Buckeye GP Holdings L.P.
Form 10-Q/A
August 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2010

OR

o **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 1-32963
Buckeye GP Holdings L.P.
(Exact name of registrant as specified in its charter)

Delaware	**11-3776228**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification number)
One Greenway Plaza Suite 600 Houston, TX	**77046**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (832) 615-8600

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 þ No o

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

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

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

As of May 3, 2010, there were 27,774,043 Common Units and 525,957 Management Units outstanding.

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EXPLANATORY NOTE

Buckeye GP Holdings L.P. (BGH) is filing this Amendment No. 1 on Form 10-Q/A (Amendment No. 1) to amend Part I, Item 2 and Part II, Item 6 of its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, originally filed with the Securities and Exchange Commission on May 7, 2010 (the Original Quarterly Report). BGH is filing Amendment No. 1 for the sole purpose of removing certain credit agency ratings information in the Original Quarterly Report.

As required by Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, BGH is also filing as exhibits to Amendment No. 1 the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

Except for the foregoing, Amendment No. 1 neither alters the Original Quarterly Report nor updates the Original Quarterly Report to reflect events or developments since the date of filing of the Original Quarterly Report.

For the convenience of the reader, this Amendment No. 1 restates in its entirety the section Management s Discussion and Analysis of Financial Condition and Results of Operations from the Original Quarterly Report, although BGH is only removing certain credit agency ratings information.

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PART I. FINANCIAL INFORMATION

Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

The following information should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this report. The following information and such unaudited condensed consolidated financial statements should also be read in conjunction with the consolidated financial statements and related notes, together with our discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Cautionary Note Regarding Forward-Looking Statements

This discussion contains various forward-looking statements and information that are based on our beliefs, as well as assumptions made by us and information currently available to us. When used in this document, words such as proposed, anticipate, project, potential, could, should, continue, estimate, expect, may, believe, will, plan, seek, outlook and similar expressions and statements regarding our plans and objectives for future operations are intended to identify forward-looking statements. Although we believe that such expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions as described in more detail in Item 1A Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2009. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. You should not put undue reliance on any forward-looking statements. The forward-looking statements in this Quarterly Report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

Overview of Critical Accounting Policies and Estimates

A summary of the significant accounting policies we have adopted and followed in the preparation of our condensed consolidated financial statements is included in our Annual Report on Form 10-K for the year ended December 31, 2009. Certain of these accounting policies require the use of estimates. As more fully described therein, the following estimates, in our opinion, are subjective in nature, require the exercise of judgment and involve complex analysis: depreciation methods, estimated useful lives and disposals of property, plant and equipment; reserves for environmental matters; fair value of derivatives; measuring the fair value of goodwill; and measuring recoverability of long-lived assets and equity method investments. These estimates are based on our knowledge and understanding of current conditions and actions we may take in the future. Changes in these estimates will occur as a result of the passage of time and the occurrence of future events. Subsequent changes in these estimates may have a significant impact on our financial position, results of operations and cash flows.

Overview of BGH

Buckeye GP Holdings L.P. is a publicly traded Delaware master limited partnership (MLP), the common units (Common Units) of which are listed on the New York Stock Exchange (NYSE) under the ticker symbol BGH. We own 100% of Buckeye GP LLC (Buckeye GP), which is the general partner of Buckeye Partners, L.P. (Buckeye). Buckeye is also a publicly traded Delaware MLP which was organized in 1986, and its limited partner units (LP Units) are separately traded on the NYSE under the ticker symbol BPL. Approximately 62% of our outstanding equity, which includes Common Units and management units (Management Units) are owned by BGH GP Holdings, LLC (BGH GP) and approximately 38% by the public. BGH GP is owned by affiliates of ArcLight Capital Partners, LLC (ArcLight), Kelso & Company (Kelso), and certain investment funds along with certain members of senior management of Buckeye GP. MainLine Management LLC, a Delaware limited liability company (MainLine Management), is our general partner and is wholly owned by BGH GP. Unless the context requires otherwise, references to *we*, *us*, *our*, or *BGH* are intended to mean the business and operations of Buckeye GP Holdings L.P. o consolidated basis, including those of Buckeye. References to *Buckeye* mean Buckeye Partners, L.P. and its consolidated subsidiaries.

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Our only cash-generating assets are our partnership interests in Buckeye, comprised primarily of the following:

- the incentive distribution rights in Buckeye;
- the indirect ownership of the general partner interests in certain of Buckeye s operating subsidiaries (representing an approximate 1% interest in each of such operating subsidiaries);
- the general partner interests in Buckeye (representing 243,914 general partner units (the GP Units), or an approximate 0.5% interest in Buckeye); and
- 80,000 of Buckeye s LP Units.

