

PAA NATURAL GAS STORAGE LP

Form S-1/A

April 02, 2010

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As filed with the Securities and Exchange Commission on April 2, 2010

Registration No. 333-164492

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

**Amendment No. 2
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
PAA Natural Gas Storage, L.P.
(Exact Name of Registrant as Specified in Its Charter)**

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

4922
(Primary Standard Industrial
Classification Code Number)

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

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Proposed Maximum Aggregate Offering Price ⁽¹⁾⁽²⁾	Amount of Registration Fee ⁽³⁾
Common units representing limited partner interests	\$230,000,000	\$16,399

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

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

(3) The total registration fee includes \$14,260 that was previously paid for the registration of \$200,000,000 of proposed maximum aggregate offering price in the filing of the Registration Statement on January 25, 2010 and \$2,139 for the registration of an additional \$30,000,000 of proposed maximum aggregate offering price registered hereby.

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

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

SUBJECT TO COMPLETION DATED APRIL 2, 2010

PRELIMINARY PROSPECTUS

**10,000,000 Common Units
Representing Limited Partner Interests**

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

Investing in our common units involves risks. Please read Risk Factors beginning on page 24. These risks include the following:

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

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

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

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

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

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

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

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

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Upon the closing of the offering, investors in our common units will experience immediate and substantial dilution in pro forma net tangible book value of \$9.06 per common unit.

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

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

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

We have granted the underwriters a 30-day option to purchase up to an additional 1,500,000 common units from us on the same terms and conditions as set forth above if the underwriters sell more than 10,000,000 common units in this offering.

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

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

Barclays Capital	UBS Investment Bank	Citi	Wells Fargo Securities
BofA Merrill Lynch	J.P. Morgan		Raymond James
Madison Williams	Morgan Keegan & Company, Inc.	RBC Capital Markets	Stifel Nicolaus

, 2010

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Map and pictures of facilities to come

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You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with

additional or different information. We and the underwriters are offering to sell, and seeking offers to buy, our common units only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common units. Until _____, 2010 (25 days after the date of this prospectus), all dealers that effect transactions in our common units, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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SUMMARY

This summary provides a brief overview of information contained elsewhere in this prospectus. Because it is abbreviated, this summary does not contain all of the information that you should consider before investing in our common units. You should read the entire prospectus carefully, including Risk Factors beginning on page 24 and the historical and pro forma financial statements and the notes to those financial statements. The information in this prospectus assumes (1) an initial public offering price of \$20.00 per common unit and (2) unless otherwise indicated, that the underwriters' option to purchase additional common units is not exercised. We include a glossary of some of the terms used in this prospectus as Appendix B.

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

PAA Natural Gas Storage, L.P.

Overview

We are a fee-based, growth-oriented Delaware limited partnership formed by Plains All American to own, operate and grow the natural gas storage business that PAA acquired in 2005. Our business consists of the acquisition, development, operation and commercial management of natural gas storage facilities. We currently own and operate two natural gas storage facilities located in Louisiana and Michigan that have an aggregate working gas storage capacity of 40 Bcf and an aggregate peak injection and withdrawal capacity of 1.7 Bcf per day and 3.2 Bcf per day, respectively. We also lease storage capacity and pipeline transportation capacity from third parties from time to time in order to increase our operational flexibility and enhance the services we offer our customers. As of April 1, 2010, we had 5.3 Bcf of storage capacity under lease from third parties and had secured the right to 286 MMcf per day of firm transportation service on various pipelines. Substantially all of our revenues are derived from the provision of firm storage services under multi-year, fee-based contracts.

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

Our Assets

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

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

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

- (1) We expect to place 10 Bcf into service in the second quarter of 2010, 18 Bcf by mid-2012 and the final 3 Bcf will be added ratably through 2016.
- (2) We expect to complete these expansions of peak injection and withdrawal capabilities by mid-2011.
- (3) Of this aggregate expected increase in compression, 16,000 horsepower is on location with installation targeted for April 2010. With respect to the remaining compression capacity, we expect 23,000 horsepower to be in place by mid-2011 and an additional 17,250 horsepower to be in place by mid-2012.
- (4) We expect to place this expansion in working gas capacity into service ratably over a 10-year period beginning in 2011 in connection with a planned liquids removal project.

