

Edgar Filing: Westlake Chemical Partners LP - Form 10-K

Westlake Chemical Partners LP
Form 10-K
March 07, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 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 No. 001-36567

Westlake Chemical Partners LP
(Exact name of registrant as specified in its charter)

Delaware 32-0436529
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
2801 Post Oak Boulevard, Suite 600
Houston, Texas 77056
(Address of principal executive offices, including zip code)
(713) 585-2900
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common units representing limited partner interests	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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:

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 Act). Yes No

The aggregate market value of registrant's common units held by non-affiliates of the registrant on June 30, 2016, the end of the registrant's most recently completed second fiscal quarter, based on the closing price on June 30, 2016 of \$19.98 on the New York Stock Exchange, was approximately \$253.6 million. Common units held by executive officers and directors of the registrant and its affiliates are not included in the computation. The registrant, solely for the purpose of this required presentation, has deemed its directors and executive officers and those of its affiliates to be affiliates.

As of March 2, 2017, the registrant had 14,373,615 common units and 12,686,115 subordinated units outstanding.

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Explanatory Note

On August 4, 2014, Westlake Chemical Partners LP completed an initial public offering (the "IPO"). Unless otherwise indicated, references in this Annual Report on Form 10-K (this "report") to "we," "our," "us" or like terms used in the present tense or prospectively, or in reference to the period subsequent to the IPO, refer to Westlake Chemical Partners LP ("Westlake Chemical Partners LP" or the "Partnership"), Westlake Chemical OpCo LP ("OpCo") and Westlake Chemical OpCo GP LLC ("OpCo GP"). Unless the context otherwise requires, references in this report to the "Predecessor" refer to Westlake Chemical Partners LP Predecessor, our predecessor for accounting purposes, and refer to the time periods prior to the IPO. References to "Westlake" refer to Westlake Chemical Corporation and its consolidated subsidiaries other than the Partnership, OpCo GP and OpCo. References to our "board of directors" or our "directors" refer to the board of directors of our general partner and such board's directors, respectively. See Note 2 to our consolidated and combined financial statements for information regarding the closing of the IPO.

Cautionary Statement Regarding Forward-Looking Statements

Certain of the statements contained in this report are forward-looking statements. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expects," "will" or comparable terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give any assurances that these expectations will prove to be correct. Forward-looking statements relate to matters such as:

- the amount of ethane that we are able to process, which could be adversely affected by, among other things, operating difficulties;
- the volume of ethylene that we are able to sell;
- the price at which we are able to sell ethylene;
- industry market outlook, including prices and margins in third-party ethylene and co-products sales;
- the parties to whom we will sell ethylene and on what basis;
- volumes of ethylene that Westlake may purchase, in addition to the minimum commitment under the Ethylene Sales Agreement;
- timing, funding and results of capital projects, such as OpCo's plan to increase the ethylene capacity of the ethylene production facility at Calvert City Olefins;
- our intended minimum quarterly distributions and the manner of making such distributions;
 - our ability to meet our liquidity needs;
- timing of and amount of capital expenditures;
- potential loans from Westlake to OpCo to fund OpCo's expansion capital expenditures in the future;
- expected mitigation of exposure to commodity price fluctuations;
- turnaround activities and the variability of OpCo's cash flow;
- compliance with present and future environmental regulations and costs associated with environmentally related penalties, capital expenditures, remedial actions and proceedings, including any new laws, regulations or treaties that may come into force to limit or control carbon dioxide and other greenhouse gas emissions or to address other issues of climate change; and
- effects of pending legal proceedings.