The incentive distribution rights noted above entitle us to receive amounts equal to specified percentages of the incremental amount of cash distributed by Buckeye to the holders of LP Units when target distribution levels for each quarter are exceeded. The 2,573,146 LP Units originally issued to the Buckeye Pipe Line Services Company Employee Stock Ownership Plan (the ESOP) are excluded for the purpose of calculating incentive distributions. The target distribution levels begin at $0.325 and increase in steps to the highest target distribution level of $0.525 per eligible LP Unit. When Buckeye makes quarterly distributions above this level, the incentive distributions include an amount equal to 45% of the incremental cash distributed to each eligible unitholder for the quarter, or approximately 29.5% of total incremental cash distributed by Buckeye above $0.525 per LP Unit.

Our earnings and cash flows are, therefore, directly dependent upon the ability of Buckeye and its operating subsidiaries to make cash distributions to its unitholders. The actual amount of cash that Buckeye will have available for distribution will depend primarily on its ability to generate earnings and cash flows beyond its working capital requirements.

The following table summarizes the cash we received for the three months ended March 31, 2010 and 2009 as a result of our partnership interests in Buckeye (in thousands, except unit amounts):

	Three Months Ended March 31,	
	2010	**2009**
Incentive payments from Buckeye	$ 12,314	$ 10,505
Distributions from the indirect 1% ownership in certain of Buckeye s operating subsidiaries	403	362
Distributions from the ownership of 243,914 of Buckeye s GP Units	229	216
Distributions from the ownership of 80,000 of Buckeye s LP Units	75	71
Cash received	$ 13,021	$ 11,154

Overview of Buckeye Partners, L.P.

Buckeye s primary business strategies are to generate stable cash flows, increase pipeline and terminal throughput and pursue strategic cash-flow accretive acquisitions that complement its existing asset base, improve operating efficiencies and allow increased cash distributions to its unitholders.

We, through Buckeye, operate and report in five business segments: Pipeline Operations; Terminalling & Storage; Natural Gas Storage; Energy Services; and Development & Logistics. Buckeye s principal line of business is the transportation, terminalling, storage and marketing of refined petroleum products in the United States for major integrated oil companies, large refined petroleum product marketing companies and major end users of refined petroleum products on a fee basis through facilities it owns and operates. Buckeye owns a major natural gas storage facility in northern California. In addition, Buckeye operates and maintains approximately 2,400 miles of other pipelines under agreements with major oil and gas, petrochemical and chemical companies, and performs certain engineering and construction management services for third parties.

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Recent Developments

Sale of Buckeye NGL Pipeline

Effective January 1, 2010, we sold our ownership interest in an approximately 350-mile natural gas liquids pipeline (the Buckeye NGL Pipeline) that runs from Wattenberg, Colorado to Bushton, Kansas for $22.0 million. The assets had been classified as Assets held for sale in our consolidated balance sheet at December 31, 2009 with a carrying amount equal to the proceeds received.

Results of Operations

The results of operations discussed below principally reflect the activities of Buckeye. Since our condensed consolidated financial statements include the consolidated results of Buckeye, our condensed consolidated financial statements are substantially similar to Buckeye s except as noted below:

Interest of noncontrolling partners in Buckeye Our condensed consolidated balance sheets include a noncontrolling interests capital account that reflects the proportion of Buckeye owned by its partners other than us. Similarly, the ownership interests in Buckeye held by its partners other than us are reflected in our condensed consolidated statements of operations as income attributable to noncontrolling interests. These noncontrolling interest accounts are not reflected in Buckeye s condensed consolidated financial statements.

Our capital structure In addition to incorporating the assets and liabilities of Buckeye, our condensed consolidated balance sheets include our own indebtedness and related debt placement costs, and the partners capital on our condensed consolidated balance sheets represent our partners capital as opposed to the capital reflected in Buckeye s condensed consolidated balance sheets, which reflects the ownership interest of all its partners, including its owners other than us or Services Company. Consequently, our condensed consolidated statements of operations reflect additional interest expense, interest income and debt amortization expense that is not reflected in Buckeye s condensed consolidated financial statements.

Inclusion of Services Company The financial statements of Services Company, which employs the employees who manage and operate our assets, are consolidated into our financial statements. The condensed consolidated financial statements of Buckeye do not include the financial statements of Services Company.

Our general and administrative expenses We incur general and administrative expenses that are independent from Buckeye s operations and are not reflected in Buckeye s condensed consolidated financial statements.

Elimination of intercompany transactions Intercompany obligations and payments among Buckeye and its consolidated subsidiaries, us and Services Company are reflected in Buckeye s condensed consolidated financial statements but are eliminated in our condensed consolidated financial statements.

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Segment Results

A summary of financial information by business segment follows for the periods indicated (in thousands):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues:		
Pipeline Operations	$ 96,537	$ 99,195
Terminalling & Storage	42,371	30,643
Natural Gas Storage	25,406	15,077
Energy Services	568,202	268,480
Development & Logistics	7,515	9,125
Intersegment	(8,857)	(5,680)
Total revenues	$ 731,174	$ 416,840
Total costs and expenses: (1)		
Pipeline Operations	$ 51,172	$ 54,747
Terminalling & Storage	19,246	19,986
Natural Gas Storage	21,955	8,913
Energy Services	571,599	262,265
Development & Logistics	6,568	7,744
Intersegment	(8,857)	(5,680)
Total costs and expenses	$ 661,683	$ 347,975
Depreciation and amortization:		
Pipeline Operations	$ 8,953	$ 8,839
Terminalling & Storage	2,316	1,722
Natural Gas Storage	1,641	1,459
Energy Services	1,195	977
Development & Logistics	423	367
Total depreciation and amortization	$ 14,528	$ 13,364
Operating income (loss):		
Pipeline Operations	$ 45,365	$ 44,448
Terminalling & Storage	23,125	10,657
Natural Gas Storage	3,451	6,164
Energy Services	(3,397)	6,215
Development & Logistics	947	1,381
Total operating income	$ 69,491	$ 68,865

(1) Includes depreciation and

amortization.