Pine Prairie. As a strategically located, high-deliverability storage facility, Pine Prairie has attracted a diverse group of customers, including utilities, pipelines, producers, power generators, marketers and liquefied natural gas (LNG) importers, whose storage needs include both traditional seasonal storage services and short-term storage services. Pine Prairie is strategically positioned relative to several major market hubs, including:

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

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

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

Pine Prairie's pipeline header system, which includes an aggregate of 74 miles of 24-inch diameter pipe located within a 20-mile radius of Pine Prairie, is directly connected to eight large-diameter interstate pipelines through nine interconnects that service both conventional and unconventional natural gas production in Texas and Louisiana as well as Gulf of Mexico production and LNG imports. These interconnects also provide direct or indirect access to each of the market hubs described above and to other significant consumer and industrial markets.

Pine Prairie has a total current working gas storage capacity of 14 Bcf in two caverns, and planned expansions that will increase Pine Prairie's total capacity to 42 Bcf by mid-2012 and 45 Bcf by mid-2016 (see table above). Subject to market demand, project execution, sufficient pipeline capacity, available financing and receipt of future permits, we have the property rights and operational capacity to expand our Pine Prairie facility significantly beyond our current permitted capacity of 48 Bcf. Taking these considerations into account and with certain infrastructure modifications, we currently estimate that Pine Prairie could support in excess of 15 salt caverns and an aggregate storage capacity of over 150 Bcf.

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

As indicated in the table above, Bluewater has total working gas storage capacity of approximately 26 Bcf in two depleted reservoirs and we expect to increase Bluewater's working gas capacity by 2 Bcf ratably over a 10-year period beginning in 2011 as a result of a planned liquids removal project. Bluewater also leases third-party storage capacity and pipeline transportation capacity from time to time to increase its operational flexibility and enhance its service offerings. As of April 1, 2010, we had leased approximately 5.3 Bcf of additional capacity at third-party natural gas storage facilities as well as 236 MMcf per day of related pipeline transportation capacity.

Our Operations

We generate revenue almost exclusively through the provision of fee-based gas storage services to our customers. Our storage rates are regulated under Federal Energy Regulatory Commission, or FERC, rate-making policies, which currently permit our facilities to charge market-based rates for our services. For the year ended December 31, 2009, approximately 99% of our total revenue was derived from fee-based storage activities, with the remaining approximately 1% primarily attributable to the sale of liquid hydrocarbons incidentally produced in connection with the operation of our depleted reservoir storage facilities at Bluewater. Our revenues from fee-based gas storage services are derived from both firm storage services and hub services.

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

Hub Services. We also generate revenue from the provision of hub services at our facilities. Hub services include (i) interruptible storage services pursuant to which customers receive only limited assurances regarding the availability of capacity in our storage facilities and pay fees based on their actual utilization of our assets, (ii) non-seasonal park and loan services and (iii) wheeling and balancing services pursuant to which customers pay fees for the right to move a volume of gas through our facilities from one interconnection point to another and true up their deliveries of gas to, or takeaways of gas from our facilities. For the year ended December 31, 2009, approximately 7% of our total revenue was derived from hub services.

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

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Our Business Strategy

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

Optimizing our existing natural gas storage facilities.

Organically expanding our existing natural gas storage facilities.

Pursuing strategic and accretive acquisition or development projects.

Leasing storage capacity and transportation services from third parties to enhance operational flexibility.

Utilizing a portion of our owned and leased storage capacity to enhance our commercial management activities.

For additional discussion of our business strategy, please read [Business](#) [Our Business Strategy](#).