We have based these statements on assumptions and analysis in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe were appropriate in the circumstances when the statements were made. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such statements. These statements are subject to a number of assumptions, risks and uncertainties, including those described in "Part 1. Item 1A. Risk Factors" of this report and the following:

- general economic and business conditions;

the cyclical nature of the chemical industry;

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- the availability, cost and volatility of raw materials and energy;
- uncertainties associated with the United States and worldwide economies, including those due to political tensions and unrest in the Middle East, the Commonwealth of Independent States (including Ukraine) and elsewhere;
- current and potential governmental regulatory actions in the United States and regulatory actions and political unrest in other countries;
- industry production capacity and operating rates;
- the supply/demand balance for our product;
- competitive products and pricing pressures;
- instability in the credit and financial markets;
- access to capital markets;
- terrorist acts;
- operating interruptions (including leaks, explosions, fires, weather-related incidents, mechanical failure, unscheduled downtime, labor difficulties, transportation interruptions, spills and releases and other environmental risks);
- changes in laws or regulations;
- technological developments;
- our ability to integrate acquired businesses;
- foreign currency exchange risks;
- our ability to implement our business strategies; and
- creditworthiness of our customers.

Many of these factors are beyond our ability to control or predict. Any of the factors, or a combination of these factors, could materially affect our future results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Every forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

INDUSTRY AND MARKET DATA

Industry and market data used throughout this report were obtained through internal research, surveys and studies conducted by unrelated third parties and publicly available industry and general publications, including information from IHS Chemical and Chemical Data, Inc. We have not independently verified market and industry data from external sources. While we believe internal partnership estimates are reliable and market definitions are appropriate, neither such estimates nor these definitions have been verified by any independent sources.

PRODUCTION CAPACITY

Unless we state otherwise, annual production capacity estimates used throughout this report represent rated capacity of the facilities at December 31, 2016. We calculated rated capacity by estimating the number of days in a typical year that a production unit of a plant is expected to operate, after allowing for downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output based on the design feedstock mix. Because the rated capacity of a production unit is an estimated amount, actual production volumes may be more or less than the rated capacity.

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PART I

Item 1. Business

General

We are a Delaware limited partnership formed by Westlake in March 2014 to operate, acquire and develop ethylene production facilities and related assets. On August 4, 2014, we completed our IPO of 12,937,500 common units representing limited partner interests. In connection with the IPO, we acquired a 10.6% interest in OpCo and a 100% interest in OpCo GP, which is the general partner of OpCo. On April 29, 2015, we purchased an additional 2.7% newly-issued limited partner interest in OpCo, resulting in an aggregate 13.3% limited partner interest in OpCo effective April 1, 2015. Our business and operations are conducted through OpCo. Because we own OpCo's general partner, we have control over all of OpCo's assets and operations. As of December 31, 2016, Westlake held a 86.7% limited partner interest in OpCo and held a 52.2% limited partner interest in us (consisting of 1,436,115 common units and all of the subordinated units), our general partner interest and our incentive distribution rights.

OpCo's assets are comprised of three ethylene production facilities, which primarily convert ethane into ethylene and have an aggregate annual capacity of approximately 3.4 billion pounds, and a 200-mile ethylene pipeline. OpCo derives substantially all of its revenue from these ethylene production facilities. Ethylene is the world's most widely used petrochemical in terms of volume and is a key building block used to produce a number of key derivatives, such as polyethylene ("PE") and polyvinyl chloride ("PVC"), which are used in a wide variety of end markets including packaging, construction and transportation. Westlake's downstream PE and PVC production facilities consume a substantial majority of the ethylene produced by OpCo. OpCo generates revenue primarily by selling ethylene to Westlake and others, as well as through the sale of co-products of ethylene production, including propylene, crude butadiene, pyrolysis gasoline and hydrogen. Our sole revenue generating asset is our 13.3% limited partner interest in OpCo.

Our assets and operations are organized into a single reportable segment and are all located and conducted in the United States. See "Item 8. Financial Statements and Supplementary Data" for financial information on our operations and assets; such information is incorporated herein by reference.

Among other agreements entered into in connection with the closing of the IPO, OpCo entered into a 12-year ethylene sales agreement with Westlake, under which Westlake agreed to purchase 95% of OpCo's planned ethylene production each year, on a cost-plus basis that is expected to generate a fixed margin per pound of \$0.10 (the "Ethylene Sales Agreement"). Any ethylene not sold to Westlake and all co-products that are produced by OpCo will be sold to third parties on either a spot or contract basis. OpCo also entered into a feedstock supply agreement with Westlake that supplies OpCo with all of the ethane (and any other feedstocks) required for OpCo to produce ethylene under the Ethylene Sales Agreement (the "Feedstock Supply Agreement").

