

Regency Energy Partners LP
Form 10-Q
May 09, 2013
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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, 2013
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: 001-35262
REGENCY ENERGY PARTNERS LP
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

16-1731691
(I.R.S. Employer Identification No.)

2001 BRYAN STREET, SUITE 3700
DALLAS, TX
(Address of principal executive offices)
(214) 750-1771
(Registrant’s telephone number, including area code)

75201
(Zip 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 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 small reporting company” in Rule 12b-2 of the Exchange Act.

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

The issuer had 202,345,448 common units outstanding as of May 3, 2013.

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Introductory Statement

References in this report to the “Partnership,” “we,” “our,” “us” and similar terms refer to Regency Energy Partners LP and its subsidiaries. We use the following definitions in this quarterly report on Form 10-Q:

Name	Definition or Description
/d	Per day
AOCI	Accumulated Other Comprehensive Income
Bbls	Barrels
BTU	A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit
ELG	Edwards Lime Gathering LLC and its wholly-owned subsidiaries, ELG Oil LLC and ELG Utility LLC
ETC	Energy Transfer Company, the name assumed by La Grange Acquisition, L.P. for conducting business and shared services, a wholly owned subsidiary of ETP
ETE	Energy Transfer Equity, L.P.
ETP	Energy Transfer Partners, L.P.
Finance Corp.	Regency Energy Finance Corp., a wholly-owned subsidiary of the Partnership
GAAP	Accounting principles generally accepted in the United States of America
General Partner	Regency GP LP, the general partner of the Partnership, or Regency GP LLC, the general partner of Regency GP LP, which effectively manages the business and affairs of the Partnership through Regency Employees Management LLC
Gulf States	Gulf States Transmission LLC, a wholly-owned subsidiary of the Partnership
Holdco	ETP Holdco Corporation
HPC	RIGS Haynesville Partnership Co., a general partnership, and its wholly-owned subsidiary, Regency Intrastate Gas LP
IDRs	Incentive Distribution Rights
Lone Star	Lone Star NGL LLC
LTIP	Long-Term Incentive Plan
MBbls	One thousand barrels
MEP	Midcontinent Express Pipeline LLC
MMBtu	One million BTUs
NGLs	Natural gas liquids, including ethane, propane, normal butane, iso butane and natural gasoline
NYMEX	New York Mercantile Exchange
Partnership	Regency Energy Partners LP
PEPL Holdings	PEPL Holdings, LLC, a wholly-owned subsidiary of Southern Union
Ranch JV	Ranch Westex JV LLC
Regency Western	Regency Western G&P LLC, an indirectly wholly owned subsidiary of the Partnership
RGS	Regency Gas Services LP, a wholly-owned subsidiary of the Partnership
RIGS	Regency Intrastate Gas System
SEC	Securities and Exchange Commission
Senior Notes	The collective of 2016 Notes, 2018 Notes, 2021 Notes, 2023 5.5% Notes and 2023 4.5% Notes
Series A Preferred Units	Series A convertible redeemable preferred units
Services Co.	ETE Services Company, LLC
Southern Union	Southern Union Company
SUGS	Southern Union Gathering Company LLC

WTI

West Texas Intermediate Crude

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Forward-Looking Statements

Certain matters discussed in this report include “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “will,” “plan,” “expect,” “continue,” “estimate,” “goal,” “forecast,” “may” or similar expressions help identify forward-looking statements. Although we believe our forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, we cannot give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions including without limitation the following:

- volatility in the price of oil, natural gas, condensate and NGLs;
- declines in the credit markets and the availability of credit for us as well as for producers connected to our pipelines and our gathering and processing facilities, and for our customers of our contract services business;
- the level of creditworthiness of, and performance by, our counterparties and customers;
- our access to capital to fund organic growth projects and acquisitions, and our ability to obtain debt or equity financing on satisfactory terms;
- our use of derivative financial instruments to hedge commodity and interest rate risks;
- the amount of collateral required to be posted from time-to-time in our transactions;
- changes in commodity prices, interest rates and demand for our services;
- changes in laws and regulations impacting the midstream sector of the natural gas industry, including those that relate to climate change and environmental protection and safety;
- weather and other natural phenomena;
- industry changes including the impact of consolidations and changes in competition;
- regulation of transportation rates on our natural gas and NGL pipelines;
- our ability to obtain indemnification related to cleanup liabilities and to clean up any hazardous materials release on satisfactory terms;
- our ability to obtain required approvals for construction or modernization of our facilities and the timing of production from such facilities; and
- the effect of accounting pronouncements issued periodically by accounting standard setting boards.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may differ materially from those anticipated, estimated, projected or expected.