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Costs and expenses attributable to Buckeye, Services Company and us were as follows (in thousands):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Attributable to Buckeye	$ 660,154	$ 346,737
Elimination of Buckeye deferred charge	(1,174)	(1,174)
Net effect of ESOP charges	875	399
Attributable to BGH	1,828	2,013
Total costs and expenses	$ 661,683	$ 347,975

Amounts attributable to us were as follows (in thousands):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Payroll and payroll benefits	$ 1,116	$ 1,187
Professional fees	121	297
Other	591	529
Total	$ 1,828	$ 2,013

Payroll and benefits costs include salaries and benefits for the four highest paid executives performing services on behalf of Buckeye, as well as allocations of the cost of Buckeye personnel performing administrative services directly for BGH.

The following table presents product volumes transported in the Pipeline Operations segment and average daily throughput for the Terminalling & Storage segment in barrels per day and total volumes sold in gallons for the Energy Services segment for the periods indicated:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Pipeline Operations: (average barrels per day)		
Gasoline	608,900	632,400
Jet fuel	322,300	333,300
Diesel fuel	227,500	222,000
Heating oil	113,900	131,100
LPGs	20,500	14,400
NGLs		21,300
Other products	800	13,400
Total Pipeline Operations	1,293,900	1,367,900

Terminalling & Storage: (average barrels per day)		
Products throughput (1)	556,300	480,800
Energy Services: (in thousands of gallons)		
Sales volumes	266,900	205,200

(1) Reported quantities exclude transfer volumes, which are non-revenue generating transfers among our various terminals. For the three months ended March 31, 2009, we previously reported 521.0 thousand, which included transfer volumes.

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Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Consolidated

Consolidated income attributable to our unitholders was $11.3 million for the three months ended March 31, 2010 compared to $10.1 million for the three months ended March 31, 2009. The increase in income attributable to our unitholders was due to increases in Buckeye s quarterly distribution. As mentioned above, the incentive distribution rights entitle us to receive amounts equal to specified percentages of the incremental amount of cash distributed by Buckeye to the holders of Buckeye s LP Units when target distribution levels for a quarter are exceeded. As a result, increases in Buckeye s distributions causes increases in income attributable to our unitholders. During the three months ended March 31, 2010, Buckeye paid a $0.9375 per LP Unit distribution as compared to a $0.8875 per LP Unit distribution in the three months ended March 31, 2009, which resulted in an increase of $1.8 million in incentive distributions in the 2010 period as compared to the corresponding period in 2009.

Revenue was $731.1 million for the three months ended March 31, 2010, which is an increase of $314.3 million, or 75.4%, from the three months ended March 31, 2009. This overall increase was caused primarily by an increase of $299.7 million in revenues from the Energy Services segment, an increase of $11.8 million in revenues from the Terminalling & Storage segment and an increase of $10.3 million in revenues from the Natural Gas Storage segment. The increase in revenues in the Energy Services segment resulted from an overall increase in refined petroleum product prices and volumes of product sold in the first quarter of 2010 as compared to the corresponding period in 2009. The increase in revenues in the Terminalling & Storage segment resulted primarily from increased fees, storage and rental revenue, including $1.7 million in storage fees from previously underutilized tankage identified in connection with our best-practice initiatives, increased revenue from terminals acquired in November 2009 (see Note 2 in the Notes to Unaudited Condensed Consolidated Financial Statements) and favorable settlement experience. The increase in revenues from the Natural Gas Storage segment resulted from increased activity from the commencement of operations of the Kirby Hills Phase II expansion project in June 2009. These increases in revenue were partially offset by a decrease of $2.7 million in revenues from the Pipeline Operations segment and a decrease of $1.6 million in revenue from the Development & Logistics segment. Revenue decreased in the Pipeline Operations segment primarily due to lower transportation volumes and lower miscellaneous revenues, partially offset by increased tariffs, favorable settlement experience and increased revenues from the pipeline assets acquired in November 2009. Revenue decreased in the Development & Logistics segment primarily due to decreased construction activities.