OpCo primarily uses ethane (a component of natural gas liquids, or NGLs) to produce ethylene. OpCo completed an upgrade and capacity expansion of its Petro 1 ethylene unit at our Lake Charles site in the third quarter of 2016. The Petro 1 expansion project increased OpCo's ethylene capacity by approximately 250 million pounds annually. In January 2016, we announced an expansion project to increase the ethylene capacity at our Calvert City facility. The expansion, along with other initiatives, is expected to increase ethylene capacity by approximately 100 million pounds annually and is targeted for completion during the first half of 2017. The total ethylene capacity at Calvert City Olefins is expected to increase to 730 million pounds annually at the completion of this project.

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Ownership of Westlake Chemical Partners LP

The following simplified diagram depicts our organizational structure as of December 31, 2016:

Public Common Units	47.8	%
Interests of Westlake:		
Common Units	5.3	%
Subordinated Units	46.9	%
Non-Economic General Partner Interest	—	
Incentive Distribution Rights	—	(1)
	100.0	%

Incentive distribution rights represent a variable interest in distributions and thus are not expressed as a fixed (1)percentage. Distributions with respect to the incentive distribution rights are classified as distributions with respect to equity interests.

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Our Assets and Operations

Our sole revenue generating asset is our 13.3% limited partner interest in OpCo. We also own the general partner interest of OpCo. OpCo owns:

• two ethylene production facilities at Westlake's Lake Charles, Louisiana site ("Petro 1" and "Petro 2," collectively referred to as "Lake Charles Olefins"), with an annual combined capacity of approximately 3.0 billion pounds;

• one ethylene production facility at Westlake's Calvert City, Kentucky site ("Calvert City Olefins"), with an annual capacity of approximately 630 million pounds; and

• a 200-mile common carrier ethylene pipeline that runs from Mont Belvieu, Texas to the Longview, Texas chemical site, which includes Westlake's Longview PE production facility (the "Longview Pipeline").

As the owner of the general partner interest of OpCo, we control all aspects of the management of OpCo, including its cash distribution policy. See "—OpCo's Assets."

OpCo's Assets

Ethylene Production Facilities. OpCo operates three ethylene production facilities that are situated on real property leased to OpCo by Westlake pursuant to two 50-year site lease agreements. See "Our Agreements with Westlake—Site Lease Agreements" for a description of the site leases. Ethylene can be produced from either NGL feedstocks, such as ethane, propane and butane, or from petroleum-derived feedstocks, such as naphtha. Lake Charles Olefins and Calvert City Olefins use primarily ethane as their feedstock. Calvert City Olefins can also use propane as a feedstock and Petro 2 can also use an ethane/propane mix, propane, butane or naphtha as a feedstock.

The following table provides information regarding OpCo's ethylene production facilities as of December 31, 2016:

Plant Location (Description)	Annual Production Capacity (millions of pounds)	Feedstock	Primary Uses of Ethylene
Lake Charles, Louisiana (Petro 1)	1,500	Ethane	PE and PVC
Lake Charles, Louisiana (Petro 2)	1,490	Ethane, ethane/propane mix, propane, butane or naphtha	PE and PVC
Calvert City, Kentucky (Calvert City Olefins)	630	Ethane or propane	PVC
Total	3,620		

Lake Charles Olefins

Two of OpCo's ethylene production facilities, which we refer to as Petro 1 and Petro 2 and, collectively, as Lake Charles Olefins, are located at Westlake's Lake Charles site. The combined capacity of these two ethylene production facilities is approximately 3.0 billion pounds per year which includes the additional annual capacity of 250 million resulting from the Lake Charles Petro 1 expansion project that was completed during 2016.

Within We