyond our control. We are able to somewhat mitigate the potential decline in throughput volumes by preselling volumes to customers at our terminals in advance of the demand period through our wholesale supply and marketing segment. Our midstream business also owns and leases rail cars, which our wholesale supply and marketing business uses to transport product.

Recent Developments

The following transactions that occurred during the period since our formation in October 2010 impact the comparability of our results of operations (see Notes 5, 9, and 12 to our consolidated financial statements included elsewhere in this annual report for additional information):

Acquisition of Hicks LLC and Gifford

On October 14, 2010, we purchased the propane-related assets and assumed certain related obligations from Hicksgas, LLC and Hicksgas Gifford, Inc., which we collectively refer to as Hicksgas, for a combination of our limited partner interests and payment of approximately \$17.2 million, a total consideration, including assumed liabilities, of approximately \$62.8 million.

Initial Public Offering

During May 2011, we sold a total of 4,025,000 common units (including the exercise by the underwriters of their option to purchase additional common units from us) in our initial public offering at \$21 per unit. Our proceeds from the sale of 3,850,000 common units of approximately \$72.0 million, net of total offering costs of approximately \$9.0 million, were used to repay advances

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under our acquisition credit facility and for general partnership purposes. Proceeds from the sale of 175,000 common units (\$3.4 million) from the underwriters' exercise of their option to purchase additional common units from us were used to redeem 175,000 of the common units outstanding prior to our initial public offering.

Revolving Credit Facility

On October 14, 2010, we entered into a revolving credit facility with a group of lenders. The revolving credit facility, as amended in January, February, April, May, and August 2011, and January, March, and April 2012, provides for a total credit facility of \$350 million, represented by a \$100 million working capital facility and a \$250 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. See "Liquidity, Sources of Capital and Capital Resource Activities" for further discussion of our credit facility.

Osterman Combination

On October 3, 2011, we closed our business combination with Osterman in which we acquired substantially all of the retail propane assets of Osterman in exchange for 4,000,000 of our common units and a payment of \$96 million in cash. We funded the cash payment with advances under our acquisition facility. There may be additional payments required due to a working capital adjustment provision in the agreement. Osterman's operations are located in the northeastern United States. We have included Osterman in our financial statements since the closing date of the combination.

We expect that, on an annual basis, the Osterman combination will significantly expand our retail propane operations, increasing our sales volumes, revenues, gross margin and operating income over the levels we have achieved in prior periods. The acquisition will also result in an increase in our interest expense due to the utilization of our acquisition facility to fund the contribution.

SemStream Combination

On November 1, 2011, we closed our business combination with SemStream in which we acquired substantially all of the operating assets of SemStream, consisting primarily of natural gas liquids terminals in Arizona, Arkansas, Indiana, Minnesota, Missouri, Montana, Washington and Wisconsin, as well as significant owned and leased storage facilities and rail cars and approximately \$104 million in natural gas liquids inventory. We issued 8,932,031 common units and made a cash payment of approximately \$93 million, of which approximately \$2.1 million was later returned due to a working capital adjustment provision in the agreement. In addition, SemStream made a cash contribution for a 7.5% interest in our general partner.

We expect that, on an annual basis, the SemStream acquisition will significantly expand our midstream operations through an increase in our fee-based revenues, as well as the gross margin and operating income of our midstream operations in future periods over the levels we have achieved previously. We expect these operations to significantly expand our wholesale supply and marketing operations resulting in an increased gross margin and operating income for that segment. The combination will also result in an increase in our interest expense due to the utilization of our acquisition and working capital facilities to fund the combination.

Pacer Combination

On January 3, 2012, we closed our business combination with Pacer in which we acquired substantially all of the assets of Pacer in exchange for approximately \$32.2 million in cash (including the working capital settlement) and 1,500,000 of our common units.