Our Financial Strategy

We have targeted a general credit profile that has the following attributes:

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

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

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

When considered together with what we believe to be the relatively low risk profile of our business, we believe this credit profile is consistent with an investment grade credit rating and should position us to take advantage of attractive acquisition opportunities.

In order for us to maintain our targeted credit profile, we generally intend to fund approximately 60% of the capital required for expansion and acquisition projects through a combination of equity capital and cash flow in excess of distributions. In connection with the closing of this offering, we expect to enter into a new \$400 million revolving credit facility. We believe we will be able to fund up to the first \$250 million of acquisitions or expansion projects primarily through borrowings under this credit facility or other sources and remain in compliance with our targeted credit profile.

We have not applied for a credit rating from any credit rating agency, nor to our knowledge has any such credit rating been assigned. If and when we seek a credit rating, our credit rating may be positively or negatively impacted by the

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

For additional discussion of our financial strategy, please read Business Our Financial Strategy.

Our Competitive Strengths

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

Our natural gas storage assets are strategically located and operationally flexible.

Our business generates relatively stable and predictable cash flow.

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Our Pine Prairie storage facility has the ability to be significantly expanded at competitive costs and with a relatively high degree of schedule certainty.

We have the evaluation, integration and engineering skill sets in-house that are necessary to successfully pursue acquisition and expansion opportunities.

We have the financial flexibility to pursue acquisition and expansion opportunities.

Our general partner has an experienced executive management team with specialized knowledge of natural gas storage and markets and whose interests are aligned with those of our unitholders.

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

For additional discussion of our competitive strengths, please read [Business](#) [Our Competitive Strengths](#).

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

We believe one of our strengths is our relationship with Plains All American Pipeline, L.P., which, based on our review of publicly available data, is the fifth largest publicly traded master limited partnership as measured by equity market capitalization, which was approximately \$7.7 billion as of March 31, 2010. Plains All American's common units trade on the New York Stock Exchange, or NYSE, under the ticker symbol [PAA](#). In addition to its participation in the natural gas storage business through our partnership, PAA is engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas-related petroleum products.

PAA and its predecessors have been active participants in the hydrocarbon storage industry since the early 1990s. PAA has a long history of successfully expanding its energy infrastructure businesses through a combination of organic growth projects and complementary acquisitions. Since its initial public offering in 1998, PAA has grown its asset base from approximately \$600 million to over \$12 billion and increased the annualized distribution on its limited partner units by over 100%, from \$1.80 per unit as of PAA's initial public offering to \$3.71 per unit for the distribution paid in February 2010.

Our partnership will own all of the natural gas storage business and assets formerly owned by PAA and PAA has stated that it intends to utilize our partnership as the primary vehicle through which it will participate in the natural gas storage business. Upon completion of this offering, PAA will have a significant economic stake in us and a commensurate incentive to promote and support the successful execution of our growth plan and strategy.

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

First Quarter 2010 Activity and Performance Update

During the first quarter, expansion activities continued at Pine Prairie. Such activities included the completion of the solution mining process on our third cavern well, which added total working capacity of 9.8 Bcf, and a fill/dewater cycle on an existing cavern well that added 0.4 Bcf of incremental working capacity. The incremental capacity associated with the completed fill/dewater cycle was placed in service late in the first quarter and the remaining

9.8 Bcf is expected to be placed in service in the second quarter of 2010. Additionally, drilling operations were completed and solution mining operations commenced on our fourth cavern well, which is expected to add approximately 8 Bcf of incremental working capacity in mid-2011. Drilling operations also commenced on our fifth cavern well, which is expected to add approximately 10 Bcf of incremental working capacity in mid-2012.

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At Bluewater, preparations have continued for the drilling of a new well in connection with our liquids removal project, intended to expand our storage capacity by 2 Bcf ratably over a ten-year period beginning in 2011. We expect drilling operations to commence during April 2010.

