INERGY L P
Form 424B3
September 07, 2010
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Filed pursuant to Rule 424(b)(3)
Registration No. 333-158066

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying base prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying base prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated September 7, 2010

PROSPECTUS SUPPLEMENT

(To Prospectus Dated September 10, 2009)

8,500,000 Common Units

Representing Limited Partner Interests

We are selling 8,500,000 common units representing limited partner interests in Inergy, L.P. Our common units trade on the New York Stock Exchange under the symbol NRGY. The last reported sales price of our common units on the New York Stock Exchange on September 3, 2010 was $37.91 per common unit.

Investing in our common units involves risks. Please read Risk Factors beginning on page S-14 of this prospectus supplement and on page 5 of the accompanying prospectus.

	Per Common Unit	Total
Price to the public	$	$
Underwriting discounts and commissions	$	$
Proceeds to Inergy, L.P. (before expenses)	$	$

We have granted the underwriters a 30-day option to purchase up to an additional 1,275,000 common units from us on the same terms and conditions as set forth above if the underwriters sell more than 8,500,000 common units in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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

Joint Book-Running Managers

Barclays Capital

Citi

J.P. Morgan

Morgan Stanley

Wells Fargo Securities

Senior Co-Managers

BofA Merrill Lynch **Credit Suisse** **Raymond James** **UBS Investment Bank**

Junior Co-Managers

Morgan Keegan & Company, Inc. **Stifel Nicolaus Weisel** **Wunderlich Securities**

Prospectus Supplement dated September , 2010

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This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering of common units. The second part is the accompanying base prospectus, some of which may not apply to this common unit offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. If the information about the offering varies between this prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Please read Incorporation of Documents by Reference on page S-36 of this prospectus supplement.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying base prospectus and any free writing prospectus prepared by or on behalf of us relating to this offering of common units. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are offering to sell the common units, and seeking offers to buy the common units, only in jurisdictions where offers and sales are permitted. You should not assume that the information contained in this prospectus supplement, the accompanying base prospectus or any free writing prospectus is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference herein is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

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Prospectus Supplement

Prospectus

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated herein by reference and the other documents to which we refer for a more complete understanding of this offering of common units. Please read the sections entitled Risk Factors on page S-14 of this prospectus supplement and page 5 of the accompanying prospectus for more information about important factors that you should consider before buying our common units in this offering. Unless we indicate otherwise, the information we present in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional common units. Throughout this prospectus supplement, when we use the terms we, us, our, or Inergy, L.P., we are referring to Inergy, L.P. or to Inergy, L.P. and its subsidiaries collectively as the context requires.

Inergy, L.P.

Overview

We are a publicly traded Delaware limited partnership that owns and operates a geographically diverse retail and wholesale propane supply, marketing and distribution business. In addition to our propane operations, we also own and operate a growing midstream business that includes three natural gas storage facilities (Stagecoach, Thomas Corners and Steuben), a liquefied petroleum gas (LPG) storage facility located near Bath, New York, a natural gas liquids (NGL) business located near Bakersfield, California and a solution-mining and salt production company (US Salt).

We believe we are the fourth largest propane retailer in the United States based on retail propane gallons sold. Our propane business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products under various regional brand names. As of September 1, 2010, we serve approximately 800,000 retail customers in 32 states from approximately 350 customer service centers, which have an aggregate of approximately 36.3 million gallons of above-ground propane storage. For the fiscal year ended September 30, 2009, we sold and physically delivered approximately 310.0 million gallons of propane to our retail customers and approximately 380.6 million gallons of propane to our wholesale customers.

We have primarily grown through acquisitions of retail propane operations, midstream operations and, to a lesser extent, through organic expansion projects. Since our predecessor s inception in November 1996 through September 3, 2010, we have acquired 86 businesses, including three natural gas storage facilities, an LPG salt cavern storage facility, a primarily fee-based natural gas processing and liquids business and a solution-mining and salt production company.

On January 11, 2010, Inergy Midstream, LLC executed a definitive agreement to purchase the Seneca Lake natural gas storage facility (Seneca Lake) located in Schuyler County, New York, and two related pipelines, which we refer to as the Seneca Lake Acquisition. Seneca Lake is an approximate 2.0 Bcf underground salt cavern storage facility located on our US Salt property outside Watkins Glen, New York, and has a maximum withdrawal capability of 145 MMcf/day and maximum injection capability of 72.5 MMcf/day. Seneca Lake is connected to the Dominion Transmission System via the 16-inch, 20-mile Seneca West Pipeline and indirectly to the city gate of Binghamton, New York, via the 12-inch, 37.5-mile Seneca East Pipeline, which runs within approximately four miles of our Stagecoach North Lateral interconnect with the Millennium Pipeline. This transaction is subject to customary closing conditions and regulatory approvals and is expected to close in September 2010.