Pacer's assets consist of retail propane operations in the states of Washington, Oregon, Utah, Colorado, Illinois and Mississippi. The combination with Pacer expands our geographic footprint into the western states, and is expected to increase our retail propane gross margin and operating income, and will enhance our weather diversification strategy. The combination will also result in an increase in our interest expense due to the utilization of our acquisition and working capital facilities to fund the combination.

North American Combination

On February 3, 2012, we closed our acquisition of North American in which we acquired substantially all of North American's assets for a cash payment of \$69.8 million, including amounts paid for working capital. North American's assets consist primarily of retail propane and distillate operations in the northeastern United States. There may be additional payments required due to a working capital adjustment

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provision in the agreement. This acquisition is expected to increase our retail propane gross margin and operating income. The acquisition will also result in an increase in our interest expense due to the utilization of our acquisition facility to fund the acquisition.

Pending Acquisition

On May 18, 2012, we entered into a merger agreement with High Sierra Energy, LP, or High Sierra, and our general partner entered into a merger agreement with High Sierra Energy GP, LLC, the general partner of High Sierra. High Sierra is a Denver, Colorado based limited partnership with three core business segments: crude oil gathering, transportation and marketing; water treatment, disposal, recycling and transportation; and natural gas liquids transportation and marketing. Upon completion of the mergers, we expect that we will be able to provide multiple services to upstream customers with our combined fleet of more than 3,000 rail cars, 18 natural gas liquids terminals, three crude oil terminals, over 90 trucks and a substantial wholesale marketing and supply network.

We and our general partner will pay aggregate merger consideration of \$693 million less High Sierra's net indebtedness and unpaid transaction expenses. High Sierra unitholders will be entitled to receive 82% of the aggregate merger consideration consisting of our common units, based on a value of \$21.50 per common unit, and \$100 million in cash. The members of the general partner of High Sierra will be entitled to receive 18% of the aggregate merger consideration consisting of membership interests in our general partner and \$50 million in cash. We expect to close the mergers in June 2012, subject to the satisfaction or waiver of certain conditions to closing, including that we have obtained financing to complete the mergers on terms reasonably acceptable to us and customary regulatory approvals.

Recent Weather Conditions

The demand for propane is heavily influenced by the weather, especially during the winter heating season. During our fiscal year ended March 31, 2012, the winter was unusually warm, which significantly reduced demand for propane in our areas of operation. Spot market prices for propane declined during the period from October 2011 to January 2012, and then remained relatively stable during February and March of 2012. Margins from our wholesale supply and marketing operations during the fourth quarter of fiscal 2012 benefitted from the declining prices, due in part to fixed price forward sale contracts. As the price of propane declined, purchases reduced our average cost of inventory and our average cost per gallon sold. To the extent we had committed to sell inventory at fixed prices, the lower average cost resulted in increased margins. Margins from our wholesale supply and marketing operations during the fourth quarter of fiscal 2012 also benefitted from certain commodity swaps we had entered into to protect against the risk of a decline in the value of inventory.

The lower-than-normal demand for propane during the recent winter may result in our wholesale and retail customers having more supply on hand than they normally would at the end of the heating season, which could reduce their need to purchase product in fiscal 2013. This could also result in continued downward pressure on product prices, which could reduce margins from our wholesale supply and marketing operations in fiscal 2013. In addition, increased shale gas production and limitations on export infrastructure could also put downward pressure on product prices. Continued low demand could also put pressure on the ability of customers to perform under their purchase commitments and payment obligations.

Consolidated Results of Operations

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The following table summarizes our historical consolidated statements of operations for the year ended March 31, 2012 and the six months ended March 31, 2011, and NGL Supply's consolidated statements of operations for the six months ended September 30, 2010 and the fiscal year ended March 31, 2010.

