

Western Gas Partners LP
Form 10-Q
May 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

Or

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

For the transition period from _____ to _____

Commission file number: 001-34046

WESTERN GAS PARTNERS, LP
(Exact name of registrant as specified in its charter)
Delaware 26-1075808
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1201 Lake Robbins Drive 77380
The Woodlands, Texas
(Address of principal executive offices) (Zip Code)

(832) 636-6000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark 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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(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 Exchange Act). Yes No

There were 130,666,567 common units outstanding as of May 2, 2016.

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COMMONLY USED TERMS AND DEFINITIONS

Unless the context otherwise requires, references to “we,” “us,” “our,” the “Partnership” or “Western Gas Partners, LP” refer to Western Gas Partners, LP and its subsidiaries. As used in this Form 10-Q, the terms below have the following meanings:

Affiliates: Subsidiaries of Anadarko, excluding us, but including equity interests in Fort Union, White Cliffs, Rendezvous, the Mont Belvieu JV, TEP, TEG, and FRP.

Anadarko: Anadarko Petroleum Corporation and its subsidiaries, excluding us and our general partner.

Anadarko-Operated Marcellus Interest: Our interest in the Larry’s Creek, Seely and Warrensville gas gathering systems.

Barrel or Bbl: 42 U.S. gallons measured at 60 degrees Fahrenheit.

Btu: British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Chipeta: Chipeta Processing, LLC.

Condensate: A natural gas liquid with a low vapor pressure mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

COP: Continuous offering programs.

Cryogenic: The process in which liquefied gases are used to bring natural gas volumes to very low temperatures (below approximately -238 degrees Fahrenheit) to separate natural gas liquids from natural gas. Through cryogenic processing, more natural gas liquids are extracted than when traditional refrigeration methods are used.

DBJV: Delaware Basin JV Gathering LLC.

DBJV system: DBJV’s 50% interest in a gathering system and related facilities, with such gathering system and related facilities located in the Delaware Basin in Loving, Ward, Winkler and Reeves Counties, Texas.

DBM: Delaware Basin Midstream, LLC.

DBM complex: The cryogenic processing plants, gas gathering system, and related facilities and equipment that serve production from Reeves, Loving and Culberson Counties, Texas and Eddy and Lea Counties, New Mexico.

DJ Basin complex: The Platte Valley system, Wattenberg system and Lancaster plant, all of which were combined into a single complex in the first quarter of 2014.

EBITDA: Earnings before interest, taxes, depreciation, and amortization. For a definition of “Adjusted EBITDA,” see the caption Key Performance Metrics under Part I, Item 2 of this Form 10-Q.

Equity investment throughput: Our 14.81% share of average Fort Union throughput, 22% share of average Rendezvous throughput, 10% share of average White Cliffs throughput, 25% share of average Mont Belvieu JV throughput, 20% share of average TEP and TEG throughput and 33.33% share of average FRP throughput.

Exchange Act: The Securities Exchange Act of 1934, as amended.

Fort Union: Fort Union Gas Gathering, LLC.

FRP: Front Range Pipeline LLC.

GAAP: Generally accepted accounting principles in the United States.

General partner: Western Gas Holdings, LLC.

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Imbalance: Imbalances result from (i) differences between gas and NGL volumes nominated by customers and gas and NGL volumes received from those customers and (ii) differences between gas and NGL volumes received from customers and gas and NGL volumes delivered to those customers.

IPO: Initial public offering.

LIBOR: London Interbank Offered Rate.

MBbls/d: One thousand barrels per day.

MGR assets: The Red Desert complex, the Granger straddle plant and the 22% interest in Rendezvous.

MICG: MIGC, LLC.

MLP: Master limited partnership.

MMBtu: One million British thermal units.

MMcf: One million cubic feet.

MMcf/d: One million cubic feet per day.

Mont Belvieu JV: Enterprise EF78 LLC.

Natural gas liquid(s) or NGL(s): The combination of ethane, propane, normal butane, isobutane and natural gasolines that, when removed from natural gas, become liquid under various levels of higher pressure and lower temperature.

Non-Operated Marcellus Interest: Our interest in the Liberty and Rome gas gathering systems.