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On September 3, 2010, our wholly owned subsidiary, Inergy Midstream, LLC, entered into a Purchase and Sale Agreement with TP Gas Holding LLC whereby Inergy Midstream, LLC will acquire all of the equity interests in Tres Palacios Gas Storage LLC (Tres Palacios) for $725 million in cash plus reimbursement of certain capital expenditures, subject to customary net working capital adjustments, which we refer to as the Tres Palacios Acquisition. Tres Palacios is the owner and operator of a salt dome gas storage facility located in Matagorda County, Texas, and related pipeline assets. The acquisition is subject to antitrust clearance and customary closing conditions. For more information on the Tres Palacios Acquisition, please read Recent Developments Tres Palacios Acquisition and Concurrent Financings.

Our business is currently comprised of two reportable segments consisting of our propane and midstream operations.

***Propane Operations*.** We market propane primarily in rural areas, but also have a significant number of customers in suburban areas where energy alternatives to propane such as natural gas are generally not available. We make customer deliveries to residential, industrial and commercial and agricultural customers. From our customer service centers, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances. Approximately 90% of our retail propane customers lease their tanks from us.

In addition to our retail propane business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other NGL marketing and distribution companies in 40 states, primarily in the Midwest, Northeast and South.

***Midstream Operations*.** We own and operate a midstream business, which includes the following assets:

Stagecoach Facility, a high performance, multi-cycle natural gas storage facility located approximately 150 miles northwest of New York City, with approximately 26.25 Bcf of working gas capacity, a maximum withdrawal capability of 500 MMcf/d and a maximum injection capability of 250 MMcf/d. The Stagecoach Facility, which is regulated by the Federal Energy Regulatory Commission (FERC), is fee-based with a market-based rate structure and is currently 100% committed primarily with investment-grade rated companies under term contracts that have a weighted average maturity extending to 2014. The Stagecoach Facility is one of the closest natural gas storage facilities to the northeastern United States market and is a significant participant in the northeast United States natural gas distribution system. We also own a 24-mile pipeline that connects the Stagecoach Facility to Tennessee Gas Pipeline Company s 300-Line. In addition, we own a 10-mile pipeline that connects the Stagecoach Facility to the Millennium Pipeline. The pipeline interconnect to the Millennium Pipeline enhances and further diversifies our supply sources and provide interruptible wheeling opportunities to our shipper community.

Steuben Gas Storage Company, which owns a FERC-regulated 6.2 Bcf natural gas storage facility in Steuben County, New York. The storage capacity at Steuben is fully contracted with investment-grade rated customers. Steuben Gas Storage is connected to Dominion Gas Transmission s Woodhull Pipeline.

Thomas Corners, a 7 Bcf (working) natural gas storage facility located in Steuben County, New York, which was placed into service in November 2009. The storage capacity at Thomas Corners is fully contracted under long-term agreements with primarily investment-grade rated customers. This facility has maximum withdrawal and injection capabilities of 140 MMcf/day and 70 MMcf/day, respectively. Thomas Corners is connected with the Tennessee Gas Pipeline Company s Line 400 and Columbia Gas Transmission s A-5 line (which was acquired by Millennium Pipeline Company and as such, the Thomas Corners facility is also connected with the Millennium Pipeline).

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An NGL business in Bakersfield, California, acquired in 2003, which includes a 25 MMcf/d natural gas processing plant, a 12,000 bpd NGL fractionation plant, an 8,000 bpd butane isomerization plant, NGL rail and truck terminals, a 24 million gallon NGL storage facility and NGL transportation/marketing operations.

Finger Lakes LPG Storage Facility, a 1.7 million barrel salt cavern LPG storage facility, acquired in October 2006, located near Bath, New York, approximately 210 miles northwest of New York City and 60 miles from the Stagecoach Facility. The Finger Lakes LPG Storage Facility is supported by both rail and truck terminal facilities capable of loading and unloading 20-23 rail cars per day and 17 truck transports per day.

US Salt, an industry-leading solution mining and salt production company located in Schuyler County, New York, between our Stagecoach and Steuben natural gas storage facilities. US Salt produces and sells over 300,000 tons of salt each year. The solution mining process used by US Salt creates salt caverns that can be developed into usable natural gas or LPG storage capacity.

Recent Developments

Tres Palacios Acquisition and Concurrent Financings

On September 3, 2010, our wholly owned subsidiary, Inergy Midstream, LLC, entered into a Purchase and Sale Agreement with TP Gas Holding LLC whereby Inergy Midstream, LLC will acquire all of the equity interests in Tres Palacios Gas Storage LLC for $725 million in cash plus reimbursement of certain capital expenditures, subject to customary net working capital adjustments.