	NGL Energy Partners LP		NGL Supply	
	Year Ended March 31, 2012	Six Months Ended March 31, 2011	Six Months Ended September 30, 2010	Year Ended March 31, 2010
	(in thousands)			
Operating revenues	\$ 1,310,473	\$ 622,232	\$ 316,943	\$ 735,506
Cost of sales	1,217,023	583,032	310,908	708,215
Gross margin	93,450	39,200	6,035	27,291
Operating and general and administrative expenses	63,309	20,922	8,441	17,849
Depreciation and amortization	15,111	3,441	1,389	2,781
Operating income (loss)	15,030	14,837	(3,795)	6,661
Interest expense	(7,620)	(2,482)	(372)	(668)
Interest and other income	1,055	324	190	115
Income (loss) before income taxes	8,465	12,679	(3,977)	6,108
Provision (benefit) for income taxes	601		(1,417)	2,478
Net income (loss)	7,864	12,679	(2,560)	3,630
Net loss attributable to non-controlling interests	12		45	6
Net income or net income (loss) attributable to parent equity	\$ 7,876	\$ 12,679	\$ (2,515)	\$ 3,636

All information herein related to periods prior to October 2010 represents the results of operations of NGL Supply.

See the detailed discussion of revenues, cost of sales, gross margin, operating expenses, general and administrative expenses, depreciation and amortization and operating income by operating segment below.

Set forth below is a discussion of significant changes in the non-segment related corporate other income and expenses during the respective periods.

Table of Contents**Interest Expense**

The interest expense of NGL Energy Partners LP consists of interest on borrowings under a revolving credit facility, letter of credit fees and amortization of debt issuance costs. See Note 9 to our consolidated financial statements as of March 31, 2012 included elsewhere in this annual report for additional information on our long-term debt. The change in interest expense during the periods presented is due primarily to fluctuations of the average outstanding debt balance, the average interest rate and the amortization of debt issuance costs, as follows:

	Amortization of Debt Issuance Costs	Average Balance Outstanding (in thousands)	Average Interest Rate
Year Ended March 31, 2012	\$ 1,277	\$ 125,859	4.48%
Six Months Ended March 31, 2011	565	73,115	5.71%
Six Months Ended September 30, 2010	36	13,767	4.63%
Year Ended March 31, 2010	87	10,642	3.64%

The increased levels of debt outstanding during the periods from fiscal 2010 through fiscal 2012 are due primarily to borrowings to finance the acquisitions of businesses.

Interest and Other Income

Our non-operating other income consists of the following:

	Year Ended March 31, 2012	Six Months Ended March 31, 2011	Six Months Ended September 30, 2010	Year Ended March 31, 2010
	(in thousands)			
Interest income	\$ 765	\$ 221	\$ 66	\$ 120
Gain (loss) on sale of assets	71	(16)	124	(11)
Other	219	119	6	6
	\$ 1,055	\$ 324	\$ 190	\$ 115

The gain on sale of assets during the six months ended September 30, 2010 represents the proceeds from sale of certain salvaged propane tanks, vehicles and other miscellaneous equipment. Sales of assets in the other periods presented were not significant.

Income Tax Provision

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We qualify as a partnership for income taxes. As such, we generally do not pay any U.S. Federal income tax. Rather, each owner reports their share of our income or loss on their individual tax returns. We have a taxable corporate subsidiary, formed in May 2011, which holds certain assets and operations that represent non-qualifying income for a partnership. As a result, our taxable subsidiary is subject to income taxes related to the taxable income generated by its operations. Our income tax provision for the year ended March 31, 2012 relates primarily to this taxable subsidiary.

Prior to September 30, 2010, NGL Supply was a taxable entity. The income tax provision of NGL Supply fluctuated based on the level of realized pretax income. As a percentage of pretax income, the variance of the effective tax rate from the statutory rate of 35% was due primarily to the effects of state income taxes and a valuation allowance recorded related to the losses incurred by the propane terminal in St. Catharines, Ontario, which we refer to as Gateway.

