ATLAS PIPELINE PARTNERS LP
Form 10-K
March 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

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: 1-14998

ATLAS PIPELINE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE	**23-3011077**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
311 Rouser Road	**15108**

Moon Township, Pennsylvania
(Address of principal executive office) **(Zip code)**
Registrant s telephone number, including area code: (412) 262-2830

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 Partnership Interests	New York Stock Exchange

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

None

(Title of class)

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

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 x

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 x 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of the equity securities held by non-affiliates of the registrant, based upon the closing price of $40.91 per common limited partner unit on June 30, 2006, was approximately $468.0 million.

DOCUMENTS INCORPORATED BY REFERENCE: None

ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

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ON FORM 10-K

FORWARD-LOOKING STATEMENTS

The matters discussed within this report include forward-looking statements. These statements may be identified by the use of forward-looking terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, predict, should, or will, or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report are forward-looking statements. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- *the price volatility and demand for natural gas and natural gas liquids;*
- *our ability to connect new wells to our gathering systems;*
- *our ability to integrate newly acquired businesses with our operations;*
- *adverse effects of governmental and environmental regulation;*
- *limitations on our access to capital or on the market for our common units; and*
- *the strength and financial resources of our competitors.*

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described under Item 1A, Risk Factors in this report. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of these statements to reflect future events or developments.

PART I

ITEM 1. BUSINESS

General

We are a publicly-traded Delaware limited partnership formed in 1999 and a midstream energy services provider engaged in the transmission, gathering and processing of natural gas. We are a leading provider of natural gas gathering services in the Anadarko Basin and Golden Trend area of the mid-continent United States and the Appalachian Basin in the eastern United States. In addition, we are a leading provider of natural gas processing services in Oklahoma. We also provide interstate gas transmission services in southeastern Oklahoma, Arkansas and southeastern Missouri. We conduct our business through two operating segments: our Mid-Continent operations and our Appalachian operations.

We own and operate through our Mid-Continent operations:

- a Federal Energy Regulatory Commission (FERC)-regulated, 565-mile interstate pipeline system (Ozark Gas Transmission), that extends from southeastern Oklahoma through Arkansas and into southeastern Missouri and has throughput capacity of approximately 322 million cubic feet per day (MMcfd);

- three natural gas processing plants with aggregate capacity of approximately 350 MMcfd and one treating facility with a capacity of approximately 200 MMcfd, all located in Oklahoma; and

- 1,900 miles of active natural gas gathering systems located in Oklahoma, Arkansas, northern Texas and the Texas panhandle, which transport gas from wells and central delivery points in the Mid-Continent region to our natural gas processing plants or Ozark Gas Transmission.

We own and operate through our Appalachian operations 1,600 miles of active natural gas gathering systems located in eastern Ohio, western New York and western Pennsylvania. Through an omnibus agreement and other agreements between us and Atlas America, Inc. (Atlas America) and its affiliates, including Atlas Energy Resources, LLC and subsidiaries (Atlas Energy), a leading sponsor of natural gas drilling investment partnerships in the Appalachian Basin and a publicly-traded company (NYSE: ATN), we gather substantially all of the natural gas for our Appalachian Basin operations from wells operated by Atlas Energy. Among other things, the omnibus agreement requires Atlas Energy to connect to our gathering systems wells it operates that are located within 2,500 feet of our gathering systems. We are also party to natural gas gathering agreements with Atlas America and Atlas Energy under which we receive gathering fees generally equal to a percentage, typically 16%, of the selling price of the natural gas we transport.

On July 26, 2006, Atlas America contributed its ownership interests in Atlas Pipeline Partners GP, LLC, our general partner, to Atlas Pipeline Holdings, L.P. (Atlas Pipeline Holdings - NYSE: AHD), a then wholly-owned subsidiary of Atlas America. Concurrent with this transaction, Atlas Pipeline Holdings issued 3,600,000 common units, representing a 17.1% ownership interest, in an initial public offering at a price of $23.00 per unit. Net proceeds from this offering were distributed to Atlas America.

Since our initial public offering in January 2000, we have completed six acquisitions at an aggregate cost of approximately $590.1 million, including, in two separate transactions, our acquisition of 100% of NOARK Pipeline System, Limited Partnership (NOARK). In October 2005, we acquired Atlas Arkansas Pipeline LLC (Atlas Arkansas), which owned a 75% interest in NOARK, and in May 2006, we acquired the remaining 25% interest in NOARK from Southwestern Energy Company (Southwestern).

Both our Mid-Continent and Appalachian operations are located in areas of abundant and long-lived natural gas production and significant new drilling activity. The Ozark Gas Transmission system, which is a part of the NOARK system, and our gathering systems are connected to approximately 7,200 central delivery points or wells, giving us significant scale in our service areas. We provide gathering and processing services to the wells connected to our systems, primarily under long-term contracts. We provide fee-based, FERC-regulated transmission services through Ozark Gas Transmission under both long-term and short-term contractual arrangements. We intend to increase the portion of the transmission services provided under long-term contracts. As a result of the location and capacity of the Ozark Gas Transmission system and our gathering and processing assets, we believe that we are strategically positioned to capitalize on the significant increase in drilling activity in our service areas and the positive price differential across Ozark Gas Transmission, also known as basis spread. We intend to continue to expand our business through strategic acquisitions and internal growth projects, such as the construction of the Sweetwater gas processing plant and gathering system (Sweetwater plant), that increase distributable cash flow. The Sweetwater plant, which began operations in September 2006, is located west of our Elk City gas plant in Beckham County, Oklahoma and has an operating capacity of 120 MMcfd. The Sweetwater plant was built to further access natural gas production actively being developed in western Oklahoma and the Texas panhandle.