Located in Matagorda County, Texas, Tres Palacios is a high deliverability, salt dome natural gas storage facility with approximately 38.4 Bcf of working gas capacity, consisting of approximately 27.1 Bcf of current working gas capacity (Caverns 1 and 2) and approximately 11.4 Bcf of incremental working gas capacity scheduled to be placed in service in the fourth calendar quarter of 2010 (Cavern 3). The facility is expandable by an additional approximately 9.5 Bcf of working gas capacity which Inergy expects to place in service by or before 2014 (Cavern 4). Located approximately 100 miles southwest of Houston, Tres Palacios is currently connected to ten intrastate and interstate pipelines via a 40 mile, 24 dual-pipe, looped header system offering connectivity to multiple demand markets including the Houston and San Antonio metropolitan areas and the broader Texas markets as well as markets in the Northeast, Midwest, Southeast, and Mid-Atlantic United States, and Mexico. Tres Palacios offers customers greater than six-turn gas storage capability with maximum withdrawal capacity of 2.5 Bcf/day and maximum injection capacity of 1 Bcf/day.

Tres Palacios revenues are primarily derived from fees for the provision of firm storage services for which it is permitted to charge market-based rates under its tariff with the Federal Energy Regulatory Commission, or FERC. The remainder of Tres Palacios revenue is generated by hub services, such as park and loan services and wheeling services. In a park and loan transaction, Tres Palacios charges its customer a fee to store gas with pre-determined injection and withdrawal dates (park) or to borrow gas with pre-determined withdrawal and injection dates (loan). In a wheeling transaction, Tres Palacios charges a fee to move a customer s gas from one pipeline to another across its header system. In its hub services operations, Tres Palacios does not take title to the natural gas or engage in trading of natural gas.

We believe Tres Palacios has the following competitive advantages:

Strategic Location Tres Palacios is strategically located with access to the high-growth Northeast, Midwest, Southeast and Mexico markets through 10 interstate and intrastate pipeline connections. The storage facility is also well-positioned from a supply standpoint accessing both conventional and unconventional producing fields, including the Barnett Shale and Eagle Ford Shale in Texas.

Furthermore, Tres Palacios provides its customers with critical services in balancing the intermittent loads associated with gas-fired power generation.

Growth Opportunities There are significant growth opportunities resulting from Tres Palacios exclusive rights to development on the Markham salt dome.

Fee-based cash flow profile Approximately 90% of Tres Palacios revenues are derived from fee-based contracts.

Strong, Diverse Customer Base Tres Palacios contracts its storage services with a diverse customer base including producers, local distribution companies, marketers and independent power producers. Tres Palacios volume-weighted average firm storage service contract tenor is approximately 2.7 years and is predominantly contracted with investment-grade rated counterparties.

The acquisition is subject to antitrust clearance and customary closing conditions. There can be no assurance that all of the conditions to closing in the Purchase and Sale Agreement will be met.

The obligation of Inergy Midstream, LLC to consummate the Tres Palacios Acquisition is not conditioned on the receipt of financing. In connection with the proposed transaction, on September 3, 2010, we obtained a commitment letter (the Bridge Commitment) with WF Investment Holdings, LLC, Wells Fargo Securities, LLC, Barclays Capital Inc., JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC for a senior unsecured bridge facility of up to $700 million (the Bridge Facility), which will expire upon the earlier of November 26, 2010 or the consummation or termination of the Purchase and Sale Agreement. Additionally, on September 3, 2010, we obtained a commitment letter with Wells Fargo Bank, National Association and Well Fargo Securities, LLC (collectively, Wells Fargo) in which Wells Fargo agreed to provide an additional commitment under our revolving general partnership credit facility to purchase commitments from our existing lenders in an amount sufficient to ensure that we have the required lender vote to approve certain amendments to our revolving general partnership credit facility necessary for the Tres Palacios Acquisition and the Bridge Facility (the Backstop Commitment).

In the event that we complete this offering prior to the consummation of the Tres Palacios Acquisition, the commitment under our bridge facility will be concurrently and permanently reduced on a dollar-for-dollar basis in an amount equal to the net proceeds from the offering.

We intend to finance the Tres Palacios Acquisition and related fees and expenses, as well as any funds required to satisfy working capital adjustments associated with the Tres Palacios Acquisition, with the proceeds of this offering, through borrowings under our revolving general partnership facility and the Bridge Facility. We may access the capital markets to repay amounts borrowed under our revolving general partnership facility or the Bridge Facility.

As discussed below in greater detail in Agreement and Plan of Merger, we and Inergy Holdings, L.P. (Holdings) have entered into a merger agreement as part of a plan to simplify our capital structures. Although we fully expect to consummate the transactions contemplated by the merger agreement in the fourth calendar quarter of 2010, the merger agreement is subject to closing conditions and termination rights. Accordingly, there can be no assurance that such transactions will be consummated. In the event the transactions contemplated by the merger agreement do not close for any reason, in order to enhance our distribution coverage ratio in connection with the Tres Palacios Acquisition, Holdings has agreed to a permanent $7.5 million annual reduction (ratable over each quarterly distribution payment) in the amount of distributions we pay with respect to the incentive distribution rights to Holdings (the IDR Reduction). The IDR Reduction would only become effective beginning with the payment of the first quarterly distribution following the termination of the merger agreement.

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You should carefully review the audited financial statements for Tres Palacios and the pro forma condensed combined financial information included in our Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, on September 7, 2010, which is incorporated by reference into this prospectus supplement.