See Note 10 to our consolidated financial statements included elsewhere in this annual report for additional description of income tax provisions.

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During the year ended March 31, 2012, we formed Atlantic Propane LLC, or Atlantic Propane, in which we own a 60% member interest. The noncontrolling interest shown in our consolidated statement of operations for the year ended March 31, 2012 represents the other owner's 40% interest in the losses of Atlantic Propane.

The noncontrolling interest shown in NGL Supply's consolidated statements of operations represents the 30% interest in Gateway that NGL Supply did not own. We purchased this additional 30% interest in October 2010.

Non-GAAP Financial Measures

The following tables reconcile net income (loss) or net income (loss) to parent to our EBITDA and Adjusted EBITDA, each of which are non-GAAP financial measures, for the periods indicated:

	Year Ended March 31, 2012	Six Months Ended March 31, 2011	Six Months Ended September 30, 2010 (in thousands)	Year Ended March 31, 2010
EBITDA:				
Net income (loss) to parent	\$ 7,876	\$ 12,679	\$ (2,515)	\$ 3,636
Provision (benefit) for income taxes	601		(1,417)	2,478
Interest expense	7,620	2,482	372	668
Depreciation and amortization	15,911	3,841	1,789	3,752
EBITDA	\$ 32,008	\$ 19,002	\$ (1,771)	\$ 10,534
Unrealized (gain) loss on derivative contracts	4,384	(1,357)	200	(563)
Loss (gain) on sale of assets	(71)	16	(124)	11
Share-based compensation expense				
Adjusted EBITDA	\$ 36,321	\$ 17,661	\$ (1,695)	\$ 9,982

We define EBITDA as net income (loss) attributable to parent entity, plus income taxes, interest expense and depreciation and amortization expense. We define Adjusted EBITDA as EBITDA excluding the unrealized gain or loss on derivative contracts, the gain or loss on the disposal of assets and share-based compensation expenses. EBITDA and Adjusted EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with GAAP as those items are used to measure operating performance, liquidity or the ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make quarterly distributions to our unitholders and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. Further, EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other entities.

Segment Operating Results

Items Impacting the Comparability of Our Financial Results

Our current and future results of operations may not be comparable to our and NGL Supply's historical results of operations for the periods presented due to the following reasons:

- Beginning in September 2010, our retail propane operations included the retail propane operations that we acquired from Hicksgas in the formation transactions. The historical results of operations for NGL Supply do not include these acquired operations.
- NGL Supply's historical consolidated financial statements include U.S. federal and state income tax expense. Because we have elected to be treated as a partnership for tax purposes, we are generally not subject to U.S. federal income tax and certain state income taxes.

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- As a result of our initial public offering, we incur incremental general and administrative expenses that are attributable to operating as a publicly traded partnership. These expenses include annual and quarterly reporting; tax return and Schedule K-1 preparation and distribution expenses; Sarbanes-Oxley compliance expenses; expenses associated with listing on the NYSE; independent auditor fees; legal fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance costs; and director compensation. These incremental general and administrative expenses are not reflected in the historical consolidated financial statements of NGL Supply.

After we completed the formation transactions, the financial statements of NGL Supply became our financial statements for all periods prior to October 1, 2010, the net equity (net book value) of NGL Supply became our equity and the net book value of all of the assets and liabilities of NGL Supply became the accounting basis for our assets and liabilities. There were no adjustments to the carryover basis of the assets and liabilities that we acquired from NGL Supply. Consequently, we believe that, other than the impact of the acquisition of Hicksgas (as discussed in the following paragraph), our operations for periods prior to October 1, 2010 would have been comparable to the historical results of operations of NGL Supply.

In connection with our formation transactions, we also acquired the retail propane operations of Hicksgas. This acquisition was accounted for as a business combination, and the assets acquired and liabilities assumed were recorded in our consolidated financial statements at acquisition date fair value.