Contracts and Customer Relationships

In our Mid-Continent operations, we either purchase natural gas from producers, or intermediaries, and move the natural gas into receipt points on our systems and then sell the natural gas and produced natural gas liquids (NGLs), if any, off of delivery points on our systems, or we transport natural gas across our systems, from receipt to delivery point, without taking title to the natural gas. Beyond the distinction of purchasing or transporting natural gas, we have a variety of contractual relationships with our producers and shippers, including fixed-fee, percentage-of-proceeds and keep-whole. Ozark Gas Transmission s revenues are comprised of FERC-regulated transmission fees that are based on firm transportation rates and, to the extent capacity is available following the reservation of firm system capacity, interruptible transportation rates. Under the fixed-fee contracts, we provide gathering, compression, treating and dehydration services to our customers for a flat fee. Gross margin from fee-based services depends solely on throughput volume and is not affected by changes in commodity prices. Under the percentage-of-proceeds contracts, we purchase natural gas at the wellhead, process the natural gas and sell the plant residue natural gas and NGLs at market-based prices, remitting to producers a percentage of the proceeds. Under keep-whole contracts, we gather natural gas from the producer, process the natural gas and sell the resulting NGLs at market price. The extraction of the NGLs lowers the British thermal unit (Btu) content of the natural gas. Therefore, under keep-whole contracts, we must replace these Btus by either purchasing natural gas at market prices or making a cash payment to the producer. Our profitability is dependent upon the spread between the price of natural gas, our feedstock, and NGLs, our manufactured product. The gross margin associated with each of these contractual arrangements can vary from period to period due to a variety of factors, including changing prices of natural gas and NGLs, producers optionality between contract types (e.g., percentage-of-proceeds and keep-whole), and producers optionality between transporting and selling natural gas.

Substantially all of the natural gas we transport in our Appalachian operations is under a percentage-of-proceeds contract with Atlas Energy where we calculate our transportation fee as a percentage of the price of the natural gas we transport. The natural gas we transport in our Appalachian operations does not require processing.

The Midstream Natural Gas Gathering, Processing and Transmission Industry

The midstream natural gas gathering and processing industry is characterized by regional competition based on the proximity of gathering systems and processing plants to producing natural gas wells.

The natural gas gathering process begins with the drilling of wells into natural gas or oil bearing rock formations. Once a well has been completed, the well is connected to a gathering system. Gathering systems generally consist of a network of small diameter pipelines that collect natural gas from points near producing wells and transport it to larger pipelines for further transmission. Gathering systems are operated at design pressures that will maximize the total throughput from all connected wells.

While natural gas produced in some areas, such as the Appalachian Basin, does not require treatment or processing, natural gas produced in many other areas, such as our Velma service area, is not suitable for long-haul pipeline transmission or commercial use and must be compressed, transported via pipeline to a central processing facility, and then processed to remove the heavier hydrocarbon components such as NGLs and other contaminants that would interfere with pipeline transmission or the end use of the natural gas. Natural gas processing plants generally treat (remove carbon dioxide and hydrogen sulfide) and remove the NGLs, enabling the treated, dry gas (stripped of liquids) to meet pipeline specification for long-haul transport to end users. After being separated from natural gas at the processing plant, the mixed NGL stream, commonly referred to as y-grade or raw mix, is typically transported on pipelines to a centralized facility for fractionation into discrete NGL purity products: ethane, propane, normal butane, isobutane, and natural gasoline.

Natural gas transmission pipelines receive natural gas from producers, other mainline transmission pipelines, shippers and gathering systems through system interconnects and redeliver the natural gas to processing facilities, local gas distribution companies, industrial end-users, utilities and other pipelines. Generally natural gas transmission agreements generate revenue for these systems based on a fee per unit of volume transported.

Our Mid-Continent Operations

We own and operate a 565-mile interstate natural gas pipeline, approximately 2,700 miles of intrastate natural gas gathering systems, including approximately 800 miles of inactive pipeline, located in Oklahoma, Arkansas, southeastern Missouri, northern Texas and the Texas panhandle, and three processing plants and one stand-alone treating facility in Oklahoma. Our Mid-Continent operations were formed through our acquisition of Spectrum Field Services, Inc. (Spectrum), also referred to as our Velma system, in July 2004 and expanded through our acquisition of ETC Oklahoma Pipeline, Ltd. (Elk City) in April 2005 and the NOARK acquisition, which was consummated in two separate transactions in October 2005 and May 2006. Ozark Gas Transmission transports natural gas from receipt points in eastern Oklahoma, including major intrastate pipelines, and western Arkansas, where the Arkoma Basin is located, to local distribution companies in Arkansas and Missouri and to interstate pipelines in northeastern and central Arkansas. Our gathering and processing assets service long-lived natural gas regions that continue to experience an increase in drilling activity, including the Anadarko Basin, the Arkoma Basin and the Golden Trend area of Oklahoma. Our systems gather natural gas from oil and natural gas wells and process the raw natural gas into merchantable, or residue gas, by extracting NGLs and removing impurities. In the aggregate, our Mid-Continent systems have approximately 1,350 receipt points, consisting primarily of individual connections and, secondarily, of central delivery points which are linked to multiple wells. Our gathering systems interconnect with interstate and intrastate pipelines operated by Ozark Gas Transmission, ONEOK Gas Transportation, LLC, Southern Star Central Gas Pipeline, Inc., Panhandle Eastern Pipe Line Company, LP, Northern Natural Gas Company, CenterPoint Energy, Inc., ANR Pipeline Company, Texas Eastern Transmission Corp. and Natural Gas Pipeline Company of America.

Mid-Continent Overview

The heart of the Mid-Continent region is generally defined as running from Kansas through Oklahoma, branching into North and West Texas, southeastern New Mexico as well as western Arkansas. The primary producing areas in the region include the Hugoton field in southwestern Kansas, the Anadarko Basin in western Oklahoma, the Permian Basin in West Texas and the Arkoma Basin in western Arkansas and eastern Oklahoma.

FERC-Regulated Transmission System

We own NOARK, which includes Ozark Gas Transmission, a 565-mile FERC-regulated natural gas interstate pipeline extending from southeastern Oklahoma through Arkansas and into southeastern Missouri. Ozark Gas Transmission delivers natural gas primarily via six interconnects with Mississippi River Transmission Corp., Natural Gas Pipeline Company of America and Texas Eastern Transmission Corp., and receives natural gas from numerous interconnects with intrastate pipelines, including Enogex, BP s Vastar gathering system, Arkansas Oklahoma Gas Corporation, Arkansas Western Gas Company, Ozark Gas Gathering and ONEOK Gas Transmission.

Mid-Continent Gathering Systems

Velma. The Velma gathering system is located in the Golden Trend area of Southern Oklahoma and the Barnett Shale area of North Texas. As of December 31, 2006, the gathering system had approximately 1,080 miles of active pipeline with approximately 640 receipt points consisting primarily of individual connections and, secondarily, of central delivery points which are linked to multiple wells. The system includes approximately 800 miles of inactive pipeline, much of which can be returned to active status as local drilling activity warrants.