The closing of this common unit offering is not contingent upon the closing of the Tres Palacios Acquisition. Accordingly, if you decide to purchase common units from us, you should be willing to do so whether or not we complete the Tres Palacios Acquisition.

Agreement and Plan of Merger

On August 9, 2010, we entered into an agreement and plan of merger, which was amended and restated on September 3, 2010 (the merger agreement), as part of a plan to simplify our capital structure. Through a number of steps, Holdings will merge into a wholly owned subsidiary of its general partner and the outstanding common units in Holdings will be cancelled. In connection with the merger, our incentive distribution rights, all of which are held by Holdings, will be cancelled, and we will acquire the approximate 0.7% economic general partner interest in us (0.6% economic general partner interest in us after giving effect to this offering) that is held by our non-managing general partner.

Upon completion of the merger, the holders of Holdings common units (the Holdings unitholders) will receive 0.77 Inergy common units for each Holdings common unit that they own (the exchange ratio). The exchange ratio takes into account 1,080,453 Inergy common units that are owned by Holdings that will be distributed to the Holdings unitholders as part of the merger consideration. The exchange ratio is fixed and will not be adjusted to reflect changes in the prices of Inergy common units or Holdings common units prior to the closing of the merger. Holders of Inergy common units will continue to own their existing Inergy common units. Inergy will issue approximately 35.1 million new common units in the merger. Inergy will also issue 11,568,560 Class B Units to certain members of senior management and directors of Holdings general partner and other beneficial owners of Holdings common units in lieu of issuing them an equivalent number of common units. The Class B Units will not receive cash distributions but instead will receive distributions of additional Class B Units. The Class B units will convert automatically into Inergy common units on a one-for-one basis in two tranches over a two-year period.

In the merger, we have also agreed to assume the outstanding indebtedness under Holdings credit agreements, which at September 3, 2010 was approximately $26.0 million.

The boards of directors of Inergy and Holdings believe that the merger will provide the following benefits, among others, to their unitholders:

- reducing Inergy s cost of equity capital as a result of the elimination of the incentive distribution rights, which will enhance Inergy s ability to compete for future acquisitions and finance organic growth projects;
- attracting a broader investor base to a single, larger entity with increased public float and greater liquidity;
- preserving Inergy s balance sheet flexibility and liquidity position through an equity exchange transaction; and
- increasing investor transparency by simplifying the ownership structure and governance structure.

Based on the estimated number of Inergy common units that will be outstanding immediately prior to the closing of the merger, we estimate that, following consummation of the merger and giving effect to this offering, Inergy will be owned approximately 59.4% by current Inergy unitholders and approximately 40.6% by former

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Holdings unitholders. Holdings common units will cease to be publicly traded upon consummation of the merger. Inergy common units will continue to be traded on the NYSE under the symbol NRGY following consummation of the merger.

We expect that the transaction will close in the fourth quarter of 2010. The merger agreement is subject to customary closing conditions, including, among other things, approval by the affirmative vote of the holders of a majority of Holdings common units, and therefore there can be no assurance that the merger transaction will be completed. Subject to certain conditions, the holders of a majority of the Holdings common units have agreed to vote in favor of the approval and adoption of the merger agreement. For a description of certain risks related to the merger transaction, please read Risk Factors beginning on page S-14.

After the merger, Holdings will continue to own 100% of Inergy GP and have the right to appoint the members of the board of directors of Inergy GP. For additional details about the merger agreement, please see our Current Reports on Form 8-K as filed with the SEC on August 9, 2010 and September 7, 2010.

Repayment of ASC Agreement

We acquired a controlling interest in Steuben when we acquired 100% of the membership interests of Arlington Storage Company, LLC in October 2007. Steuben had a debt agreement in place at the time of our acquisition. In July 2010, we acquired the remaining minority interests in Steuben and in July 2010, we repaid all remaining amounts outstanding under this debt agreement.

Business Strategy

Our primary objective is to increase distributable cash flow for our unitholders, while maintaining the highest level of commitment and service to our customers. We have engaged and will continue to engage in objectives of further growth through acquisitions both in our propane and midstream operations, internally generated expansion, and measures aimed at increasing the profitability of existing operations.

Consistent with our acquisition strategy, we are currently and continuously engaged in discussions with potential sellers regarding the possible purchase of retail propane, natural gas storage or other midstream assets, companies or businesses. We cannot predict the likelihood of completing or the timing of any such acquisitions. These acquisition opportunities consist of both smaller acquisitions as well as larger acquisitions that would have a material impact on our capital structure and operating results. Consistent with our financial strategy to date, we generally anticipate financing our acquisition activity through approximately equal portions of equity and debt. In certain cases, acquisitions will initially be financed using debt (including, potentially, secured debt), with proceeds from subsequent equity issuances used to reduce our debt balances to levels consistent with our targeted credit profile.