PIK Class C units: Additional Class C units issued as quarterly distributions to the holder of our Class C units.

RCF: Our senior unsecured revolving credit facility.

Red Desert complex: The Patrick Draw processing plant, the Red Desert processing plant, associated gathering lines, and related facilities.

Rendezvous: Rendezvous Gas Services, LLC.

Residue: The natural gas remaining after the unprocessed natural gas stream has been processed or treated.

SEC: U.S. Securities and Exchange Commission.

Springfield: Springfield Pipeline LLC.

Springfield gas gathering system: Springfield's 50.1% interest in the Springfield gas gathering system, which consists of gas gathering lines located in Dimmit, La Salle, Maverick and Webb Counties in South Texas.

Springfield oil gathering system: Springfield's 50.1% interest in the Springfield oil gathering system, which consists of oil gathering lines located in Dimmit, La Salle, Maverick and Webb Counties in South Texas.

Springfield system: Consists of the Springfield gas gathering system and Springfield oil gathering system.

TEFR Interests: The interests in TEP, TEG and FRP.

TEG: Texas Express Gathering LLC.

TEP: Texas Express Pipeline LLC.

WGP: Western Gas Equity Partners, LP.

White Cliffs: White Cliffs Pipeline, LLC.

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2018 Notes: Our 2.600% Senior Notes due 2018.

2021 Notes: Our 5.375% Senior Notes due 2021.

2022 Notes: Our 4.000% Senior Notes due 2022.

2025 Notes: Our 3.950% Senior Notes due 2025.

2044 Notes: Our 5.450% Senior Notes due 2044.

\$500.0 million COP: The registration statement filed with the SEC in August 2014 authorizing the issuance of up to an aggregate of \$500.0 million of our common units.

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PART I. FINANCIAL INFORMATION (UNAUDITED)

Item 1. Financial Statements

WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended March 31,	
thousands except per-unit amounts	2016	2015 ⁽¹⁾
Revenues and other – affiliates		
Gathering, processing and transportation	\$187,718	\$188,018
Natural gas and natural gas liquids sales	84,866	118,740
Other	—	170
Total revenues and other – affiliates	272,584	306,928
Revenues and other – third parties		
Gathering, processing and transportation	106,286	82,250
Natural gas and natural gas liquids sales	3,690	46,932
Other	581	896
Total revenues and other – third parties	110,557	130,078
Total revenues and other	383,141	437,006
Equity income, net ⁽²⁾	16,814	18,220
Operating expenses		
Cost of product ⁽³⁾	76,467	139,408
Operation and maintenance ⁽³⁾	76,213	76,185
General and administrative ⁽³⁾	11,277	11,081
Property and other taxes	10,350	9,280
Depreciation and amortization	65,095	68,975
Impairments	6,518	272,624
Total operating expenses	245,920	577,553
Gain (loss) on divestiture and other, net	(632)	(6)
Operating income (loss)	153,403	(122,333)
Interest income – affiliates	4,225	4,225
Interest expense ⁽⁴⁾	(32,036)	(22,960)
Other income (expense), net	124	71
Income (loss) before income taxes	125,716	(140,997)
Income tax (benefit) expense	6,633	12,270
Net income (loss)	119,083	(153,267)
Net income attributable to noncontrolling interest	3,023	3,226
Net income (loss) attributable to Western Gas Partners, LP	\$116,060	\$(156,493)
Limited partners' interest in net income (loss):		
Net income (loss) attributable to Western Gas Partners, LP	\$116,060	\$(156,493)
Pre-acquisition net (income) loss allocated to Anadarko	(11,326)	(25,039)
Series A Preferred units interest in net (income) loss ⁽⁵⁾	(2,329)	—
General partner interest in net (income) loss ⁽⁵⁾	(55,400)	(37,177)
Common and Class C limited partners' interest in net income (loss) ⁽⁵⁾	47,005	(218,709)
Net income (loss) per common unit – basic and diluted ⁽⁶⁾	\$0.31	\$(1.61)

(1)

Financial information has been recast to include the financial position and results attributable to the Springfield system. See Note 1 and Note 2.