Elk City/Sweetwater. The Elk City and Sweetwater gathering system, which we consider combined due to the close geographic proximity of the processing plants they are connected to, includes approximately 450 miles of natural gas pipelines located in the Anadarko Basin in western Oklahoma and the Texas panhandle. The Elk City and Sweetwater gathering system connects to over 360 receipt points, with a majority of the western end of the system located in close proximity to areas of high drilling activity.

Ozark Gas Gathering. NOARK owns Ozark Gas Gathering, which owns 370 miles of intrastate natural gas gathering pipeline located in eastern Oklahoma and western Arkansas, providing access to both the well-established Arkoma Basin and the newly-exploited Fayetteville Shale. This system connects to approximately 300 receipt points and compresses and transports gas to interconnections with Ozark Gas Transmission.

Processing Plants

Velma. The Velma processing plant, located in Stephens County, Oklahoma, is a single-train twin-expander cryogenic facility with a natural gas capacity of approximately 100 MMcfd. The Velma plant is one of only two facilities in the area that is capable of treating both high-content hydrogen sulfide and carbon dioxide gas. We sell natural gas to various purchasers at the tailgate of the Velma plant and sell NGL production to ONEOK Hydrocarbons Company. Our Velma operations gather and process natural gas for approximately 120 producers. We have electric-powered compressors at the Velma plant rather than higher-cost and less efficient natural gas-powered compressors used by many of our competitors, which results in additional profitability from higher efficiency and lower fuel costs.

Elk City. The Elk City processing plant, located in Beckham County, Oklahoma, is a twin-train cryogenic natural gas processing plant with a total capacity of approximately 130 MMcfd. We sell natural gas to various purchasers at the tailgate of our Elk City processing plant and sell NGL production to ONEOK Hydrocarbons Company. The Prentiss gas treating facility is an amine treating facility with a total capacity of approximately 200 MMcfd. The Elk City, Sweetwater and Prentiss facilities are on the same gathering system and are referred to as our Elk City operations. Our Elk City operations gather and process gas for more than 140 producers.

Sweetwater. The Sweetwater processing plant, which initiated operations in September 2006, is a single-train cryogenic natural gas processing plant located in Beckham County, Oklahoma, near the Elk City processing plant, with a total capacity of approximately 120 MMcfd. We sell natural gas to purchasers at the tailgate of our Sweetwater processing plant and sell NGL production to ONEOK Hydrocarbons Company.

Enville. Our Enville, Oklahoma natural gas plant is currently inactive and is used as a field compression booster station.

Natural Gas Supply

In the Mid-Continent, we have natural gas purchase, gathering and processing agreements with approximately 260 producers with terms ranging from one month to 15 years. These agreements provide for the purchase or gathering of natural gas under fixed-fee, percentage-of-proceeds or keep-whole arrangements. Most of the agreements provide for compression, treating, and/or low volume fees. Producers generally provide, in-kind, their proportionate share of compressor fuel required to gather the natural gas and to operate our processing plants. In addition, the producers generally bear their proportionate share of gathering system line loss and, except for keep-whole arrangements, bear natural gas plant shrinkage, or the gas consumed in the production of NGLs.

We have enjoyed long-term relationships with the majority of our Mid-Continent producers. For instance, on the Velma system, where we have producer relationships going back over 20 years, our top four producers, which accounted for a significant portion of our Velma volumes for the year ended December 31, 2006, have contracts with primary terms running into 2009 and 2010. At the end of the primary terms, most of the contracts with producers on our gathering systems have evergreen term extensions.

Natural Gas and NGL Marketing

We typically sell natural gas to purchasers at the tailgate of our processing plants and at various delivery points on Ozark Gas Transmission and Ozark Gas Gathering. The Velma plant has access to ONEOK Gas Transportation, an intrastate pipeline, and Southern Star Central Gas Pipeline, an interstate pipeline, and we currently sell the majority of our natural gas at the average of ONEOK Gas Transportation and Southern Star Central Gas Pipeline first-of-month indices as published in *Inside FERC*. The Elk City and Sweetwater plants have access to five major interstate and intrastate downstream pipelines: Natural Gas Pipe Line of America, Panhandle Eastern Pipeline Co., CenterPoint Energy Gas Transmission Company, Northern Natural Gas Company and Enogex, Inc. At our Elk City and Sweetwater plants, we sell substantially all of our natural gas to ONEOK Energy Marketing, based on first-of-month index pricing. Ozark Gas Gathering gas prices are generally based on Texas Eastern East LA index as published in *Inside FERC* and natural gas sales have historically been to affiliates of Enogex and Southwestern.

We sell our NGL production to ONEOK Hydrocarbons Company under two separate agreements. The Velma agreement has an initial term expiring February 1, 2011, the Elk City and Sweetwater agreement has an initial term expiring October 1, 2008 and NGLs are priced at the average monthly Oil Price Information Service, or OPIS, price for the selected market.

Condensate is collected at the Velma gas plant and around the Velma gathering system and sold for our account to SemGroup, L.P. and EnerWest Trading, while condensate collected at Elk City and Sweetwater is sold to TEPPCO Crude Oil, L.P.

Natural Gas and NGL Hedging

Our Mid-Continent operations are exposed to certain commodity price risks. These risks result from either taking title to natural gas and NGLs, including condensate, or being obligated to purchase natural gas to satisfy contractual obligations with certain producers. We mitigate a portion of these risks through a comprehensive risk management program which employs a variety of hedging tools. The resulting combination of the underlying physical business and the financial risk management program is a conversion from a physical environment that consists of floating prices to a risk-managed environment that is characterized by fixed prices.

We (a) purchase natural gas and subsequently sell processed natural gas and the resulting NGLs, or (b) purchase natural gas and subsequently sell the unprocessed natural gas, or (c) transport and/or process the natural gas for a fee without taking title to the commodities. Scenario (b) exposes us to a generally neutral price risk (long sales approximate short purchases) while scenario (c) does not expose us to any price risk; in both scenarios, risk management is not required. Scenario (a) does involve commodity risk.

We are exposed to commodity price risks when natural gas is purchased for processing. The amount and character of this price risk is a function of our contractual relationships with natural gas producers, or, alternatively, a function of cost of sales. We are therefore exposed to price risk at a gross profit level rather than at a revenue level. These cost-of-sales or contractual relationships are generally of two types:

- Percentage-of-proceeds: require us to pay a percentage of revenue to the producer. This results in our being net long physical natural gas and NGLs.