Other factors that could cause our actual results to differ from our projected results are discussed in Item 1A of our December 31, 2012 Annual Report on Form 10-K.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Regency Energy Partners LP

Condensed Consolidated Balance Sheets

(in millions)

(unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$44	\$53
Trade accounts receivable, net of allowance of \$1 and \$1	38	40
Accrued revenues	112	107
Related party receivables	2	4
Derivative assets	2	4
Other current assets	30	29
Total current assets	228	237
Property, plant and equipment:		
Property, plant and equipment	2,678	2,517
Less accumulated depreciation	(393	) (355
Property, plant and equipment, net	2,285	2,162
Other Assets:		
Investment in unconsolidated affiliates	2,226	2,214
Long-term derivative assets	1	1
Other, net of accumulated amortization of debt issuance costs of \$20 and \$17	39	41
Total other assets	2,266	2,256
Intangible assets, net of accumulated amortization of \$82 and \$74	704	712
Goodwill	790	790
TOTAL ASSETS	\$6,273	\$6,157
LIABILITIES AND PARTNERS' CAPITAL AND NONCONTROLLING INTEREST		
Current Liabilities:		
Drafts payable	\$7	\$6
Trade accounts payable	97	102
Accrued cost of gas and liquids	84	83
Related party payables	24	37
Deferred revenues	18	17
Derivative liabilities	3	1
Other current liabilities	56	41
Total current liabilities	289	287
Long-term derivative liabilities	39	25
Other long-term liabilities	3	5
Long-term debt, net	2,336	2,157
Commitments and contingencies		
Series A Preferred Units, redemption amount of \$85 and \$85	73	73
Partners' capital and noncontrolling interest:		
Common units	3,121	3,207
General partner interest	324	326
Total partners' capital	3,445	3,533

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Noncontrolling interest	88	77
Total partners' capital and noncontrolling interest	3,533	3,610
TOTAL LIABILITIES AND PARTNERS' CAPITAL AND NONCONTROLLING INTEREST	\$6,273	\$6,157

See accompanying notes to condensed consolidated financial statements

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Regency Energy Partners LP

Condensed Consolidated Statements of Operations

(in millions except unit data and per unit data)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
REVENUES		
Gas sales, including related party amounts of \$8 and \$5	\$104	\$81
NGL sales, including related party amounts of \$1 and \$22	126	159
Gathering, transportation and other fees, including related party amounts of \$8 and \$7	109	100
Net realized and unrealized loss from derivatives	(3	) (1
Other, including related party amounts of \$0 and \$1	13	19
Total revenues	349	358
OPERATING COSTS AND EXPENSES		
Cost of sales, including related party amounts of \$4 and \$6	229	240
Operation and maintenance	45	41
General and administrative, including related party amounts of \$4 and \$4	17	16
Loss on asset sales, net	1	—
Depreciation and amortization	48	51
Total operating costs and expenses	340	348
OPERATING INCOME	9	10
Income from unconsolidated affiliates	35	32
Interest expense, net	(37	) (30
Other income and deductions, net	(14	) 17
(LOSS) INCOME BEFORE INCOME TAXES	(7	) 29
Income tax benefit	(2) —
NET (LOSS) INCOME	\$(5	) \$29
Net income attributable to noncontrolling interest	—	—
NET (LOSS) INCOME ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	\$(5	) \$29
Amounts attributable to Series A Preferred Units	2	3
General partner's interest, including IDRs	2	3
Limited partners' interest in net (loss) income	\$(9	) \$23
Basic and diluted net (loss) income per common unit:		
Weighted average number of common units outstanding	170,952,804	158,690,035
Basic (loss) income per common unit	\$(0.06	) \$0.15
Diluted (loss) income per common unit	\$(0.06	) \$0.14
Distributions per common unit	\$0.46	\$0.46