Total costs and expenses were $661.7 million for the three months ended March 31, 2010, which is an increase of $313.9 million, or 90.2%, from the corresponding period in 2009. Total costs and expenses reflect an increase in refined petroleum product prices, which, coupled with an increase in volume sold, resulted in a $309.9 million increase in the Energy Services segment s cost of product sales in the 2010 period as compared to the 2009 period. Total costs and expenses also reflect an increase of $13.2 million in the Natural Gas Storage segment s costs and expenses resulting from higher costs associated with hub services transactions caused by general market conditions. Total costs and expenses also include an increase of $1.1 million in depreciation and amortization and an increase of $1.2 million in non-cash unit-based compensation expense. These increases in total costs and expenses were largely offset by decreases of $3.5 million, $1.1 million and $0.8 million in the costs and expenses of the Pipeline Operations segment, the Development & Logistics segment and the Terminalling & Storage segment, respectively. The decrease in the costs and expenses of the Pipeline Operations segment was driven by lower payroll and benefits costs, which was primarily attributable to the organizational restructuring that occurred in 2009, which resulted in reduced headcount, as well as from lower contract service activities and lower environmental remediation expenses. The decrease in the costs and expenses of the Development & Logistics segment was primarily due to reduced construction contract activity and reduced operating services activities. The decrease in the costs and expenses of the Terminalling & Storage segment primarily resulted from lower environmental remediation expenses. Total costs and expenses for the three months ended March 31, 2010 reflect the effectiveness of cost management efforts we implemented in 2009. Largely as a result of these efforts, costs decreased by approximately $4.6 million during the three months ended March 31, 2010 as compared to the corresponding period in 2009.

Operating income was $69.5 million for the three months ended March 31, 2010 compared to operating income of $68.9 million for the three months ended March 31, 2009. Interest and debt expense increased by $4.3 million in

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the three months ended March 31, 2010 as compared to the corresponding period in 2009, which was largely attributable to the issuance in August 2009 of $275.0 million aggregate principal amount of 5.500% Notes due 2019. In addition, depreciation and amortization increased by $1.1 million, primarily due to the assets utilized with respect to the Kirby Hills Phase II expansion project, which were placed in service in the second half of 2009, and certain internal-use software, which was placed in service in the fourth quarter of 2009. Income from equity investments increased by $0.6 million in the three months ended March 31, 2010 as compared to the corresponding period in 2009. Other revenue and expense items impacting operating income are discussed above.

Income attributable to noncontrolling interests, which represents the allocation of Buckeye s income to its limited partner interests not owned by us or Services Company, was $39.4 million for the three months ended March 31, 2010 as compared to $43.5 million in the corresponding period in 2009.

For a more detailed discussion of the above factors affecting our results, see the following discussion by segment.

Pipeline Operations

Revenue from the Pipeline Operations segment was $96.5 million in the three months ended March 31, 2010, which is a decrease of $2.7 million, or 2.7%, from the corresponding period in 2009. Revenues decreased primarily due to a $4.8 million decrease related to a 5.4% decrease in transportation volumes due in part to the sale of Buckeye NGL Pipeline on January 1, 2010 (see Note 2 in the Notes to Unaudited Condensed Consolidated Financial Statements) and a $3.1 million decrease in miscellaneous other revenue, including revenues from a product supply arrangement with a wholesale distributor and contract service activities at customer facilities connected to our refined petroleum products pipelines. These decreases were partially offset by higher tariffs of $2.5 million, favorable settlement experience of $2.0 million and increased revenues of $0.6 million from the pipeline assets acquired in November 2009. An overall average tariff increase of approximately 3.8% was implemented on July 1, 2009.

Total costs and expenses from the Pipeline Operations segment were $51.2 million for the three months ended March 31, 2010, which is a decrease of $3.5 million, or 6.5%, from the corresponding period in 2009. Total costs and expenses include decreases in (i) payroll and benefits costs of $2.2 million, pursuant to our best-practice initiative in 2009; (ii) contract service activities of $1.1 million at customer facilities connected to our refined petroleum products pipelines; (iii) environmental remediation expenses of $1.5 million and (iv) product costs of $0.4 million as a result of reduced volumes of product sold to a wholesale distributor. These decreases were partially offset by an increase of $0.4 million in professional fees, as well as increases in other expenses, primarily consisting of an increase of $0.6 million in bad debt expense. Total costs and expenses also include an increase of $0.7 million in non-cash unit-based compensation expense.

Operating income from the Pipeline Operations segment was $45.4 million for the three months ended March 31, 2010 compared to operating income of $44.4 million for the three months ended March 31, 2009. Depreciation and amortization of $9.0 million for the three months ended March 31, 2010 was relatively consistent with the corresponding period in 2009. Other revenue and expense items impacting operating income are discussed above.

Terminalling & Storage

Revenue from the Terminalling & Storage segment was $42.4 million in the three months ended March 31, 2010, which is an increase of $11.8 million, or 38.3%, from the corresponding period in 2009. The majority of the increase resulted from an increase of $10.9 million, primarily from (i) terminals acquired in November 2009, (ii) internal growth projects, (iii) higher fees, as well as higher storage and rental revenue of $3.5 million, including $1.7 million in storage fees from previously underutilized tankage identified in connection with our best-practice initiatives and (iv) increased butane-blending revenue. Also contributing to the improved revenue was an increase of $0.9 million in settlement experience reflecting the favorable impact of higher refined petroleum product prices during the three months ended March 31, 2010 as compared to the corresponding period in 2009. In addition to the 10.5% increase in volumes resulting from the acquisition of terminals in November 2009, terminalling volumes increased 5.2% in the three months ended March 31, 2010 as compared to the corresponding period in 2009 largely due to increased ethanol throughput volumes.