Keep-whole: require us to deliver the same quantity of natural gas at the delivery point as we received at the receipt point; any resulting NGLs produced belong to us. This results in our being long physical NGLs and short physical natural gas.

We hedge a portion of these risks by using fixed-for-floating swaps, which result in a fixed price, or by utilizing the purchase or sale of options, which result in a range of fixed prices.

We recognize gains and losses from the settlement of our hedges in revenue when we sell the associated physical residue natural gas or NGLs. Any gain or loss realized as a result of hedging is substantially offset in the market when we sell the physical residue natural gas or NGLs. The majority of our hedges are characterized as cash flow hedges as defined in Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. We determine gains or losses on open and closed hedging transactions as the difference between the hedge price and the physical price. This mark-to-market methodology uses daily closing NYMEX prices when applicable and an internally-generated algorithm for hedged commodities that are not traded on a market. To insure that these financial instruments will be used solely for hedging price risks and not for speculative purposes, we have established a hedging committee to review our hedges for compliance with our hedging policies and procedures. Our revolving credit facility prohibits speculative hedging and limits our overall hedge position to 80% of our equity volumes.

For additional information on our hedging activities and a summary of our outstanding hedging instruments as of December 31, 2006, please see Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

Our Appalachian Basin Operations

We own and operate approximately 1,600 miles of intrastate gas gathering systems located in eastern Ohio, western New York and western Pennsylvania. Our Appalachian operations serve approximately 5,865 wells with an average throughput of 61.9 MMcfd of natural gas for the year ended December 31, 2006. Our gathering systems provide a means through which well owners and operators can transport the natural gas produced by their wells to interstate and public utility pipelines for delivery to customers. To a lesser extent, our gathering systems transport natural gas directly to customers. Our gathering systems connect with various public utility pipelines, including Peoples Natural Gas Company, National Fuel Gas Supply, Tennessee Gas Pipeline Company, National Fuel Gas Distribution Company, Dominion East Ohio Gas Company, Columbia Gas of Ohio, Consolidated Natural Gas Co., Texas Eastern Pipeline, Columbia Gas Transmission Corp., Equitrans Pipeline Company, Gatherco Incorporated, Piedmont Natural Gas Co., Inc. and Equitable Utilities. Our systems are strategically located in the Appalachian Basin, a region characterized by long-lived, predictable natural gas reserves that are close to major eastern U.S. markets.

Appalachian Basin Overview

The Appalachian Basin includes the states of Kentucky, Maryland, New York, Ohio, Pennsylvania, Virginia, West Virginia and Tennessee. The Appalachian Basin is strategically located near the energy-consuming regions of the mid-Atlantic and northeastern United States.

Natural Gas Supply

On December 18, 2006, Atlas America, which owns an 82.9% ownership interest in Atlas Pipeline Holdings, the parent of our general partner, contributed its ownership interests in its natural gas and oil development and production subsidiaries to Atlas Energy, a then wholly-owned subsidiary of Atlas America. Concurrent with this transaction, Atlas Energy issued 7,273,750 common units, representing a 19.4% ownership interest, in an initial public offering at a price of $21.00 per unit. Substantially all of the natural gas we transport in the Appalachian Basin is derived from wells operated by Atlas Energy.

From the inception of our operations in January 2000 through December 31, 2006, we connected 2,846 new wells to our Appalachian gathering system, 433 of which were added through acquisitions of other gathering systems. For the year ended December 31, 2006, we connected 711 wells to our gathering system. Our ability to increase the flow of natural gas through our gathering systems and to offset the natural decline of the production already connected to our gathering systems will be determined primarily by the number of wells drilled by Atlas Energy and connected to our gathering systems and by our ability to acquire additional gathering assets.

Natural Gas Revenue

Our Appalachian Basin revenue is determined primarily by the amount of natural gas flowing through our gathering systems and the price received for this natural gas. We have an agreement with Atlas Energy under which Atlas Energy pays us gathering fees generally equal to a percentage, typically 16%, of the gross weighted average sales price of the natural gas we transport subject, in most cases, to minimum prices of $0.35 or $0.40 per Mcf. For the year ended December 31, 2006, we received gathering fees averaging $1.34 per Mcf. We charge other operators fees negotiated at the time we connect their wells to our gathering systems or, in a pipeline acquisition, that were established by the entity from which we acquired the pipeline.

Because we do not buy or sell gas in connection with our Appalachian operations, we do not engage in hedging. Atlas Energy maintains a hedging program. Since we receive transportation fees from Atlas Energy generally based on the selling price received by Atlas Energy inclusive of the effects of financial and physical hedging, these financial and physical hedges mitigate the risk of our percentage-of-proceeds arrangements.

Our Relationship with Atlas Energy and Atlas America

We began our operations in January 2000 by acquiring the gathering systems of Atlas America. On December 18, 2006, Atlas America contributed its ownership interests in its natural gas and oil development and production subsidiaries to Atlas Energy, a then wholly-owned subsidiary of Atlas America. Atlas America currently owns 81.6% of Atlas Energy and also owns 82.9% of Atlas Pipeline Holdings, the parent of our general partner, which owns an 11.5% limited partner interest and a 2% general partner interest in us.

Atlas Energy and its affiliates sponsor limited and general partnerships to raise funds from investors to explore for, develop and produce natural gas and, to a lesser extent, oil from locations in eastern Ohio, western New York and western Pennsylvania. Our gathering systems are connected to approximately 5,290 wells developed and operated by Atlas Energy in the Appalachian Basin. Through agreements between us and Atlas Energy, we gather substantially all of the natural gas for our Appalachian Basin operations from wells operated by Atlas Energy. For the year ended December 31, 2006, Atlas Energy and its affiliates raised $218.5 million from investors and drilled 648 wells.

Omnibus Agreement

Under the omnibus agreement, Atlas America and its affiliates agreed to add wells to our gathering systems and provide consulting services when we construct new gathering systems or extend existing systems. In December 2006, in connection with the completion of the initial public offering of, and Atlas America s contribution and sale of its natural gas and oil development and production assets to, Atlas Energy, Atlas Energy joined the omnibus agreement as an obligor (except for the provisions of the omnibus agreement imposing conditions upon our general partner s disposition of its general partner interest in us), and Atlas

America became secondarily liable as a guarantor of Atlas Energy s performance. The omnibus agreement is a continuing obligation, having no specified term or provisions regarding termination except for a provision terminating the agreement if our general partner is removed as general partner without cause. The omnibus agreement may not be amended without the approval of the conflicts committee of the managing board of our general partner if, in the reasonable discretion of our general partner, such amendment will adversely affect our common unitholders. Our common unitholders do not have explicit rights to approve any termination or material modification of the omnibus agreement. We anticipate that the conflicts committee of the managing board of our general partner would submit to our common unitholders for their approval any proposal to terminate or amend the omnibus agreement if our general partner determines, in its reasonable discretion, that the termination or amendment would materially adversely affect our common unitholders.

