

Regency Energy Partners LP
Form 10-Q
August 10, 2009

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 June 30, 2009

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: 000-51757

REGENCY ENERGY PARTNERS LP

(Exact name of registrant as specified in its charter)

DELAWARE

16-1731691

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

2001 BRYAN STREET, SUITE 3700
DALLAS, TX

(Address of principal executive offices)

75201

(Zip Code)

(214) 750-1771

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report.)

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 81,131,978 common units outstanding as of July 31, 2009.

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Introductory Statement

References in this report to the “Partnership,” “we,” “our,” “us” and similar terms, when used in a historical context, refer to Regency Energy Partners LP. When used in the present tense or prospectively, these terms refer to the Partnership and its subsidiaries. We use the following definitions in this quarterly report on Form 10-Q:

Name	Definition or Description
Alinda	Alinda Capital Partners LLC, a Delaware limited liability company that is an independent private investment firm specializing in infrastructure investments
Alinda Investor I	Alinda Gas Pipelines I, L.P., a Delaware limited partnership
Alinda Investor II	Alinda Gas Pipelines II, L.P., a Delaware limited partnership
Alinda Investors	Alinda Investor I and Alinda Investor II, collectively
Bbls/d	Barrels per day
Bcf	One billion cubic feet
Bcf/d	One billion cubic feet per day
BTU	A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit
CDM	CDM Resource Management LLC
EITF	Emerging Issues Task Force
El Paso	El Paso Field Services, LP
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Finance Corp.	Regency Energy Finance Corp., a wholly-owned subsidiary of the Partnership
FrontStreet	FrontStreet Hugoton LLC
FSP	Financial Accounting Standards Board Statement of Position
GAAP	Accounting principles generally accepted in the United States
GE	General Electric Company
GE EFS	General Electric Energy Financial Services, a unit of GECC, combined with Regency GP Acquirer LP and Regency LP Acquirer LP
GECC	General Electric Capital Corporation, an indirect wholly owned subsidiary of GE
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
HPC	RIGS Haynesville Partnership Co., a general partnership that owns 100 percent of RIGS
Lehman	Lehman Brothers Holdings, Inc.
LIBOR	London Interbank Offered Rate
LITP	Long-Term Incentive Plan
MMbtu	One million BTUs
MMbtu/d	One million BTUs per day
MMcf	One million cubic feet
MMcf/d	One million cubic feet per day
Nexus	Nexus Gas Holdings, LLC
NOE	Notice of Enforcement
NGLs	Natural gas liquids
Nasdaq	Nasdaq Stock Market, LLC

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NYMEX	New York Mercantile Exchange
Partnership	Regency Energy Partners LP
Regency HIG	Regency Haynesville Intrastate Gas LLC, a wholly owned subsidiary of the Partnership
RFS	Regency Field Services LLC
RGS	Regency Gas Services LP
RIGS	Regency Intrastate Gas LP
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standard
Sonat	Southern Natural Gas Company
TCEQ	Texas Commission on Environmental Quality
Tcf	One trillion cubic feet
Tcf/d	One trillion cubic feet per day

Cautionary Statement about 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 and Section 21E of the Securities Exchange Act of 1934. 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,” “plan,” “expect,” “continue,” “estimate,” “goal,” “forecast,” “may” or similar expressions 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, and natural gas liquids;
- declines in the credit markets and the availability of credit for us as well as for producers connected to our system and our customers;
- 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;
- weather and other natural phenomena;
- industry changes including the impact of consolidations and changes in competition;
- 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, 2008 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.

Item 1. Financial Statements

Regency Energy Partners LP
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands except unit data)

	June 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$9,275	\$ 599
Restricted cash	1,510	10,031
Trade accounts receivable, net of allowance of \$1,565 and \$941	28,637	40,875
Accrued revenues	62,013	96,712
Related party receivables	4,030	855
Assets from risk management activities	40,231	73,993
Other current assets	13,131	13,338
Total current assets	158,827	236,403
Property, Plant and Equipment:		
Gathering and transmission systems	453,169	652,267
Compression equipment	821,981	799,527
Gas plants and buildings	154,561	156,246
Other property, plant and equipment	154,570	167,256
Construction-in-progress	99,431	154,852
Total property, plant and equipment	1,683,712	1,930,148
Less accumulated depreciation	(225,881)	(226,594)
Property, plant and equipment, net	1,457,831	1,703,554
Other Assets:		
Investment in unconsolidated subsidiary	400,023	-
Long-term assets from risk management activities	13,712	36,798
Other, net of accumulated amortization of debt issuance costs of \$7,706 and \$5,246	22,220	13,880
Total other assets	435,955	50,678
Intangible Assets and Goodwill:		
Intangible assets, net of accumulated amortization of \$27,666 and \$22,667	196,557	205,646
Goodwill	228,114	262,358
Total intangible assets and goodwill	424,671	468,004
TOTAL ASSETS	\$2,477,284	\$2,458,639
LIABILITIES & PARTNERS' CAPITAL AND NONCONTROLLING INTEREST		
Current Liabilities:		
Trade accounts payable	\$37,224	\$65,483
Accrued cost of gas and liquids	48,353	76,599
Related party payables	1,331	-
Escrow payable	1,506	10,031
Deferred revenue, including related party amounts of \$231 and \$0	11,196	11,572