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Total costs and expenses from the Terminalling & Storage segment were $19.2 million for the three months ended March 31, 2010, which is a decrease of $0.8 million, or 3.7%, from the corresponding period in 2009. Total costs and expenses reflect a $2.4 million decrease in environmental remediation expenses and a decrease in payroll and benefits costs of approximately $0.6 million, partially offset by a $1.0 million increase in operating expenses for terminals acquired in November 2009 and a $0.6 million increase in bad debt expense. Total costs and expenses also include an increase of $0.6 million in depreciation and amortization and an increase of $0.2 million in non-cash unit-based compensation expense.

Operating income from the Terminalling & Storage segment was $23.1 million for the three months ended March 31, 2010 compared to operating income of $10.7 million for the three months ended March 31, 2009. Depreciation and amortization increased by $0.6 million for the three months ended March 31, 2010 as a result of the terminals acquired in November 2009. Other revenue and expense items impacting operating income are discussed above.

Natural Gas Storage

Revenue from the Natural Gas Storage segment was $25.4 million in the three months ended March 31, 2010, which is an increase of $10.3 million, or 68.5%, from the corresponding period in 2009. This overall increase is attributable to greater underlying volume for hub services provided during the three months ended March 31, 2010 compared to the same period in 2009. In addition, this increase is due to higher fees recognized as revenue for hub services provided during the three months ended March 31, 2010. The fees for hub services agreements are based on the relative market prices of natural gas over different delivery periods. When that market price spread is positive, a fee is received from the customer and reflected as transportation and other services revenue. When that market price spread is negative, a fee is paid to the customer and reflected as cost of natural gas storage services. These fees are recognized as revenue or cost of natural gas storage services ratably as the underlying services are provided or utilized. Such agreements are entered into in order to maximize the daily utilization of the natural gas storage facility and to attempt to capture value from seasonal price differences in the natural gas markets. During each respective period, there were 155 outstanding hub service contracts for which revenue was being recognized ratably. Market conditions contributed to higher fees for hub service agreements recognized as revenue during the three months ended March 31, 2010 compared to the same period in 2009. In addition, lease revenue increased $1.5 million in the three months ended March 31, 2010, as storage capacity increased from the commissioning of the Kirby Hills Phase II expansion project, which was placed in service in June 2009, partially offset by a decrease in the fee charged for each volumetric unit of storage capacity leased.

Total costs and expenses from the Natural Gas Storage segment were $22.0 million for the three months ended March 31, 2010, which is an increase of $13.2 million, or 146.3%, from the corresponding period in 2009. The primary driver of the increase in expenses is an increase in hub services fees paid to customers for hub service activities. As stated above, hub service fees are based on the relative market prices of natural gas over different delivery periods; when that market price spread is negative, a fee is paid to the customer, which is reflected as cost of natural gas storage services ratably as those services are provided. Total costs and expenses also include an increase of $0.1 million in depreciation and amortization and an increase of $0.1 million in non-cash unit-based compensation expense.

Operating income from the Natural Gas Storage segment was $3.5 million for the three months ended March 31, 2010 compared to operating income of $6.2 million for the three months ended March 31, 2009. The decrease in operating income was primarily the result of a $3.9 million decrease in the net contribution from hub service activities during the three months ended March 31, 2010, partially offset by increased lease revenues of $1.5 million. The increase in lease revenues was the result of increased storage capacity from the commissioning of the Kirby Hills Phase II expansion project, which was placed in service in June 2009, partially offset by a decrease in the fee charged for each volumetric unit of storage capacity leased. Depreciation and amortization increased by $0.1 million in the 2010 period from the corresponding period in 2009 due to depreciation expense on the assets utilized with respect to the Kirby Hills Phase II expansion project, which were placed in service in the second half of 2009. Other revenue and expense items impacting operating income are discussed above.

Energy Services

Revenue from the Energy Services segment was $568.2 million in the three months ended March 31, 2010, which is an increase of $299.7 million, or 111.6%, from the corresponding period in 2009. This increase was primarily due to an increase in refined petroleum product prices, which correspondingly increases the cost of products sales, as discussed below, and an increase of 30.1% in sales volumes.

Total costs and expenses from the Energy Services segment were $571.6 million for the three months ended March 31, 2010, which is an increase of $309.3 million, or 117.9%, from the corresponding period in 2009. The increase in total costs and expenses was primarily due to an increase of $309.9 million in cost of product sales as a result of increased volumes and an increase in refined petroleum product prices. The increase in expenses was a result of the withdrawal of product from inventory as the market conditions changed and commodity prices were no longer in contango. The increase in product supply from inventory liquidation, coupled with lower overall product demand, created additional pressure on margins, partially offset by the increase in sales volumes discussed above. Total costs and expenses also include an increase of $0.5 million in bad debt expense, an increase of $0.2 million in depreciation and amortization and an increase of $0.2 million in non-cash unit-based compensation expense.