See accompanying notes to condensed consolidated financial statements

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Regency Energy Partners LP

Condensed Consolidated Statements of Comprehensive (Loss) Income

(in millions)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
Net (loss) income	\$ (5	) \$ 29
Other comprehensive income:		
Net cash flow hedge amounts reclassified to earnings	—	3
Total other comprehensive income	—	3
Comprehensive (loss) income	(5	) 32
Comprehensive income attributable to noncontrolling interest	—	—
Comprehensive (loss) income attributable to Regency Energy Partners LP	\$ (5	) \$ 32

See accompanying notes to condensed consolidated financial statements

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Regency Energy Partners LP

Condensed Consolidated Statements of Cash Flows

(in millions)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES:		
Net (loss) income	\$(5	) \$29
Reconciliation of net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization, including debt issuance cost amortization and bond premium amortization	50	54
Income from unconsolidated affiliates	(35	) (32
Derivative valuation changes	18	(3
Loss on asset sales, net	1	—
Unit-based compensation expenses	2	1
Cash flow changes in current assets and liabilities:		
Trade accounts receivable, accrued revenues and related party receivables	(8	) 7
Other current assets and other current liabilities	13	5
Trade accounts payable, accrued cost of gas and liquids, related party payables and deferred revenues	(4	) (34
Distributions of earnings received from unconsolidated affiliates	36	29
Cash flow changes in other assets and liabilities	(1) —
Net cash flows provided by operating activities	67	56
INVESTING ACTIVITIES:		
Capital expenditures	(167	) (76
Capital contributions to unconsolidated affiliates	(43	) (80
Distributions in excess of earnings of unconsolidated affiliates	16	13
Proceeds from asset sales	12	13
Net cash flows used in investing activities	(182	) (130
FINANCING ACTIVITIES:		
Net borrowings (repayments) under revolving credit facility	179	(82
Debt issuance costs	—	(1
Partner distributions	(83	) (76
Contributions from noncontrolling interest	11	5
Draft payables	1	(2
Common unit offering, net of issuance costs	—	297
Distributions to Series A Preferred Units	(2	) (2
Net cash flows provided by financing activities	106	139
Net change in cash and cash equivalents	(9	) 65
Cash and cash equivalents at beginning of period	53	1
Cash and cash equivalents at end of period	\$44	\$66
Supplemental cash flow information:		
Non-cash capital expenditures	\$62	\$23
Non-cash capital contributions to unconsolidated affiliates	8	13

See accompanying notes to condensed consolidated financial statements

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Regency Energy Partners LP
Condensed Consolidated Statement of Partners' Capital and Noncontrolling Interest
(in millions except unit data)
(unaudited)

	Regency Energy Partners LP Units				Total	
	Common	Common Unitholders	General Partner Interest	Noncontrolling Interest		
Balance - December 31, 2012	170,951,457	\$3,207	\$326	\$ 77	\$3,610	
Issuance of common units under LTIP, net of forfeitures and tax withholding	8,975	—	—	—	—	
Unit-based compensation expenses	—	2	—	—	2	
Partner distributions	—	(79) (4) —	(83)
Net (loss) income	—	(7) 2	—	(5)
Contributions from noncontrolling interest	—	—	—	11	11	
Distributions to Series A Preferred Units	—	(2) —	—	(2)
Balance - March 31, 2013	170,960,432	\$3,121	\$324	\$ 88	\$3,533	

See accompanying notes to condensed consolidated financial statements

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Regency Energy Partners LP

Notes to Condensed Consolidated Financial Statements

(Tabular dollar amounts, except per unit data, are in millions)

(unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization. The unaudited condensed consolidated financial statements presented herein contain the results of Regency Energy Partners LP and its subsidiaries (the "Partnership"), a Delaware limited partnership. The Partnership and its subsidiaries are engaged in the business of gathering and processing, compression, treating and transportation of natural gas and the transportation, fractionation and storage of NGLs. Regency GP LP is the Partnership's general partner and Regency GP LLC (collectively the "General Partner") is the managing general partner of the Partnership and the general partner of Regency GP LP.

Basis of Presentation. The unaudited financial information included in this Form 10-Q has been prepared on the same basis as the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of the Partnership's management, such financial information reflects all adjustments necessary for a fair presentation of the financial position and the results of operations for such interim periods in accordance with GAAP. All inter-company items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

Use of Estimates. The unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, which includes the use of estimates and assumptions made by management that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities that exist at the date of the condensed consolidated financial statements. Although these estimates are based on management's available knowledge of current and expected future events, actual results could be different from those estimates.