During the quarter, at Pine Prairie we executed multi-year firm storage contracts with customers for 2.0 Bcf of working capacity, increasing to approximately 93% the total percentage of our working gas capacity at Pine Prairie committed under multi-year firm storage contracts, including the 9.8 Bcf of incremental capacity expected to be placed in service early in the second quarter of 2010. At Bluewater, we leased an additional 2 Bcf of storage capacity at a nearby third-party facility, which we intend to use to enhance the services we provide to our customers. Except for such recently leased storage capacity, substantially all of our owned and leased capacity at Bluewater has been committed under firm storage contracts for the 2010-2011 winter storage season.

Although we are in the early stages of compiling our financial results for the first quarter of 2010, our preliminary estimated results indicate Adjusted EBITDA for the quarter will approximate the run rate experienced during the successor period of 2009. This preliminary estimate includes the negative impact of acquisition-related expenses and general and administrative expenses associated with this offering totaling approximately \$1.4 million in the aggregate. These estimated results do not include any earnings associated with the expected approximate 70% increase in working gas capacity at Pine Prairie that will result from the 9.8 Bcf of additional capacity that we expect to place in service in the second quarter of 2010. Our current estimated range of Adjusted EBITDA for the first quarter is based on preliminary estimated results and, accordingly, remains subject to change as we complete our financial reporting procedures. These changes could be significant.

Risk Factors

An investment in our common units involves risks. The following list of risk factors is not exhaustive. Please read Risk Factors carefully for a more thorough description of these and other risks.

Risks Related to Our Business

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

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

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

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

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

adversely affect our financial results.

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

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

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

Risks Inherent in an Investment in Us

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

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

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

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

Upon the closing of the offering, investors in our common units will experience immediate and substantial dilution in pro forma net tangible book value of \$9.06 per common unit.

Risks Related to Conflicts of Interest

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

PAA may engage in competition with us.

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

Tax Risks to Common Unitholders

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

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

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

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Formation Transactions and Partnership Structure

In connection with this offering, the following transactions, which we refer to as the formation transactions, will occur:

PAA will contribute to us 98.0% of the equity interests in the entities that own its gas storage business, in exchange for 21,584,529 common units⁽¹⁾, 13,934,351 Series A subordinated units, and 11,500,000 Series B subordinated units, representing an aggregate approximate 80.8% limited partner interest in us;

PNGS GP LLC, our general partner and a subsidiary of PAA, will contribute to us 2.0% of the equity interests in the entities that own PAA's gas storage business, in exchange for a 2.0% general partner interest in us as well as all of our incentive distribution rights, which will entitle our general partner to increasing percentages of the cash we distribute in excess of \$0.3375 per quarter;

we will issue 10,000,000 common units to the public, representing an approximate 17.2% limited partner interest in us;

we will receive, after deducting underwriting discounts and commissions and offering expenses, net proceeds of approximately \$185.8 million from the issuance and sale of 10,000,000 common units at an assumed initial offering price of \$20.00 per common unit; we will use these net proceeds, together with \$200 million of borrowings under a new \$400 million credit facility, to repay intercompany indebtedness owed to PAA as described in Use of Proceeds; and

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

(1) Of this amount, 20,084,529 common units will be issued to PAA at the closing of this offering and up to 1,500,000 common units will be issued to PAA within 30 days of this offering. However, if the underwriters exercise their option to purchase up to 1,500,000 additional common units within 30 days of this offering, the number of common units purchased by the underwriters pursuant to such exercise will be issued to the public instead of PAA. The net proceeds from any exercise of the underwriters' option to purchase additional common units will be used to reimburse PAA for capital expenditures it incurred with respect to the assets contributed to us.

Table of Contents**Ownership of PAA Natural Gas Storage, L.P.**

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

Public Common Units	17.2%
Common Units owned by PAA	37.1%
Series A Subordinated Units owned by PAA	23.9%
Series B Subordinated Units owned by PAA	19.8% ⁽¹⁾
General Partner Interest	2.0%
Total	100.0%

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

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Management of PAA Natural Gas Storage, L.P.