Operating loss from the Energy Services segment was $3.4 million for the three months ended March 31, 2010 compared to operating income of $6.2 million for the three months ended March 31, 2009. Depreciation and amortization increased by $0.2 million for the 2010 period from the corresponding period in 2009 due to amortization of certain internal-use software that was placed in service in the fourth quarter of 2009. Other revenue and expense items impacting operating income (loss) are discussed above.

Development & Logistics

Revenue from the Development & Logistics segment, which consists principally of our contract operations and engineering services for third-party pipelines, was $7.5 million in the three months ended March 31, 2010, which is a decrease of $1.6 million, or 17.6%, from the corresponding period in 2009. The decrease was primarily due to the completion and non-replacement of construction projects in 2009, resulting in a $1.5 million reduction in certain construction contract revenues. The decrease was also partially the result of a $0.2 million reduction in operating services primarily related to the non-renewal of an operating lease contract that expired in 2009.

Total costs and expenses from the Development & Logistics segment were $6.6 million for the three months ended March 31, 2010, which is a decrease of $1.1 million, or 15.2%, from the corresponding period in 2009. The decrease was the result of the reduced construction contract activity and reduced operating services activities discussed above.

Operating income from the Development & Logistics segment was $0.9 million for the three months ended March 31, 2010 compared to operating income of $1.4 million for the three months ended March 31, 2009. Depreciation and amortization of $0.4 million for the three months ended March 31, 2010 was consistent with the corresponding period in 2009, and income taxes decreased by $0.1 million for the three months ended March 31, 2010 due to lower earnings. Other revenue and expense items impacting operating income are discussed above.

Liquidity and Capital Resources

BGH

We currently have no capital requirements apart from Buckeye s capital requirements. Buckeye s capital requirements consist of maintenance and capital expenditures, expenditures for acquisitions and debt service requirements.

Our only cash-generating asset is our ownership interest in Buckeye GP. Our cash flow is, therefore, directly dependent upon the ability of Buckeye and its operating subsidiaries to make cash distributions to Buckeye s partners. The actual amount of cash that Buckeye will have available for distribution depends primarily on Buckeye s ability to generate cash beyond its working capital requirements.

Our principal uses of cash are the payment of our operating expenses and distributions to our unitholders. We generally make quarterly cash distributions of substantially all of our available cash, generally defined as consolidated cash receipts less consolidated cash expenditures and such retentions for working capital, anticipated cash expenditures and contingencies as MainLine Management deems appropriate. In the first quarter of 2010, we paid cash distributions of $0.41 per Common Unit on February 26, 2010. In the first quarter of 2009, we paid cash distributions of $0.33 per Common Unit on February 28, 2009. Total cash distributed to our unitholders for the three months ended March 31, 2010 and 2009 was approximately $11.6 million and $9.3 million, respectively.

At March 31, 2010 and December 31, 2009, we had no amounts outstanding under our unsecured revolving credit facility (the BGH Credit Agreement). See Note 10 in the Notes to Unaudited Condensed Consolidated Financial Statements for a description of the terms of the BGH Credit Agreement.

Services Company

At March 31, 2010 and December 31, 2009, Services Company had total debt outstanding of $6.1 million and $7.7 million, respectively, consisting of 3.60% Senior Secured Notes (the 3.60% ESOP Notes) due March 28, 2011 payable by the ESOP to a third-party lender. The 3.60% ESOP Notes were issued on May 4, 2004. The 3.60% ESOP Notes are collateralized by Services Company s common stock and are guaranteed by Services Company. In addition, Buckeye has committed that, in the event that the value of Buckeye s LP Units owned by Services Company falls below 125% of the balance payable under the 3.60% ESOP Notes, Buckeye will fund an escrow account with sufficient assets to bring the value of the total collateral (the value of Buckeye s LP Units owned by Services Company and the escrow account) up to the 125% minimum. Amounts deposited in the escrow account are returned to Buckeye when the value of Buckeye s LP Units owned by Services Company returns to an amount that exceeds the 125% minimum. At March 31, 2010, the value of Buckeye s LP Units owned by Services Company exceeded the 125% requirement.

Buckeye

Buckeye s primary cash requirements, in addition to normal operating expenses and debt service, are for working capital, capital expenditures, business acquisitions and distributions to its partners. Buckeye s principal sources of liquidity are cash from operations, borrowings under its unsecured revolving credit agreement (the Credit Facility) and proceeds from the issuance of its LP Units. Buckeye will, from time to time, issue debt securities to permanently finance amounts borrowed under its Credit Facility. Buckeye Energy Services LLC (BES) funds its working capital needs principally from its operations and a secured credit facility (the BES Credit Agreement). Buckeye s financial policy has been to fund sustaining capital expenditures with cash from operations. Expansion and cost improvement capital expenditures, along with acquisitions, have typically been funded from external sources including Buckeye s Credit Facility as well as debt and equity offerings. Buckeye s goal has been to fund at least half of these expenditures with proceeds from equity offerings in order to maintain its investment-grade credit rating.