During the fiscal year ended March 31, 2012, we completed four significant acquisitions, as described under **Recent Developments** above. We have significantly expanded our retail, wholesale, and midstream operations through these acquisitions.

Our results of operations are also significantly impacted by seasonality, primarily due to the increase in volumes of propane sold by our retail and wholesale segments during the peak heating season of October through March, as well as the increase in terminal throughput volumes during the heating season. As a result of our business combination with NGL Supply and Hicksgas in October 2010 and the impact of seasonality, our results of operations for the six months ended March 31, 2011 are not indicative of the results we would anticipate for a full fiscal year, and are not comparable to the results of operations of NGL Supply for the six months ended September 30, 2010.

As described above, the consolidated statement of operations for the year ended March 31, 2011 is divided into two six-month periods. The financial statements for the first six months of that fiscal year were those of NGL Supply, and the financial statements for the last six months of that fiscal year are those of NGL Energy Partners LP.

Year Ended March 31, 2012 of NGL Energy Partners LP

Compared to Six Months Ended March 31, 2011 of NGL Energy Partners LP

The following table shows our operating income for the periods indicated (in thousands):

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	Year Ended March 31, 2012	Six Months Ended March 31, 2011
Revenues	\$ 1,310,473	\$ 622,232
Cost of sales	(1,217,023)	(583,032)
Gross margin	93,450	39,200
Operating expenses	47,300	15,898
General and administrative expenses	16,009	5,024
Depreciation and amortization	15,111	3,441
Operating income	\$ 15,030	\$ 14,837

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Revenues and Cost of sales. Operating revenues and cost of sales were significantly higher during the year ended March 31, 2012 than during the six months ended March 31, 2011, due in part to the Osterman, SemStream, Pacer, and North American combinations. Three of these acquisitions significantly expanded our retail propane customer base. The SemStream combination significantly expanded our midstream business, resulting in increased throughput revenue. This acquisition also facilitated an increase in our wholesale supply and marketing activities, as the acquisition of SemStream's terminals and leased rail cars gave us considerably more flexibility in the wholesale markets we can serve. In addition, the year ended March 31, 2012 included twelve months of activity, whereas the six months ended March 31, 2011 included only six months of activity.

Operating and General and Administrative Expenses. Operating and general and administrative expense was significantly higher during the year ended March 31, 2012 than during the six months ended March 31, 2011, due primarily to business combinations. In addition, the year ended March 31, 2012 included twelve months of activity, whereas the six months ended March 31, 2011 included only six months of activity.

Depreciation and Amortization. Depreciation and amortization expense was significantly higher during the year ended March 31, 2012 than during the six months ended March 31, 2011, due primarily to business combinations. In the business combination accounting, we recorded a significant amount of property, plant and equipment and customer relationship intangible assets. In addition, the year ended March 31, 2012 included twelve months of activity, whereas the six months ended March 31, 2011 included only six months of activity.

Due to the limitations inherent in comparing a twelve month period to a six month period, we have provided supplemental information below to compare the first and last six months of fiscal 2012 and 2011 to the corresponding periods in the prior years. Where possible, we have identified the changes from period to period that are attributable to acquisitions. This is not possible for the wholesale supply and marketing operations acquired in our business combination with SemStream; for product purchases and sales subsequent to the combination date, it is not possible to determine which of the transactions are attributable to our historical operations and which are attributable to the operations acquired from SemStream.

Six Months Ended March 31, 2012 for NGL Energy Partners LP

Compared to Six Months Ended March 31, 2011 for NGL Energy Partners LP

Volumes sold or throughput

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the six months ended March 31, 2012 and the six months ended March 31, 2011, respectively:

	Six Months Ended		Retail Combinations	Change Resulting From SemStream Combination		Other	
	March 31, 2012 (gallons in thousands)	March 31, 2011		Volume	Percentage		
Retail propane							
Propane	65,272	34,932	34,839		(4,499)		