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

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

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

Principal Executive Offices and Internet Address

Our principal executive offices are located at 333 Clay St., Suite 1500, Houston, Texas 77002, and our telephone number is (713) 646-4100. Our website will be located at www.pnglp.com and will be activated in connection with the closing of this offering. We expect to make available our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, which we refer to as the SEC, free of charge through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference herein and does not constitute a part of this prospectus.

Summary of Conflicts of Interest and Fiduciary Duties

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

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Partnership Agreement Modifications to Fiduciary Duties. Our partnership agreement limits the liability of, and defines the duties owed by, our general partner to holders of our common and subordinated units. Our partnership agreement also restricts the remedies available to holders of our common and subordinated units for actions that might otherwise be challenged under state law standards as a breach of our general partner's fiduciary duties. By purchasing a common unit, the purchaser agrees to be bound by the terms of our partnership agreement, and pursuant to the terms of our partnership agreement, each holder of common units consents to various actions and potential conflicts of interest contemplated in the partnership agreement that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

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

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

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The Offering

Common units offered to the public	10,000,000 common units. 11,500,000 common units if the underwriters fully exercise their option to purchase additional common units.
Units outstanding after this offering	31,584,529 common units, ⁽¹⁾ 13,934,351 Series A subordinated units and 11,500,000 Series B subordinated units for a total of 57,018,880 limited partner units. The Series B subordinated units will not be entitled to participate in our quarterly distributions, but will convert into Series A subordinated units on a one-for-one basis upon the satisfaction of certain operational and financial conditions, which include achievement of expansion activities and increases in our distribution level. If at the time the operational and financial conditions are satisfied, the subordination period has already ended, the Series B subordinated units will instead convert directly into common units on a one-for-one basis. In addition, our general partner will own a 2.0% general partner interest in us. For additional information regarding our Series B subordinated units, please read Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period Series B Subordinated Units.
Use of proceeds	We intend to use the net proceeds of approximately \$187.8 million, after deducting underwriting discounts, but before paying offering expenses, together with borrowings under our credit facility, to repay intercompany indebtedness owed to PAA in the amount of approximately \$385.8 million. We expect that any intercompany indebtedness not repaid in connection with this offering will be extinguished and treated as a capital contribution and part of PAA's investment in us. If the underwriters' option to purchase additional common units is exercised, we will use the net proceeds to reimburse PAA for capital expenditures it incurred with respect to the assets contributed to us. Please read Use of Proceeds.

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

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Cash distributions

Upon completion of this offering, our general partner will establish a minimum quarterly distribution of \$0.3375 per common unit and Series A subordinated unit (\$1.35 per common unit and Series A subordinated unit on an annualized basis) to the extent we have sufficient cash after establishment of reserves and payment of fees and expenses, including payments to our general partner and its affiliates. We refer to this cash as available cash, and it is defined in our partnership agreement included in this prospectus as Appendix A and in the glossary included in this prospectus as Appendix B. Our ability to pay the minimum quarterly distribution is subject to various restrictions and other factors described in more detail under the caption Our Cash Distribution Policy and Restrictions On Distributions. We will adjust the minimum quarterly distribution payable for the period from the completion of this offering through June 30, 2010, based on the actual length of that period.

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

first, 98.0% to the holders of common units and 2.0% to our general partner, until each common unit has received the minimum quarterly distribution of \$0.3375, plus any arrearages from prior quarters; and

second, 98.0% to the holders of Series A subordinated units and 2.0% to our general partner, until each Series A subordinated unit has received the minimum quarterly distribution of \$0.3375.

If cash distributions to our unitholders exceed \$0.3375 per common unit and Series A subordinated unit in any quarter, our general partner will receive, in addition to distributions on its 2.0% general partner interest, increasing percentages, up to 48.0%, of the cash we distribute in excess of that amount. We refer to these distributions as incentive distributions. Please read Provisions of Our Partnership Agreement Relating to Cash Distributions.