Competitive and Business Strengths

We intend to pursue our objectives by capitalizing on our competitive and business strengths as follows:

Competitive Strengths

Proven acquisition expertise. Since our predecessor s inception and through September 3, 2010, we have acquired and successfully integrated 86 businesses. Our executive officers and key employees, who together average more than 15 years experience in the propane and midstream energy-related industries, have developed business relationships with retail propane owners and businesses as well as other midstream industry participants throughout the United States. These significant industry contacts have enabled us to negotiate most of our acquisitions on an exclusive basis. We believe that this acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions. Our acquisition program will continue to seek:

- businesses that generate distributable cash flow that is accretive to common unitholders on a per unit basis;
- propane and midstream businesses in attractive market areas;
- propane businesses with established names with reputations for customer service and reliability;
- propane businesses with high concentrations of propane sales to residential customers;
- midstream businesses that generate predictable, stable fee-based cash flow streams;
- midstream businesses with organic growth opportunities or strategic regional enhancement; and
- retention of key employees in acquired businesses.

Management experience. Our senior management team has extensive experience in the propane and midstream energy industry. Our management team has a proven track record of enhancing the value of our partnership, through the acquisition, integration and optimization of the businesses we own and operate.

Flexible financial structure. We have a $450 million revolving general partnership credit facility for acquisitions and a $75 million revolving working capital facility. Our $450 million revolving general partnership credit facility contains an accordion option feature which allows us to expand the facility by an additional $100 million subject to additional commitments. We believe our available capacity under these facilities combined with our ability to fund acquisitions and organic expansion projects through the issuance of additional partnership interests or additional debt will provide us with a flexible financial structure that will facilitate our acquisition and organic expansion effort.

Propane Business Strengths

- *High percentage of retail sales to residential customers*. Our retail propane operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2009, sales to residential customers represented approximately 70% of our retail propane gallons sold. Although overall demand for propane is affected by weather and other factors, we believe that residential propane consumption is not materially affected by general economic conditions because most residential customers consider home space heating to be an essential purchase. In addition, we own nearly 90% of the propane tanks located at our customers homes. In many states, fire safety regulations restrict the refilling of a leased tank solely to the propane supplier that owns the tank. These regulations, which require customers to switch propane tanks when they switch suppliers, help enhance the stability of our customer base because of the inconvenience and costs involved with switching tanks and suppliers.

- *Regionally branded operating structure*. We believe that our success in maintaining customer stability and our low cost operating structure at our customer service centers results from our decentralized operation under established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention. We expect our local branch management to continue to manage the marketing programs, new business development, customer service and customer billing and collections. We believe that our employee incentive programs encourage efficiency and allow us to control costs at the corporate and field levels.

Operations in attractive propane markets. A majority of our propane operations are concentrated in attractive propane market areas, where natural gas distribution is not cost-effective, margins are relatively stable and tank control is relatively high. We intend to pursue acquisitions in similar attractive markets.

Comprehensive propane logistics and distribution business. One of our distinguishing strengths is our propane procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2009, we delivered approximately 380.6 million gallons of propane on a wholesale basis to our various customers. These operations are significantly larger on a relative basis than the wholesale operations of most publicly-traded propane businesses. We also provide transportation services to these distributors through our fleet of transport vehicles, and price risk management services to our customers through a variety of financial and other instruments. The presence of our trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities. Because we sell on a wholesale basis to many residential and commercial retailers, we have an ongoing relationship with a large number of businesses that may be attractive acquisition opportunities for us. We believe that we will have an adequate supply of propane to support our growing retail operations at prices that are generally available only to large wholesale purchasers. This purchasing scale and resulting expertise also helps us avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors.

Midstream Business Strengths

Strategically located assets. Our assets are situated close to or within demand based market areas, which positions us well to leverage the services we offer to our customers relative to our competitors. We own and operate natural gas storage operations approximately 200 miles northwest of New York City. These assets are among the closest natural gas storage facilities to the New York City market and have the capability of delivering gas to this market as well as other Northeast and Mid-Atlantic market centers. We also own and operate US Salt, a salt production company located in Schuyler County, New York, between our Stagecoach and Steuben natural gas storage facilities, which we believe may add additional gas storage capacity to our operations in the Northeast. We also own and operate an NGL operation near Bakersfield, California, strategically situated between the major refining centers of Los Angeles and San Francisco. We believe there are opportunities to further leverage our geographic location, expand our current asset base and to enhance the platform of services we offer to our customers that will further enhance the value and profitability of these assets.

Ability to leverage industry relationships. Our management team has extensive industry relationships and they have been successful in leveraging these relationships with both new and existing customers of our midstream operations into profitable opportunities to further grow our operations.