Well Connections. Under the omnibus agreement, with respect to any well Atlas Energy drills and operates for itself or an affiliate that is within 2,500 feet of our gathering systems, Atlas Energy must, at its sole cost and expense, construct small diameter (two inches or less) sales or flow lines from the wellhead of any such well to a point of connection to the gathering system. Where an Atlas Energy well is located more than 2,500 feet from one of our gathering systems, but Atlas Energy has extended the flow line from the well to within 1,000 feet of the gathering system, Atlas Energy has the right to require us, at our cost and expense, to extend our gathering system to connect to that well. With respect to other Atlas Energy wells that are more than 2,500 feet from our gathering systems, we have the right, at our cost and expense, to extend our gathering system to within 2,500 feet of the well and to require Atlas Energy, at its cost and expense, to construct up to 2,500 feet of flow line to connect to the gathering system extension. If we elect not to exercise our right to extend our gathering systems, Atlas Energy may connect an Atlas Energy well to a natural gas gathering system owned by someone other than us or one of our subsidiaries or to any other delivery point; however, we will have the right to assume the cost of construction of the necessary flow lines, which will then become our property and part of our gathering systems.

Consulting Services. The omnibus agreement requires Atlas Energy to assist us in identifying existing gathering systems for possible acquisition and to provide consulting services to us in evaluating and making a bid for these systems. Atlas Energy must give us notice of identification by it or any of its affiliates of any gathering system as a potential acquisition candidate, and must provide us with information about the gathering system, its seller and the proposed sales price, as well as any other information or analyses compiled by Atlas Energy with respect to the gathering system. We must determine, within a time period specified by Atlas Energy s notice to us, which must be a reasonable time under the circumstances, whether we want to acquire the identified system and advise Atlas Energy of our intent. If we intend to acquire the system, we have an additional 60 days to complete the acquisition. If we advise Atlas Energy that we do not intend to make the acquisition, do not complete the acquisition within a reasonable time period, or advise Atlas Energy that we do not intend to acquire the system, then Atlas Energy may do so.

Gathering System Construction. The omnibus agreement requires Atlas Energy to provide us with construction management services if we determine we need to expand one or more of our gathering systems. We must reimburse Atlas Energy for its costs, including an allocable portion of employee salaries, in connection with its construction management services.

Disposition of Interest in Our General Partner. Before the completion of the Atlas Pipeline Holdings and Atlas Energy initial public offerings, Atlas America owned both our general partner and the entities which act as the general partners, operators or managers of the drilling investment partnerships sponsored by Atlas America. The omnibus agreement prohibited Atlas America from transferring its interest in our general partner unless it also transferred to the same person its interests in those subsidiaries. Atlas America was permitted, however, to transfer its interest in our general partner to a wholly- or majority-owned direct or indirect subsidiary as long as Atlas America continues to control the new entity. In connection with the Atlas Pipeline Holdings initial public offering, Atlas America transferred its interest in our general partner to Atlas Pipeline Holdings, then Atlas America s wholly-owned subsidiary. Atlas America currently owns an 82.9% interest in Atlas Pipeline Holdings.

Natural Gas Gathering Agreements

We entered into a master natural gas gathering agreement with Atlas America and certain of its subsidiaries in connection with the completion of our initial public offering in February 2000. In December 2006, in connection with the completion of the initial public offering of, and Atlas America s contribution and sale of its natural gas and oil development and production assets to, Atlas Energy, Atlas Energy joined the master natural gas gathering agreement as an obligor. Under the master natural gas gathering agreement, we receive a fee from Atlas Energy for gathering natural gas, determined as follows:

- for natural gas from well interests allocable to Atlas America or its affiliates (excluding general or limited partnerships sponsored by them) that were connected to our gathering systems at February 2, 2000, the greater of $0.40 per Mcf or 16% of the gross sales price of the natural gas transported;

- for (i) natural gas from well interests allocable to general and limited partnerships sponsored by Atlas Energy that drill wells on or after December 1, 1999 that are connected to our gathering systems (ii) natural gas from well interests allocable to Atlas Energy or its affiliates (excluding general or limited partnerships sponsored by them) that are connected to our gathering systems after February 2, 2000, and (iii) well interests allocable to third parties in wells connected to our gathering systems at February 2, 2000, the greater of $0.35 per Mcf or 16% of the gross sales price of the natural gas transported; and

- for natural gas from well interests operated by Atlas Energy and drilled after December 1, 1999 that are connected to a gathering system that is not owned by us and for which we assume the cost of constructing the connection to that gathering system, an amount equal to the greater of $0.35 per Mcf or 16% of the gross sales price of the natural gas transported, less the gathering fee charged by the other gathering system.

Atlas Energy receives gathering fees from contracts or other arrangements with third-party owners of well interests connected to our gathering systems. However, Atlas Energy must pay gathering fees owed to us from its own resources regardless of whether it receives payment under those contracts or arrangements.

The master natural gas gathering agreement is a continuing obligation and, accordingly, has no specified term or provisions regarding termination. However, if our general partner is removed as our general partner without cause, then no gathering fees will be due under the agreement with respect to new wells drilled by Atlas Energy.

The master natural gas gathering agreement may not be amended without the approval of the conflicts committee of the managing board of our general partner if, in the reasonable discretion of our general partner, such amendment will adversely affect our common unitholders. Common unitholders do not have explicit rights to approve any termination or material modification of the master natural gas gathering agreement. We anticipate that the conflicts committee of the managing board of our general partner would submit to our common unitholders for their approval any proposal to terminate or amend the master natural gas gathering agreement if our general partner determines, in its reasonable discretion, that the termination or amendment would materially adversely affect our common unitholders.

In addition to the master natural gas gathering agreement, we have three other gas gathering agreements with subsidiaries of Atlas Energy. Under two of these agreements, relating to certain wells located in southeastern Ohio and in Fayette County, Pennsylvania, we receive a fee of $0.80 per Mcf. Under the third agreement, which covers wells owned by third parties unrelated to Atlas Energy or the investment partnerships it sponsors, we receive fees that range between $0.20 to $0.29 per Mcf or between 10% to 16% of the weighted average sales price for the natural gas we transport.