The amount of pro forma available cash from distributable cash flow generated during the year ended December 31, 2009 would have been sufficient to allow us to pay only approximately 82.6% of the minimum quarterly distribution (\$0.3375 per unit per quarter, or \$1.35 on an annualized basis) on our common units for such period and would not have been sufficient to pay any distributions on our Series A subordinated units for such period. Please read Our Cash Distribution Policy and Restrictions on Distributions.

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We believe that, based on the Statement of Minimum Estimated Available Cash from Distributable Cash Flow included under the caption Our Cash Distribution Policy and Restrictions on Distributions, we will have sufficient distributable cash flow to pay the minimum quarterly distribution of \$0.3375 per unit on all common units and Series A subordinated units and the corresponding distributions on our general partner's 2.0% interest for the four quarters ending June 30, 2011. This should be read in conjunction with Risk Factors and Our Cash Distribution Policy and Restrictions on Distributions.

Series A subordinated units

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

Conversion of Series A subordinated units

At any time on or after June 30, 2013, the subordination period will end on the first business day following the quarter in respect of which we have, for each of three consecutive, non-overlapping four quarter periods (i) generated from distributable cash flow at least \$1.35 (the minimum quarterly distribution on an annualized basis) on the weighted average number of outstanding common units and Series A subordinated units on a fully diluted basis, plus the corresponding distribution on our general partner's 2.0% interest and (ii) paid from available cash at least \$1.35 on all outstanding common units and Series A subordinated units, plus the corresponding distribution on our general partner's 2.0% interest. Additionally, at any time on or after June 30, 2011, if we have, for a period of four consecutive quarters (i) generated from distributable cash flow at least \$0.5063 per quarter (150% of the minimum quarterly distribution, which is approximately \$2.03 on an annualized basis) on the weighted average number of outstanding common units and Series A subordinated units on a fully diluted basis, plus the corresponding distributions on our general partner's 2.0% interest and the related distributions on the incentive distribution rights and (ii) paid from available cash at least \$0.5063 per quarter (150% of the minimum quarterly distribution, which is approximately \$2.03 on an annualized basis) on all outstanding common units and Series A subordinated units, plus the corresponding distribution on our general partner's 2.0% interest and the related distributions on the incentive distribution rights, the subordination period will end.

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Distributable cash flow will be determined by our general partner and is defined as: (i) net income; plus or minus, as applicable, (ii) any amounts necessary to offset the impact of any items included in net income that do not impact the amount of available cash; plus (iii) any acquisition-related expenses associated with (a) successful acquisitions or (b) all other potential acquisitions until the earlier to occur of the abandonment of such potential acquisition or one year from the date of incurrence; and minus (iv) maintenance capital expenditures. The types of items covered by clause (ii) above include (a) depreciation, depletion and amortization expense, (b) any gain or loss from the sale of assets not in the ordinary course of business, (c) any gain or loss as a result of a change in accounting principle, (d) any non-cash gains or items of income and any non-cash losses or expenses, including asset impairments, amortization of debt discounts, premiums or issue costs, mark-to-market activity associated with hedging and with non-cash revaluation and/or fair valuation of assets or liabilities and (e) earnings or losses from unconsolidated subsidiaries except to the extent of actual cash distributions received.

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

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

Series B subordinated units

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

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

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Conversion of Series B subordinated units

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

4,600,000 Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity at Pine Prairie that has been placed into service totals at least 29.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$0.36 per unit (representing an annualized distribution of \$1.44 per unit) on the weighted average number of outstanding common units and Series A subordinated units and all of such Series B subordinated units and (c) we make a quarterly distribution of available cash of at least \$0.36 per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units and the corresponding distributions on our general partner's 2.0% interest and the related distributions on the incentive distribution rights;

3,833,333 Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity at Pine Prairie that has been placed into service totals at least 35.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$0.3825 per unit (representing an annualized distribution of \$1.53 per unit) on the weighted average number of outstanding common units and Series A subordinated units and all of such Series B subordinated units and, if any, the Series B subordinated units described in the prior bullet, and (c) we make a quarterly distribution of available cash of at least \$0.3825 per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units and the corresponding distributions on our general partner's 2.0% interest and the related distributions on the incentive distribution rights; and