- (2) Income earned from equity investments is classified as affiliate. See Note 1.
Cost of product includes product purchases from Anadarko (as defined in Note 1) of \$24.6 million and \$43.9 million for the three months ended March 31, 2016 and 2015, respectively. Operation and maintenance includes
- (3) charges from Anadarko of \$18.0 million and \$16.8 million for the three months ended March 31, 2016 and 2015, respectively. General and administrative includes charges from Anadarko of \$9.0 million and \$8.1 million for the three months ended March 31, 2016 and 2015, respectively. See Note 5.
- (4) Includes affiliate (as defined in Note 1) interest expense of \$4.5 million and \$1.4 million for the three months ended March 31, 2016 and 2015, respectively. See Note 2 and Note 9.
- (5) Represents net income (loss) earned on and subsequent to the date of acquisition of the Partnership assets (as defined in Note 1). See Note 4.
- (6) See Note 4 for the calculation of net income (loss) per common unit.

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2016	December 31, 2015 ⁽¹⁾
thousands except number of units		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 108,479	\$ 98,033
Accounts receivable, net ⁽²⁾	179,773	193,329
Other current assets	3,555	7,855
Total current assets	291,807	299,217
Note receivable – Anadarko	260,000	260,000
Property, plant and equipment		
Cost	6,700,809	6,556,778
Less accumulated depreciation	1,760,590	1,697,999
Net property, plant and equipment	4,940,219	4,858,779
Goodwill	419,186	419,186
Other intangible assets	825,020	832,127
Equity investments	610,588	618,887
Other assets	13,740	13,001
Total assets	\$7,360,560	\$7,301,197
LIABILITIES, EQUITY AND PARTNERS' CAPITAL		
Current liabilities		
Accounts and imbalance payables	\$ 103,754	\$ 98,661
Accrued ad valorem taxes	27,876	17,808
Accrued liabilities	127,837	119,019
Total current liabilities	259,467	235,488
Long-term debt	3,021,325	2,690,651
Deferred income taxes	5,906	139,704
Asset retirement obligations and other	132,126	128,652
Deferred purchase price obligation – Anadarko ⁽³⁾	193,211	188,674
Total long-term liabilities	3,352,568	3,147,681
Total liabilities	3,612,035	3,383,169
Equity and partners' capital		
Series A Preferred units (14,030,611 and zero units issued and outstanding at March 31, 2016, and December 31, 2015, respectively) ⁽⁴⁾	420,582	—
Common units (130,666,567 and 128,576,965 units issued and outstanding at March 31, 2016, and December 31, 2015, respectively)	2,417,194	2,588,991
Class C units (11,735,446 and 11,411,862 units issued and outstanding at March 31, 2016, and December 31, 2015, respectively) ⁽⁵⁾	718,334	710,891
General partner units (2,583,068 units issued and outstanding at March 31, 2016, and December 31, 2015)	125,846	120,164
Net investment by Anadarko	—	430,598
Total partners' capital	3,681,956	3,850,644
Noncontrolling interest	66,569	67,384
Total equity and partners' capital	3,748,525	3,918,028
Total liabilities, equity and partners' capital	\$7,360,560	\$7,301,197

(1)

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Financial information has been recast to include the financial position and results attributable to the Springfield system. See Note 1 and Note 2.

(2) Accounts receivable, net includes amounts receivable from affiliates (as defined in Note 1) of \$53.8 million and \$42.7 million as of March 31, 2016, and December 31, 2015, respectively. Accounts receivable, net as of March 31, 2016, and December 31, 2015, also includes an insurance claim receivable related to an incident at the DBM complex. See Note 1.

(3) See Note 2.

(4) The Series A Preferred units are convertible into common units at the holder's election on a one-for-one basis at any time after the second anniversary of the issuance date. See Note 4.

(5) The Class C units will convert into common units on a one-for-one basis on December 31, 2017, unless the Partnership elects to convert such units earlier or Anadarko extends the conversion date. See Note 4.

See accompanying Notes to Consolidated Financial Statements.