Stable cash flows. Our midstream operations consist predominantly of fee-based services that generate stable cash flows. Our Stagecoach operations are 100% fee-based with a weighted average contract maturity which extends to 2014. Our Steuben, Thomas Corners and Finger Lakes operations are also 100% fee-based with contracted maturities extending out several years. These contracts are predominantly with investment-grade rated customers such as large east coast utilities and major gas marketing firms. In addition, our West Coast NGL operations include fee-based services and have relatively little exposure to fluctuations in commodity prices. We believe that this further adds to our stable cash flow and enhances our access to the capital markets.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned or controlled by, our subsidiaries. We own our interests in our subsidiaries through our 100% ownership interest in our operating companies, Inergy Propane, LLC and Inergy Midstream, LLC. Inergy GP, LLC, our managing general partner, has sole responsibility for conducting our business and managing our operations. Our managing general partner has no economic interest in our partnership and does not receive a management fee, but it is reimbursed for expenses

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incurred on our behalf. Inergy Partners, LLC, our non-managing general partner, has only an economic interest in us and has no operational or managerial responsibilities under our partnership agreement. Holdings is the sole member of our managing general partner and directly and indirectly owns all of the member interests in our non-managing general partner, and Holdings owns all of our incentive distribution rights and, through subsidiaries, approximately 7.1% of our outstanding common units.

The charts on the following pages depict our abridged organizational and ownership structure (i) after giving effect to this offering, assuming no exercise of the underwriters option to purchase additional common units, and (ii) after giving effect to both this offering, assuming no exercise of the underwriters option to purchase additional common units, and the merger and related transactions described above in Recent Developments Agreement and Plan of Merger.

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Ownership of Inergy, L.P. After the Offering

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Ownership of Inergy, L.P. After the Merger and the Offering

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The Offering

Common units offered by Inergy, L.P.	8,500,000 common units; 9,775,000 common units if the underwriters exercise in full their option to purchase additional common units.
Common units outstanding after this offering	74,389,264 common units if the underwriters do not exercise their option to purchase an additional 1,275,000 common units and 75,664,264 common units if the underwriters exercise in full their option to purchase an additional 1,275,000 common units.
Use of proceeds	We will use the net proceeds from this offering (and the net proceeds from any exercise of the underwriters option to purchase additional common units) to repay borrowings under the revolving general partnership and working capital facilities and to fund a portion of the purchase price of our pending acquisitions. Please read Use of Proceeds.

Affiliates of Barclays Capital Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. Incorporated, Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, UBS Securities LLC and Raymond James & Associates, Inc. are lenders under the revolving general partnership and working capital facilities and will receive a substantial portion of the proceeds from this offering through the repayment of indebtedness under the revolving general partnership and working capital facilities. Please read Underwriting.

Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand at the end of each quarter, less reserves established by our managing general partner in its discretion. We refer to this cash as available cash, and we define its meaning in our partnership agreement.

On August 13, 2010, we paid a quarterly cash distribution for the quarter ended June 30, 2010 of $0.705 per common unit, or $2.82 per common unit on an annualized basis. If cash distributions exceed $0.33 per unit in any quarter, Holdings, the sole member of our managing general partner, will receive increasing percentages, up to 48%, of the cash we distribute in excess of that amount. We refer to Holdings right to receive these higher amounts of cash as incentive distribution rights. Because our quarterly cash distributions currently exceed $0.33 per unit, Holdings is currently receiving its incentive distribution rights. In connection with the merger and related transactions described above in Recent Developments Agreement and Plan of Merger, the incentive distribution rights will be cancelled in exchange for the issuance of additional common units.

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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 the distribution for the fourth calendar quarter of 2013 (the Projection Period), you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed to you with respect to that period. If the merger and related transactions are completed, we expect that the amount of taxable income allocated to you will remain less than 20% of the cash distributed to you for the entire Projection Period; however, the ratio of taxable income to cash distributions with respect to the 2010 tax year may be substantially higher. Please read Tax Consequences in this prospectus supplement for the basis of this estimate.
Exchange listing	Our common units trade on the New York Stock Exchange under the symbol NRGY.

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RISK FACTORS

An investment in our common units involves risk. You should carefully read the following risk factors, together with the risk factors included under the caption Risk Factors beginning on page 5 of the accompanying prospectus, as well as the risk factors included in Item 1A. Risk Factors in our annual report on Form 10-K for the fiscal year ended September 30, 2009 and in Item 8.01 Other Events in our current report on Form 8-K filed on September 7, 2010, together with all of the other information included or incorporated by reference in this prospectus supplement. If any of these risks were to occur, our business, financial condition, results of operations or prospects could be materially adversely affected. In such case, the trading price of our common units could decline, and you could lose all or part of your investment.

The Tres Palacios Acquisition may not be consummated.

The Tres Palacios Acquisition is expected to close in October 2010 and is subject to customary closing conditions and regulatory approvals. If these conditions and regulatory approvals are not satisfied or waived, the acquisition will not be consummated. Certain of the conditions remaining to be satisfied include:

- antitrust clearance;
- the continued accuracy of the representations and warranties contained in the purchase and sale agreement;
- the performance by each party of its obligations under the purchase and sale agreement;
- the absence of any temporary restraining order, preliminary injunction, injunction or other order from any governmental authority to materially delay or otherwise enjoin the transactions contemplated in the purchase agreement; and
- the receipt of legal opinions for each of us and TP Gas Holding LLC.