Competition

Acquisitions. We have encountered competition in acquiring midstream assets owned by third parties. In several instances we submitted bids in auction situations and in direct negotiations for the acquisition of such assets and were either outbid by others or were unwilling to meet the sellers expectations. In the future, we expect to encounter equal if not greater competition for midstream assets because, as natural gas, crude oil and NGL prices increase, the economic attractiveness of owning such assets increases.

Mid-Continent. In our Mid-Continent service area, we compete for the acquisition of well connections with several other gathering/servicing operations. These operations include plants and gathering systems operated by Duke Energy Field Services, ONEOK Field Services, Eagle Rock Midstream Resources L.P. and Enbridge, Inc. We believe that the principal factors upon which competition for new well connections is based are:

- the price received by an operator or producer for its production after deduction of allocable charges, principally the use of the natural gas to operate compressors; and

- responsiveness to a well operator s needs, particularly the speed at which a new well is connected by the gatherer to its system.

We believe that our relationships with operators connected to our system are good and that we present an attractive alternative for producers. However, if we cannot compete successfully, we may be unable to obtain new well connections and, possibly, could lose wells already connected to our systems.

Being a regulated entity, Ozark Gas Transmission faces somewhat more indirect competition that is more regional or even national in character. CenterPoint Energy, Inc. s interstate system is the nearest direct competitor.

Appalachian Basin. Our Appalachian Basin operations do not encounter direct competition in their service areas since Atlas Energy controls the majority of the drillable acreage in each area. However, because our Appalachian Basin operations principally serve wells drilled by Atlas Energy, we are affected by competitive factors affecting Atlas Energy s ability to obtain properties and drill wells, which affects our ability to expand our gathering systems and to maintain or increase the volume of natural gas we transport and, thus, our transportation revenues. Atlas Energy also may encounter competition in obtaining drilling services from third-party providers. Any competition it encounters could delay Atlas Energy in drilling wells for its sponsored partnerships, and thus delay the connection of wells to our gathering systems. These delays would reduce the volume of natural gas we otherwise would have transported, thus reducing our potential transportation revenues.

As our omnibus agreement with Atlas Energy generally requires it to connect wells it operates to our system, we do not expect any direct competition in connecting wells drilled and operated by Atlas Energy in the future. In addition, we occasionally connect wells operated by third parties. For the year ended December 31, 2006, we connected 26 third-party wells.

Regulation

Regulation by FERC of Interstate Natural Gas Pipelines. FERC regulates our interstate natural gas pipeline interests. Ozark Gas Transmission transports natural gas in interstate commerce. As a result, Ozark Gas Transmission qualifies as a natural gas company under the Natural Gas Act and is subject to the regulatory jurisdiction of FERC. In general, FERC has authority over natural gas companies that provide natural gas pipeline transportation services in interstate commerce, and its authority to regulate those services includes:

- rate structures;

- rates of return on equity;
- recovery of costs;
- the services that our regulated assets are permitted to perform;
- the acquisition, construction and disposition of assets; and
- to an extent, the level of competition in that regulated industry.

Under the Natural Gas Act, FERC has authority to regulate natural gas companies that provide natural gas pipeline transportation services in interstate commerce. Its authority to regulate those services includes the rates charged for the services, terms and conditions of service, certification and construction of new facilities, the extension or abandonment of services and facilities, the maintenance of accounts and records, the acquisition and disposition of facilities, the initiation and discontinuation of services, and various other matters. Natural gas companies may not charge rates that have been determined not to be just and reasonable by FERC. In addition, FERC prohibits natural gas companies from unduly preferring or unreasonably discriminating against any person with respect to pipeline rates or terms and conditions of service.

The rates, terms and conditions of service provided by natural gas companies are required to be on file with FERC in FERC-approved tariffs. Pursuant to FERC s jurisdiction over rates, existing rates may be challenged by complaint and proposed rate increases may be challenged by protest. We cannot assure you that FERC will continue to pursue its approach of pro-competitive policies as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas transportation capacity, transportation and storage facilities. Any successful complaint or protest against Ozark Gas Transmission s FERC-approved rates could have an adverse impact on our revenues associated with providing transmission services.

Gathering Pipeline Regulation. Section 1(b) of the Natural Gas Act exempts natural gas gathering facilities from the jurisdiction of the FERC. We own a number of intrastate natural gas pipelines in New York, Pennsylvania, Ohio, Arkansas, Texas and Oklahoma that we believe would meet the traditional tests FERC has used to establish a pipeline s status as a gatherer not subject to FERC jurisdiction. However, the distinction between the FERC-regulated transmission services and federally unregulated gathering services is the subject of regular litigation, so the classification and regulation of some of our gathering facilities may be subject to change based on future determinations by FERC and the courts.

In Ohio, a producer or gatherer of natural gas may file an application seeking exemption from regulation as a public utility, except for the continuing jurisdiction of the Public Utilities Commission of Ohio to inspect our gathering systems for public safety purposes. Our operating subsidiary has been granted an exemption by the Public Utilities Commission of Ohio for our Ohio facilities. The New York Public Service Commission imposes traditional public utility regulation on the transportation of natural gas by companies subject to its regulation. This regulation includes rates, services and siting authority for the construction of certain facilities. Our gas gathering operations currently are not subject to regulation by the New York Public Service Commission. Our operations in Pennsylvania currently are not subject to the Pennsylvania Public Utility Commission s regulatory authority since they do not provide service to the public generally and, accordingly, do not constitute the operation of a public utility. Similarly, our operations in Arkansas are not subject to regulatory oversight by the Arkansas Public Service Commission. In the event the Arkansas, Ohio, New York or Pennsylvania authorities seek to regulate our operations, we believe that our operating costs could increase and our transportation fees could be adversely affected, thereby reducing our net revenues and ability to make distributions to our general partner and common unitholders.

We are currently subject to state ratable take and common purchaser statutes in Texas and Oklahoma. The ratable take statutes generally require gatherers to take, without discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without discrimination as to source of supply or producer. These statutes are designed to prohibit discrimination in favor of one producer over another producer or one source of supply over another source of supply. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas.