As a result of Buckeye s actions to minimize external financing requirements and the fact that no debt facilities mature prior to 2011, Buckeye believes that availabilities under its credit facilities, coupled with ongoing cash flows from operations, will be sufficient to fund its operations for the remainder of 2010. Buckeye will continue to evaluate a variety of financing sources, including the debt and equity markets described above, throughout 2010. However, continuing volatility in the debt and equity markets will make the timing and cost of any such potential financing uncertain.

At March 31, 2010, Buckeye had $16.5 million of cash and cash equivalents on hand and approximately $413.0 million of available credit under its Credit Facility, after application of the facility s funded debt ratio covenant. In addition, at March 31, 2010, BES had $40.5 million of available credit under the BES Credit Agreement, pursuant to certain borrowing base calculations under that agreement.

At March 31, 2010, Buckeye had an aggregate face amount of $1,628.5 million of debt, which consisted of the following:

- $300.0 million of 4.625% Notes due 2013 (the 4.625% Notes);
- $275.0 million of 5.300% Notes due 2014 (the 5.300% Notes);
- $125.0 million of 5.125% Notes due 2017 (the 5.125% Notes);
- $300.0 million of 6.050% Notes due 2018 (the 6.050% Notes);
- $275.0 million of 5.500% Notes due 2019 (the 5.500% Notes);

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$150.0 million of 6.750% Notes due 2033 (the 6.750% Notes);

$20.0 million outstanding under its Credit Facility; and

$183.5 million outstanding under the BES Credit Agreement.

See Note 10 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information about the terms of the debt discussed above.

The fair values of Buckeye s aggregate debt and credit facilities were estimated to be $1,677.4 million and $1,762.1 million at March 31, 2010 and December 31, 2009, respectively. The fair values of the fixed-rate debt were estimated by observing market trading prices and by comparing the historic market prices of its publicly-issued debt with the market prices of other MLPs publicly-issued debt with similar credit ratings and terms. The fair values of Buckeye s variable-rate debt are their carrying amounts, as the carrying amount reasonably approximates fair value due to the variability of the interest rates.

Registration Statement

Buckeye may issue equity or debt securities to assist it in meeting its liquidity and capital spending requirements. Buckeye has a universal shelf registration statement on file with the U.S. Securities and Exchange Commission (SEC) that would allow it to issue an unlimited amount of debt and equity securities for general partnership purposes.

Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated (in thousands):

	Three Months Ended March 31, 2010	2009
Cash provided by (used in):		
Operating activities	$ 144,048	$ 78,773
Investing activities	11,211	(21,018)
Financing activities	(172,679)	(98,089)

Operating Activities

Net cash flow provided by operating activities was $144.0 million for the three months ended March 31, 2010 compared to $78.8 million for the three months ended March 31, 2009. The following were the principal factors resulting in the $65.2 million increase in net cash flows provided by operating activities:

The net change in fair values of derivatives was a decrease of $19.2 million to cash flows from operating activities for the three months ended March 31, 2010, resulting from the increase in value related to fixed-price sales contracts compared to a lower level of opposite fluctuations in futures contracts purchased to hedge such fluctuations.

The net impact of working capital changes was an increase of $90.4 million to cash flows from operating activities for the three months ended March 31, 2010. The principal factors affecting the working capital changes were:

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Inventories decreased by $73.7 million due to a decrease in volume of hedged inventory stored by the Energy Services segment. From time to time, the Energy Services segment stores hedged inventory to attempt to capture value when market conditions are economically favorable.

Trade receivables increased by $10.4 million primarily due to increased activity from our Energy Services segment due to higher volumes and higher commodity prices in the 2010 period.

Prepaid and other current assets decreased by $26.2 million primarily due to a decrease in margin deposits on futures contracts in our Energy Services segment as a result of increased commodity prices during the first quarter of 2010 (increased commodity prices result in an increase in our broker equity account and therefore less margin deposit is required), a decrease in unbilled revenue within our Natural Gas Storage segment reflecting billings to counterparties in accordance with terms of their storage agreements and a decrease in prepaid insurance due to continued amortization of the balance over the policy period.

Accrued and other current liabilities increased by $1.3 million primarily due to increases in unearned revenue primarily in the Natural Gas Storage segment as a result of increased hub services contracts during the first quarter of 2010 for which the customer is billed up front for services provided over the entire term of the contract, an increase in accrued property taxes for the Natural Gas Storage segment as a result of the Kirby Hills II expansion project and an increase in accrued excise taxes for the Energy Services segment due to higher revenues, largely offset by a reduction in accrued interest resulting from interest payments made during the three months ended March 31, 2010 and a reduction in the reorganization accrual.

Accounts payable decreased by $3.1 million primarily due to lower payable balances at March 31, 2010 as a result of lower outside services and project work performed in the first quarter of 2010.

Construction and pipeline relocation receivables decreased by $2.7 million primarily due to a decrease in construction activity in the 2010 period.