In addition, TP Gas Holding LLC may terminate the transaction if the acquisition has not closed on or before November 15, 2010. The Bridge Commitment expires upon the earlier of November 26, 2010 or the consummation or termination of the Purchase and Sale Agreement.

The closing of this common unit offering is not contingent upon the consummation of the Tres Palacios Acquisition. Accordingly, if you decide to purchase common units from us, you should be willing to do so whether or not we complete the Tres Palacios Acquisition.

We may not be able to achieve our current expansion plans at the Tres Palacios facility on economically viable terms.

Our current expansion plans include the addition of 11.4 Bcf of incremental working gas capacity scheduled to be placed in service in the fourth calendar quarter of 2010 (Cavern 3), and an additional 9.5 Bcf of working gas capacity expected to be placed in service by or before 2014 (Cavern 4). In connection with these expansion efforts, we may encounter difficulties in the drilling required to access subsurface storage caverns, the drilling of raw water wells or salt water disposal wells and the completion of the wells. These risks include the following:

- unexpected operational events;
- adverse weather conditions;

facility or equipment malfunctions or breakdowns;

unusual or unexpected geological formations;

drill bit or drill pipe difficulties;

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

- unexpected problems associated with filling the caverns with base gas and conducting pressure and mechanical integrity tests;
- unexpected problems associated with leaching the caverns, filtration of extracted water and offsite disposal of water; and
- risks associated with subcontractors services, supplies, cost escalation and personnel.

Specifically, the creation of a salt-cavern storage facility requires sourcing, injecting, withdrawing and disposing of significant volume of water. For example, to create 10 Bcf of working capacity, a salt cavern requires approximately 72 million barrels of raw water supply and an equivalent volume of salt water disposal. Additionally, the rate of access to raw water and the rate of disposal of salt water have a direct impact on the time it takes to create a salt cavern. Any physical or regulatory restriction imposed on our current operations with respect to accessing raw water or disposing of salt water would have an adverse impact on our ability to timely and fully expand the Tres Palacios facility. The occurrence of uninsured or under-insured losses, delays or operating cost overruns associated with these drilling efforts could have a negative impact on our operations and financial results.

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

While we have both the property rights and operational capacity necessary to expand the Tres Palacios facility beyond the currently permitted capacity of 36.04 Bcf, we may not be able to secure the financing or authorizations, including the currently pending application to the FERC requesting authorization to expand Tres Palacios certificated capacity to 38.4 Bcf, necessary to pursue such expansion and the necessary infrastructure modifications that would be needed to accommodate such expansion. Additionally, such expansion will be subject to market demand, the successful execution of any expansion projects and the availability of sufficient third-party interstate and intrastate pipelines receipt and deliverability capacity to accommodate the increased capacity. Any combination of these factors may prevent us from expanding the Tres Palacios facility beyond its current permitted capacity.

Tres Palacios authorizations to charge market-based rates are subject to the continued existence of certain conditions related to the facilities competitive position in its market and, if those conditions change, the right to charge market-based rates could be terminated.

The rates Tres Palacios charges for storage services are regulated by FERC pursuant to its market-based rate policy, which allows regulated entities to charge rates different from, and in some cases, less than, those which would be permitted under traditional cost-of-service regulation. Tres Palacios authorization to charge market-based rates is based on determinations by FERC that Tres Palacios does not have market power in its market. The determination that storage facilities lack market power is subject to review and revision by FERC if there is a change in circumstances that could affect the ability of additional storage or interconnected pipeline facilities to exercise market power. Among the sorts of changes in circumstances that could raise market power concerns would be an expansion of Tres Palacios capacity, acquisitions, or other changes in market dynamics. If the FERC were to conclude that Tres Palacios may have acquired and cannot mitigate market power, its rates could become subject to cost-of-service regulation.

If Tres Palacios rates become subject to cost-of-service regulation, the maximum rates that may be charged for storage services would be established through FERC s ratemaking process, and Tres Palacios would no longer be able to charge a rate demanded by the market. Generally, cost-of-service based rates for interstate natural gas services are based on the cost of providing service including recovery of, and a reasonable return on, the entity s actual prudent historical cost investment for providing jurisdictional service. Key determinants in the ratemaking process are costs of providing service, allowed rate of return, and billing determinants, which are based upon storage volumes and contractual capacity commitment assumptions. Rate design and the allocation of

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costs underlying cost-of-service based rates must also be approved by FERC as part of each rate case. The resolution of these key determinants, particularly the allowed rate of return and billing determinants that would underlie the cost-of-service based rates through the FERC s ratemaking process, could adversely impact Tres Palacios profitability, and have adverse consequences on our cash flow and our ability to make distributions. Additionally, changes in generally applicable FERC ratemaking policies could also affect Tres Palacios.