The state of Oklahoma has adopted a complaint-based statute that allows the Oklahoma Corporation Commission to resolve grievances relating to natural gas gathering access and to remedy discriminatory rates for providing gathering service where the parties are unable to agree. In a similar way, the Texas Railroad Commission sponsors a complaint procedure for resolving grievances about natural gas gathering access and rate discrimination. No such complaints have been made against our Mid-Continent operations to date in Oklahoma or Texas.

Natural gas gathering may receive greater regulatory scrutiny at both the state and federal levels now that FERC has taken a less stringent approach to regulation of the gathering activities of interstate pipeline transmission companies and a number of such companies have transferred gathering facilities to unregulated affiliates. For example, the Texas Railroad Commission has approved changes to its regulations governing transportation and gathering services performed by intrastate pipelines and gatherers, which prohibit such entities from unduly discriminating in favor of one customer over another. Our gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services.

Our gathering operations also may be or become subject to safety and operational regulations relating to the design, installation, testing, construction, operation, replacement and management of gathering facilities. Additional rules and legislation pertaining to these matters are considered or adopted from time to time. We cannot predict what effect, if any, such changes might have on our operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

Sales of Natural Gas. A portion of our revenues is tied to the price of natural gas. The price of natural gas is not currently subject to federal regulation and, for the most part, is not subject to state regulation. Sales of natural gas are affected by the availability, terms and cost of pipeline transportation. As noted above, the price and terms of access to pipeline transportation are subject to extensive federal and state regulation. FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies that remain subject to FERC s jurisdiction. These initiatives also may affect the intrastate transportation of natural gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry, and these initiatives generally reflect more light-handed regulation. We cannot predict the ultimate impact of these regulatory changes to our operations, and we note that some of FERC s more recent proposals may adversely affect the availability and reliability of interruptible transportation service on interstate pipelines. We do not believe that we will be affected by any such FERC action materially differently than other companies with whom we compete.

Energy Policy Act of 2005. The Energy Policy Act contains numerous provisions relevant to the natural gas industry and to interstate pipelines in particular. Overall, the legislation attempts to increase supply sources by engaging in various studies of the overall resource base and attempting to advantage deep water production on the Outer Continental Shelf in the Gulf of Mexico. However, the primary provisions of interest to our interstate pipelines focus on two areas: (1) infrastructure development; and (2) market transparency and enhanced enforcement. Regarding infrastructure development, the Energy Policy Act includes provisions to clarify that FERC has exclusive jurisdiction over the siting of liquefied natural gas terminals; provides for market-based rates for new storage facilities placed into service after the date of enactment; shortens depreciable life for gathering facilities; statutorily designates FERC as the lead agency for federal authorizations and permits; creates a consolidated record for all federal decisions relating to necessary authorizations and permits; and provides for expedited judicial review of any agency action and review by only the D.C. Circuit Court of Appeals of any alleged failure of a federal agency to act by a deadline set by FERC as lead agency. Such provisions, however, do not apply to review and authorization under the Coastal Zone Management Act of 1972. Regarding market transparency and manipulation rules, the Natural Gas Act is amended to prohibit market manipulation and add provisions for FERC to prescribe rules designed to encourage the public provision of data and reports regarding the price of natural gas in wholesale markets. The Natural Gas Act and the Natural Gas Policy Act are also amended to increase monetary criminal penalties to $1,000,000 from current law at $5,000 and to add and increase civil penalty authority to be administered by FERC to $1,000,000 per day per violation without any limitation as to total amount.

Environmental Matters

The operation of pipelines, plant and other facilities for gathering, compressing, treating, processing, or transporting natural gas, natural gas liquids and other products is subject to stringent and complex laws and regulations pertaining to health, safety and the environment. As an owner or operator of these facilities, we must comply with these laws and regulations at the federal, state and local levels. These laws and regulations can restrict or impact our business activities in many ways, such as:

- restricting the way we can handle or dispose of our wastes;
- limiting or prohibiting construction and operating activities in sensitive areas such as wetlands, coastal regions, or areas inhabited by endangered species;
- requiring remedial action to mitigate pollution conditions caused by our operations or attributable to former operators; and
- enjoining some or all of the operations of facilities deemed in non-compliance with permits issued pursuant to such environmental laws and regulations.

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint and several liability for costs required to clean up and restore sites where substances or wastes have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of substances or wastes into the environment.

We believe that our operations are in substantial compliance with applicable environmental laws and regulations and that compliance with existing federal, state and local environmental laws and regulations will not have a material adverse effect on our business, financial position or results of operations. Nevertheless, the trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment. As a result, there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. Moreover, we cannot assure you that future events, such as changes in existing laws, the promulgation of new laws, or the development or discovery of new facts or conditions will not cause us to incur significant costs.

Hazardous Waste. Our operations generate wastes, including some hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act, as amended, or RCRA, and comparable state laws, which impose detailed requirements for the handling, storage, treatment and disposal of hazardous and solid waste. RCRA currently exempts many natural gas gathering and field processing wastes from classification as hazardous waste. Specifically, RCRA excludes from the definition of hazardous waste produced waters and other wastes associated with the exploration, development, or production of crude oil and natural gas. However, these oil and gas exploration and production wastes may still be regulated under state law or the less stringent solid waste requirements of RCRA. Moreover, ordinary industrial wastes such as paint wastes, waste solvents, laboratory wastes, and waste compressor oils may be regulated as hazardous waste. The transportation of natural gas in pipelines may also generate some hazardous wastes that are subject to RCRA or comparable state law requirements.

Site Remediation. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or CERCLA, also known as Superfund, and comparable state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons responsible for the release of hazardous substances into the environment. Such classes of persons include the current and past owners or operators of sites where a hazardous substance was released, and companies that disposed or arranged for disposal of hazardous substances at offsite locations such as landfills. Although petroleum as well as natural gas is excluded from CERCLA s definition of hazardous substance, in the course of our ordinary operations we will generate wastes that may fall within the definition of a hazardous substance. CERCLA authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. Under CERCLA, we could be subject to joint and several, strict liability for the costs of cleaning up and restoring sites where hazardous substances have been released, for damages to natural resources, and for the costs of certain health studies.

We currently own or lease, and have in the past owned or leased, numerous properties that for many years have been used for the measurement, gathering, field compression and processing of natural gas. Although we used operating and disposal practices that were standard in the industry at the time, petroleum hydrocarbons or wastes may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where such substances have been taken for disposal. In fact, there is evidence that petroleum spills or releases have occurred at some of the properties owned or leased by us. In addition, some of these properties have been operated by third parties or by previous owners whose treatment and disposal or release of petroleum hydrocarbons or wastes was not under our control. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove previously disposed wastes (including waste disposed of by prior owners or operators), remediate contaminated property (including groundwater contamination, whether from prior owners or operators or other historic activities or spills), or perform remedial closure operations to prevent future contamination.