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WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS' CAPITAL
(UNAUDITED)

thousands	Partners' Capital						Total
	Net Investment by Anadarko	Common Units	Class C Units	Series A Preferred Units	General Partner Units	Noncontrolling Interest	
Balance at December 31, 2015 ⁽¹⁾	\$430,598	\$2,588,991	\$710,891	\$—	\$120,164	\$ 67,384	\$3,918,028
Net income (loss)	11,326	42,812	4,635	1,887	55,400	3,023	119,083
Above-market component of swap extensions with Anadarko ⁽²⁾	—	6,813	—	—	—	—	6,813
Issuance of common units, net of offering expenses	—	25,000	—	—	—	—	25,000
Issuance of Series A Preferred units, net of offering expenses	—	—	—	440,000	—	—	440,000
Beneficial conversion feature of Series A Preferred units	—	21,747	—	(21,747)	—	—	—
Amortization of beneficial conversion feature of Class C units and Series A Preferred units	—	(3,250)	2,808	442	—	—	—
Distributions to noncontrolling interest owner	—	—	—	—	—	(3,838)	(3,838)
Distributions to unitholders	—	(102,862)	—	—	(49,726)	—	(152,588)
Acquisitions from affiliates	(549,692)	(162,808)	—	—	—	—	(712,500)
Contributions of equity-based compensation from Anadarko	—	1,044	—	—	21	—	1,065
Net pre-acquisition contributions from (distributions to) Anadarko	(27,632)	—	—	—	—	—	(27,632)
Net distributions to Anadarko of other assets	—	(701)	—	—	(13)	—	(714)
Elimination of net deferred tax liabilities	135,400	—	—	—	—	—	135,400
Other	—	408	—	—	—	—	408
Balance at March 31, 2016	\$—	\$2,417,194	\$718,334	\$420,582	\$125,846	\$ 66,569	\$3,748,525

(1) Financial information has been recast to include the financial position and results attributable to the Springfield system. See Note 1 and Note 2.

(2) See Note 5.

See accompanying Notes to Consolidated Financial Statements.

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WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

thousands	Three Months Ended	
	2016	2015 ⁽¹⁾
Cash flows from operating activities		
Net income (loss)	\$ 119,083	\$(153,267)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	65,095	68,975
Impairments	6,518	272,624
Non-cash equity-based compensation expense	1,231	1,035
Deferred income taxes	1,852	5,809
Accretion and amortization of long-term obligations, net	5,467	2,112
Equity income, net ⁽²⁾	(16,814)	(18,220)
Distributions from equity investment earnings ⁽²⁾	19,855	18,706
Gain (loss) on divestiture and other, net	632	6
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	12,558	(14,633)
Increase (decrease) in accounts and imbalance payables and accrued liabilities, net	17,978	12,796
Change in other items, net	3,048	(1,110)
Net cash provided by operating activities	236,503	194,833
Cash flows from investing activities		
Capital expenditures	(136,987)	(211,567)
Contributions in aid of construction costs from affiliates	2,369	—
Acquisitions from affiliates	(713,596)	(765)
Investments in equity affiliates	474	(4,878)
Distributions from equity investments in excess of cumulative earnings ⁽²⁾	4,784	2,964
Proceeds from the sale of assets to third parties	138	22
Net cash used in investing activities	(842,818)	(214,224)
Cash flows from financing activities		
Borrowings, net of debt issuance costs	330,000	140,000
Repayments of debt	—	(30,000)
Increase (decrease) in outstanding checks	(994)	(2,198)
Proceeds from the issuance of common units, net of offering expenses	25,000	31,075
Proceeds from the issuance of Series A Preferred units, net of offering expenses	440,000	—
Distributions to unitholders ⁽³⁾	(152,588)	(126,044)
Distributions to noncontrolling interest owner	(3,838)	(3,150)
Net contributions from (distributions to) Anadarko	(27,632)	1,293
Above-market component of swap extensions with Anadarko ⁽³⁾	6,813	—
Net cash provided by (used in) financing activities	616,761	10,976
Net increase (decrease) in cash and cash equivalents	10,446	(8,415)
Cash and cash equivalents at beginning of period	98,033	67,054
Cash and cash equivalents at end of period	\$ 108,479	\$ 58,639
Supplemental disclosures		
Acquisition of DBJV from Anadarko	\$—	\$ 174,276