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

Although we believe that the operating Tres Palacios gas storage facilities have been designed to meet its contractual obligations with respect to wheeling, injection, withdrawal and gas specifications, the facilities are new and have a limited operating history. Cavern 1 (12.7 Bcf) was placed into service in October 2008 and Cavern 2 (14.4 Bcf) was placed into service in July 2009. If we fail to wheel, inject or withdraw natural gas at contracted rates, or cannot deliver natural gas consistent with contractual quality specifications, we could incur significant costs to satisfy our contractual obligations. These costs could have an adverse impact on our business, financial condition, results of operations and ability to make distributions.

Financing the Tres Palacios Acquisition will substantially increase our leverage.

We intend to finance the Tres Palacios Acquisition and related fees and expenses, as well as any funds required to satisfy working capital adjustments associated with the Tres Palacios Acquisition, with borrowings under our revolving general partnership facility and the Bridge Facility as well as with the proceeds of this offering. After completion of the Tres Palacios Acquisition and after taking into account this offering, we expect our total outstanding indebtedness to increase from approximately $1.3 billion as of September 3, 2010 to approximately $1.8 billion. The increase in our indebtedness may reduce our flexibility to respond to changing business and economic conditions or to fund capital expenditures or working capital needs.

Future acquisitions and completion of expansion projects will require significant amounts of debt and equity financing which may not be available to us on acceptable terms, or at all.

We plan to fund our acquisitions and expansion capital expenditures, including any future expansions we may undertake, with proceeds from sales of our debt and equity securities and borrowings under our revolving credit facility; however, we cannot be certain that we will be able to issue our debt and equity securities on terms or in the proportions that we expect, or at all, and we may be unable to refinance our revolving credit facility when it expires. Global financial markets and economic conditions have been, and continue to be, disrupted and volatile, which may make it difficult to obtain funding in the future on satisfactory terms or at all. In addition, we may be unable to obtain adequate funding under our current revolving credit facility because our lending counterparties may be unable to meet their funding obligations.

A significant increase in our indebtedness, or an increase in our indebtedness that is proportionately greater than our issuances of equity, or a deterioration in the condition of the credit or broader financial markets or the economy, could negatively impact our credit ratings or our ability to remain in compliance with the financial covenants under our revolving credit agreement, which could have a material adverse effect on our ability to fund acquisitions or capital expansion projects and on our financial condition, results of operations and cash flows. We are also subject to certain limitations on issuances of equity and incurrence of debt prior to the closing of the transactions contemplated by the merger agreement with Holdings without the prior written consent of the conflicts committee of Holdings. If the cost of capital becomes too expensive, or contractual restrictions prevent us from issuing debt or equity, our ability to develop or acquire strategic and accretive assets will be limited.

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The transactions contemplated by the merger agreement may not be consummated.

The merger agreement contains conditions that, if not satisfied or waived, would result in the merger not occurring. The conditions include:

the continued accuracy of the representations and warranties contained in the merger agreement;

the performance in all material respects by each party of its obligations under the merger agreement;

the absence of any decree, order, injunction or law that prohibits the merger or makes the merger unlawful;

the receipt of legal opinions from counsel for each of us and Holdings as to the treatment of the merger for U.S. federal income tax purposes.

In addition, we and Holdings can agree to terminate the merger agreement at any time without completing the merger, even after unitholder approval has been obtained. Further, we or Holdings could terminate the merger agreement without the other party s agreement and without completing the merger if:

the merger is not completed by December 31, 2010, other than due to a breach of the merger agreement by the terminating party;

the conditions to the merger cannot be satisfied; or

any legal prohibition to completing the merger has become final and non-appealable.

The number of outstanding common units will increase as a result of the merger, which could make it more difficult to pay the current level of quarterly distributions.

As of September 3, 2010, there were approximately 65.9 million common units outstanding. We will issue approximately 35.1 million common units and 11,568,560 Class B units in connection with the merger. Although the Class B Units will not receive cash distributions, they will receive distributions in additional Class B Units and will convert into an equal number of common units in two installments over two years. Accordingly, the dollar amount required to pay the current per unit quarterly distributions will increase, which will increase the likelihood that we will not have sufficient funds to pay the current level of quarterly distributions to our unitholders. Using the amount of $0.705 per common unit paid with respect to the third quarter of fiscal 2010, the aggregate cash distribution paid to our unitholders totaled approximately $64.6 million, including a distribution of $21.4 million to Holdings in respect of its direct and indirect ownership of common units, the approximate 0.7% economic general partner interest in us and the incentive distribution rights. The combined pro forma distribution with respect to the third quarter of fiscal 2010, had the merger and this offering been completed prior to such distribution and assuming the full conversion of all Class B units into common units, would result in an additional $18.2 million per quarter in order to maintain the distribution level of $0.705 per common unit paid with respect to the third quarter of fiscal 2010.

Although the elimination of the incentive distribution rights may increase the cash available for distribution to holders of our common units in the future, this source of funds may not be sufficient to meet the overall increase in cash required to maintain the current level of quarterly distributions to holders of our common units.

While the merger agreement is in effect, we may be limited in our ability to pursue other attractive business opportunities.

We have agreed to refrain from taking certain actions with respe