Quarterly Distributions of Available Cash. Following are distributions declared by the Partnership subsequent to December 31, 2012:

Quarter Ended	Record Date	Payment Date	Cash Distributions (per common unit)
December 31, 2012	February 7, 2013	February 14, 2013	\$0.46
March 31, 2013	May 6, 2013	May 13, 2013	\$0.46

SUGS Acquisition. On April 30, 2013, the Partnership and Regency Western acquired SUGS from Southern Union, a wholly owned subsidiary of Holdco, for approximately \$1.5 billion (the "SUGS Acquisition"). The Partnership financed the acquisition by issuing to Holdco 31 million Partnership common units and 6 million recently created Class F common units. The Class F common units are not entitled to participate in the Partnership's distributions for twenty-four months post-transaction closing. The remaining \$600 million, less \$107 million of estimated closing adjustments, was paid in cash. In addition, in conjunction with the acquisition, ETE has agreed to forgo IDR payments on the Partnership common units issued with this transaction for the twenty-four months post-transaction closing and to eliminate the \$10 million annual management fee paid by the Partnership for two years post-transaction close. The common units and Class F common units related to the SUGS Acquisition were issued in a private placement conducted in accordance with the exemption from registration requirements of the Securities Act of 1933, as amended under Section 4(e) thereof. The Class F common units will convert into common units on a one-for-one basis in May 2015.

The cash portion of the SUGS Acquisition was funded from the proceeds of senior notes issued by the Partnership on April 30, 2013 in a private placement. PEPL Holdings provided a guarantee of collection with respect to the payment of the principal amounts of the senior notes issued by the Partnership.

Because the SUGS Acquisition is a transaction between commonly controlled entities (i.e., the buyer and the sellers are each affiliates of ETE), the Partnership will be required to account for the acquisition in a manner similar to the pooling of interest method of accounting. Under this method of accounting, the Partnership will reflect historical balance sheet data for both the Partnership and SUGS instead of reflecting the fair market value of SUGS assets and liabilities. The Partnership will retrospectively adjust its financial statements to include the operations of SUGS from

March 26, 2012 (the date upon which common control began), beginning with the first issuance of financial statements for periods including the consummation of the transaction.

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2. (Loss) Income per Common Unit

The following tables provide a reconciliation of the numerator and denominator of the basic and diluted earnings per common unit computations for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,					
	2013			2012		
	Loss	Units	Per-Unit	Income	Units	Per-Unit
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic (loss) income per unit						
Limited Partners' interest in net (loss) income	\$(9)	170,952,804	\$(0.06)	\$23	158,690,035	\$0.15
Effect of Dilutive Securities:						
Common unit options	—	—	—	—	21,129	
Phantom units *	—	—	—	—	361,550	
Diluted (loss) income per unit	\$(9)	170,952,804	\$(0.06)	\$23	159,072,714	\$0.14

* Amount assumes maximum conversion rate for market condition awards.

The following data show securities that could potentially dilute earnings per unit in the future that were not included in the computation of diluted earnings per unit because to do so would have been antidilutive for the periods presented:

	Three Months Ended March 31,	
	2013	2012
Common unit options	12,854	—
Phantom units	267,820	—
Series A Preferred Units	4,665,683	4,638,732

3. Investment in Unconsolidated Affiliates

As of March 31, 2013, the Partnership has a 49.99% general partner interest in HPC, a 50% membership interest in MEP, a 30% membership interest in Lone Star, and a 33.33% membership interest in Ranch JV. The carrying value of the Partnership's investment in each of the unconsolidated affiliates as of March 31, 2013 and December 31, 2012 is as follows:

	March 31,	December 31,
	2013	2012
HPC	\$643	\$650
MEP	572	581
Lone Star	975	948
Ranch JV	36	35
	\$2,226	\$2,214

The following tables summarize the Partnership's investment activities in each of the unconsolidated affiliates for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013			
	HPC	MEP	Lone Star	Ranch JV
Contributions to unconsolidated affiliates	\$—	\$—	\$27	\$1
Distributions from unconsolidated affiliates	(16)	(19)	(17)	—
Share of earnings of unconsolidated affiliates' net income	9	11	16	—

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	Three Months Ended March 31, 2012			
	HPC	MEP	Lone Star	Ranch JV
Contributions to unconsolidated affiliates	\$—	\$—	\$80	\$13
Distributions from unconsolidated affiliates	(16	) (19	) (7)