Air Emissions. Our operations are subject to the federal Clean Air Act, as amended, and comparable state laws and regulations. These laws and regulations regulate emissions of air pollutants from various industrial sources, including our processing plants and compressor stations, and also impose various monitoring and reporting requirements. Such laws and regulations may require that we obtain pre-approval for the construction or modification of certain projects or facilities expected to produce air emissions or result in the increase of existing air emissions, obtain and strictly comply with air permits containing various emissions and operational limitations, or utilize specific emission control technologies to limit emissions. Our failure to comply with these requirements could subject us to monetary penalties, injunctions, conditions or restrictions on operations, and potentially criminal enforcement actions. We likely will be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions. We believe, however, that our operations will not be materially adversely affected by such requirements, and the requirements are not expected to be any more burdensome to us than to any other similarly situated companies.

Water Discharges. Our operations are subject to the Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state laws and regulations. These laws and regulations impose detailed requirements and strict controls regarding the discharge of pollutants into state and federal waters. The discharge of pollutants is prohibited unless authorized by a permit or other agency approval. The Clean Water Act and regulations implemented thereunder also prohibit discharges of dredged and fill material in wetlands and other waters of the United States unless authorized by an appropriately issued permit. Any unpermitted release of pollutants from our pipelines or facilities could result in administrative, civil and criminal penalties as well as significant remedial obligations.

Pipeline Safety. Our pipelines are subject to regulation by the U.S. Department of Transportation, or the DOT, under the Natural Gas Pipeline Safety Act of 1968, as amended, or the NGPSA, pursuant to which the DOT has established requirements relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. The NGPSA covers the pipeline transportation of natural gas and other gases, and the transportation and storage of liquefied natural gas and requires any entity that owns or operates pipeline facilities to comply with the regulations under the NGPSA, to permit access to and allow copying of records and to make certain reports and provide information as required by the Secretary of Transportation. We believe that our pipeline operations are in substantial compliance with existing NGPSA requirements; however, due to the possibility of new or amended laws and regulations or reinterpretation of existing laws and regulations, future compliance with the NGPSA could result in increased costs.

The DOT, through the Office of Pipeline Safety, recently finalized a series of rules intended to require pipeline operators to develop integrity management programs for gas transmission pipelines that, in the event of a failure, could affect high consequence areas. High consequence areas are currently defined as areas with specified population densities, buildings containing populations of limited mobility, and areas where people gather that are located along the route of a pipeline. The Texas Railroad Commission, the Oklahoma Corporation Commission and other state agencies have adopted similar regulations applicable to intrastate gathering and transmission lines. Compliance with these existing rules has not had a material adverse effect on our operations but there is no assurance that this trend will continue in the future.

Employee Health and Safety. We are subject to the requirements of the Occupational Safety and Health Act, as amended, referred to as OSHA, and comparable state laws that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens.

Hydrogen Sulfide. Exposure to gas containing high levels of hydrogen sulfide, referred to as sour gas, is harmful to humans, and prolonged exposure can result in death. The gas produced at our Velma gas plant contains high levels of hydrogen sulfide, and we employ numerous safety precautions at the system to ensure the safety of our employees. There are various federal and state environmental and safety requirements for handling sour gas, and we are in substantial compliance with all such requirements.

Properties

As of December 31, 2006, our principal facilities in Appalachia include approximately 1,600 miles of 2 to 12 inch diameter pipeline. Our principal facilities in the Mid-Continent area consist of three natural gas processing plants, one treating facility, and approximately 3,265 miles of active and inactive 2 to 42 inch diameter pipeline. Substantially all of our gathering systems and our transmission pipeline are constructed within rights-of-way granted by property owners named in the appropriate land records. In a few cases, property for gathering system purposes was purchased in fee. All of our compressor stations are located on property owned in fee or on property obtained via long-term leases or surface easements.

Our property or rights-of-way are subject to encumbrances, restrictions and other imperfections. These imperfections have not interfered, and our general partner does not expect that they will materially interfere, with the conduct of our business. In many instances, lands over which rights-of-way have been obtained are subject to prior liens which have not been subordinated to the right-of-way grants. In a few instances, our rights-of-way are revocable at the election of the land owners. In some cases, not all of the owners named in the appropriate land records have joined in the right-of-way grants, but in substantially all such cases signatures of the owners of majority interests have been obtained. Substantially all permits have been obtained from public authorities to cross over or under, or to lay facilities in or along, water courses, county roads, municipal streets, and state highways, where necessary, although in some instances these permits are revocable at the election of the grantor. Substantially all permits have also been obtained from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor s election.

Certain of our rights to lay and maintain pipelines are derived from recorded gas well leases, for wells that are currently in production; however, the leases are subject to termination if the wells cease to produce. In some of these cases, the right to maintain existing pipelines continues in perpetuity, even if the well associated with the lease ceases to be productive. In addition, because many of these leases affect wells at the end of lines, these rights-of-way will not be used for any other purpose once the related wells cease to produce.

Employees

As is commonly the case with publicly-traded limited partnerships, we do not directly employ any of the persons responsible for our management or operations. In general, employees of Atlas America and its affiliates manage our gathering systems and operate our business. Atlas America employed approximately 188 people at December 31, 2006 who provided direct support to our operations.

Affiliates of our general partner will conduct business and activities of their own in which we will have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition between us, our general partner and affiliates of our general partner for the time and effort of the officers and employees who provide services to our general partner. The officers of our general partner who provide services to us are not required to work full time on our affairs. These officers may devote significant time to the affairs of our general partner s affiliates and be compensated by these affiliates for the services rendered to them. There may be significant conflicts between us and affiliates of our general partner regarding the availability of these officers to manage us.

Available Information

We make our periodic reports under the Securities Exchange Act of 1934, including our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, available through our website at www.atlaspipelinepartners.com. To view these reports, click on Investor Relations , then SEC Filings . You may also receive, without charge, a paper copy of any such filings by request to us at 311 Rouser Road, Moon Township, Pennsylvania 15108, telephone number (412) 262-2830. A complete list of our filings is available on the Securities and Exchange Commission s website at www.sec.gov. Any of our filings are also available at the Secur