3,066,667 Series B subordinated units will convert into Series A subordinated units on a one-for-one basis if (a) the aggregate amount of working gas storage capacity at Pine Prairie that has been placed into service totals at least 41.6 Bcf, (b) we generate distributable cash flow for two consecutive quarters sufficient to pay a quarterly distribution of at least \$0.4075 per unit (representing an annualized distribution of \$1.63 per unit) on the weighted average number of outstanding common units and Series A subordinated units and all of such Series B subordinated units and, if any, the Series B subordinated units described in the prior two bullets, and (c) we make a quarterly distribution of available cash of

at least \$0.4075 per quarter for two consecutive quarters on all outstanding common units and Series A subordinated units and the corresponding distributions on our general partner's 2.0% interest and the related distributions on the incentive distribution rights.

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Our general partner will determine whether the in-service operational tests set forth above have been satisfied. To the extent that the operational tests described above are satisfied prior to or during the two-quarter period applicable to the financial tests described above, the holder of the Series B subordinated units subject to conversion will be entitled to receive the quarterly distribution payable with respect to the second quarter of such two-quarter period. In all other circumstances, where the operational tests are satisfied following the two-quarter period applicable to the financial tests, the holder of the Series B subordinated units subject to conversion will be entitled to receive any distribution payable following the satisfaction of such operational tests.

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

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

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

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

General partner's right to reset the target distribution levels

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

amount that causes such reset target distribution level to exceed the reset minimum quarterly distribution by the same percentage that such distribution level exceeds the then-current minimum quarterly distribution.

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If our general partner elects to reset the target distribution levels, it will be entitled to receive common units and a general partner interest necessary to maintain its general partner interest in us immediately prior to the reset election. The number of common units to be issued to our general partner will equal the number of common units which would have entitled their holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. Please read [Provisions of Our Partnership Agreement Relating to Cash Distributions](#) [General Partner's Right to Reset Incentive Distribution Levels](#).

Issuance of additional units

We have the ability to issue an unlimited number of units without the consent of our unitholders. Please read [Units Eligible for Future Sale and The Partnership Agreement](#) [Issuance of Additional Securities](#).

Limited voting rights

Our general partner will manage and operate us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66²/₃% of the outstanding units, voting together as a single class, including any units owned by our general partner and its affiliates, including PAA. Upon consummation of this offering, PAA will own an aggregate of approximately 82.5% of our outstanding limited partner units. This will give PAA the ability to prevent the involuntary removal of our general partner. Please read [The Partnership Agreement](#) [Voting Rights](#).

Limited call right

If at any time our general partner and its affiliates own more than 80.0% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price that is not less than the then-current market price of the common units.

Estimated ratio of taxable income to distributions

We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2012, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be % or less of the cash distributed to you with respect to that period. For example, if you receive an annual distribution of \$1.35 per unit, we estimate that your average allocable federal taxable income per year will be no more than \$ per unit. Please read [Material Income Tax Consequences](#) [Tax Consequences of Unit Ownership](#) [Ratio of Taxable Income to Distributions](#).

Material income tax consequences

For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please read Material Income Tax Consequences.

Exchange listing

We have applied to list our common units on the New York Stock Exchange under the symbol PNG.

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Summary Historical Financial and Operating Data

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

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

The summary pro forma statement of operations data for the year ended December 31, 2009 and the summary pro forma balance sheet data as of December 31, 2009 are derived from our unaudited pro forma condensed combined financial statements included elsewhere in this prospectus. The pro forma adjustments have been prepared as if the PAA Ownership Transaction, this offering and the anticipated borrowings under our credit facility had taken place on December 31, 2009 in the case of the pro forma balance sheet, and on January 1, 2009 in the case of the pro forma statement of operations data. A more complete explanation of the pro forma data can be found in our unaudited pro forma condensed combined financial statements.

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

Predecessor	January 1,	Successor	Pro Forma
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