Investing Activities

Net cash flow provided by investing activities was $11.2 million for the three months ended March 31, 2010 compared to net cash flow used in investing activities of $21.0 million for the three months ended March 31, 2009. The following were the principal factors resulting in the $32.2 million increase in net cash flows provided by investing activities:

Capital expenditures decreased by $10.0 million for the three months ended March 31, 2010 compared with the three months ended March 31, 2009. See below for a discussion of capital spending.

Cash proceeds from the sale of the Buckeye NGL Pipeline were $22.0 million during the three months ended March 31, 2010.

Capital expenditures are summarized below (net of non-cash changes in accruals for capital expenditures for the three months ended March 31, 2010 and 2009) for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2010	**2009**
Sustaining capital expenditures	$ 3,270	$ 4,883
Expansion and cost reduction	7,693	16,093
Total capital expenditures	$ 10,963	$ 20,976

Expansion and cost reduction projects in the first quarter of 2010 included terminal ethanol and butane blending, new pipeline connections, natural gas well recompletions, continued progress on a new pipeline and terminal billing system as well as various other operating infrastructure projects. In the first quarter of 2009, expansion and cost reduction projects included the Kirby Hills Phase II expansion project, terminal ethanol and butane blending, the construction of three additional tanks with capacity of 0.4 million barrels in Linden, New Jersey and various other pipeline and terminal operating infrastructure projects.

We expect to spend approximately $90.0 million to $110.0 million for capital expenditures in 2010, of which approximately $25.0 million to $35.0 million is expected to relate to sustaining capital expenditures and $65.0 million to $75.0 million is expected to relate to expansion and cost reduction projects. Sustaining capital expenditures include renewals and replacement of pipeline sections, tank floors and tank roofs and upgrades to station and terminalling equipment, field instrumentation and cathodic protection systems. Major expansion and cost reduction expenditures in 2010 will include the completion of additional product storage tanks in the Midwest, the construction of a 4.4 mile pipeline in central Connecticut to connect our pipeline in Connecticut to a third-party electric generation plant currently under construction, various terminal expansions and upgrades and pipeline and terminal automation projects.

Financing Activities

Net cash flow used in financing activities was $172.7 million for the three months ended March 31, 2010 compared to $98.1 million for the three months ended March 31, 2009. The following were the principal factors resulting in the $74.6 million increase in net cash flows used in financing activities:

- Buckeye borrowed $59.5 million and $30.0 million and repaid $117.5 million and $120.3 million under its Credit Facility during the three months ended March 31, 2010 and 2009, respectively.

- Net repayments under the BES Credit Agreement were $56.3 million and $46.0 million during the three months ended March 31, 2010 and 2009, respectively.

- We received $2.4 million in net proceeds from the exercise of Buckeye s LP Unit options during the first quarter of 2010. We received $91.0 million in net proceeds from an underwritten equity offering in March 2009 for Buckeye s public issuance of 2.6 million LP Units.

- Cash distributions paid to our partners increased by $2.3 million period-to-period due to an increase in the number of Common Units outstanding and an increase in our quarterly cash distribution rate per Common Unit. We paid cash distributions of $11.6 million ($0.41 per Common Unit) and $9.3 million ($0.33 per Common Unit) during the three months ended March 31, 2010 and 2009, respectively.

Derivatives

See Item 3. Quantitative and Qualitative Disclosures About Market Risk Market Risk Non Trading Instruments for a discussion of commodity derivatives used by our Energy Services segment.

Other Considerations

Contractual Obligations

With the exception of routine fluctuations in the balance of Buckeye s Credit Facility and the BES Credit Agreement, there have been no material changes in our scheduled maturities of or debt obligations since those reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

Total rental expense for the three months ended March 31, 2010 and 2009 was $5.0 million and $5.3 million, respectively. There have been no material changes in our operating lease commitments since December 31, 2009.

Off-Balance Sheet Arrangements

There have been no material changes with regard to our off-balance sheet arrangements since those reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

Related Party Transactions

With respect to related party transactions, see Note 15 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements

See Note 1 in the Notes to Unaudited Condensed Consolidated Financial Statements for a description of certain new accounting pronouncements that will or may affect our consolidated financial statements.

PART II. OTHER INFORMATION

Item 6. *Exhibits*

(a) Exhibits

10.1	Buckeye Partners, L.P. Annual Incentive Compensation Plan, as amended and restated, effective as of January 1, 2010 (Incorporated by reference to Exhibit 10.13 of Buckeye Partners, L.P. s Annual Report on Form 10-K for the year ended December 31, 2009).
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) under the Securities Exchange Act of 1934.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
**32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
**32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

* Filed herewith.

** Previously filed.

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SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	By: BUCKEYE GP HOLDINGS L.P. (Registrant)
	By: MainLine Management LLC, as General Partner
Date: August 26, 2010	By: /s/ Keith E. St.Clair Keith E. St.Clair Senior Vice President and Chief Financial Officer *(Principal Accounting Officer and Principal Financial Officer)*

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