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Liabilities from risk management activities	17,193	42,691
Other current liabilities	11,703	10,574
Total current liabilities	128,506	216,950
Long-term liabilities from risk management activities	53	560
Other long-term liabilities	14,820	15,487
Long-term debt, net	1,185,385	1,126,229
Commitments and contingencies		
Partners' Capital and Noncontrolling Interest:		
Common units (81,781,105 and 55,519,903 units authorized; 81,131,978 and 54,796,701 units issued and outstanding at June 30, 2009 and December 31, 2008)	1,079,333	764,161
Class D common units (7,276,506 units authorized, issued and outstanding at December 31, 2008)	-	226,759
Subordinated units (19,103,896 units authorized, issued and outstanding at December 31, 2008)	-	(1,391)
General partner interest	24,864	29,283
Accumulated other comprehensive income	30,304	67,440
Noncontrolling interest	14,019	13,161
Total partners' capital and noncontrolling interest	1,148,520	1,099,413
TOTAL LIABILITIES AND PARTNERS' CAPITAL AND NONCONTROLLING INTEREST	\$2,477,284	\$2,458,639

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP
Condensed Consolidated Income Statements
Unaudited
(in thousands except unit data and per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
REVENUES				
Gas sales	\$ 106,897	\$ 362,769	\$ 254,793	\$ 599,462
NGL sales	57,676	126,521	107,261	235,020
Gathering, transportation and other fees, including related party amounts of \$2,239, \$935, \$3,376 and \$1,926	69,231	70,175	142,079	132,161
Net realized and unrealized gain (loss) from risk management activities	12,515	(32,760)	26,970	(46,417)
Other	7,223	20,000	12,417	31,714
Total revenues	253,542	546,705	543,520	951,940
OPERATING COSTS AND EXPENSES				
Cost of sales, including related party amounts of \$1,453, \$844, \$1,700 and \$1,247	157,347	446,687	339,875	760,276
Operation and maintenance	31,974	32,516	68,016	61,361
General and administrative	14,127	13,925	29,205	24,809
Loss (gain) on asset sales, net of costs of \$372, \$0, \$5,530 and \$0	651	442	(133,280)	468
Management services termination fee	-	-	-	3,888
Transaction expenses	-	147	-	534
Depreciation and amortization	26,236	26,476	54,125	48,216
Total operating costs and expenses	230,335	520,193	357,941	899,552
OPERATING INCOME	23,207	26,512	185,579	52,388
Income from unconsolidated subsidiary	1,587	-	1,923	-
Interest expense, net	(19,568)	(16,782)	(33,795)	(32,188)
Other income and deductions, net	214	132	256	332
INCOME BEFORE INCOME TAXES	5,440	9,862	153,963	20,532
Income tax expense (benefit)	(515)	(41)	(416)	209
NET INCOME	5,955	9,903	154,379	20,323
Net loss (income) attributable to noncontrolling interest	(65)	69	(100)	(3)
NET INCOME ATTRIBUTABLE TO REGENCY ENERGY PARTNERS LP	\$ 5,890	\$ 9,972	\$ 154,279	\$ 20,320
General partner's interest, including IDR	741	727	4,274	1,634
Allocation of net income to non-vested common units	(137)	71	1,217	163

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Beneficial conversion feature for Class D common units	-	1,866	820	3,425
Limited partners' interest	\$5,286	\$7,308	\$147,968	\$15,098
Basic and Diluted earnings per unit:				
Amount allocated to common and subordinated units	\$5,286	\$7,308	\$147,968	\$15,098
Weighted average number of common and subordinated units outstanding	80,550,149	62,175,856	78,920,074	60,702,682
Basic income per common and subordinated unit	\$0.07	\$0.12	\$1.87	\$0.25
Diluted income per common and subordinated unit	\$0.06	\$0.12	\$1.85	\$0.25
Distributions per unit	\$0.445	\$0.445	\$0.89	\$0.865
Amount allocated to Class D common units	\$-	\$1,866	\$820	\$3,425
Total number of Class D common units outstanding	-	7,276,506	7,276,506	7,276,506
Income per Class D common unit due to beneficial conversion feature	\$-	\$0.26	\$0.11	\$0.47
Distributions per unit	\$-	\$-	\$-	\$-

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP
Condensed Consolidated Statements of Comprehensive Income (Loss)
Unaudited
(in thousands)

	Three Months Ended June		Six Months Ended June	
	2009	30, 2008	2009	30, 2008
Net income	\$5,955	\$9,903	\$154,379	\$20,323
Net hedging amounts reclassified to earnings	(13,644)	15,167	(27,894)	25,602
Net change in fair value of cash flow hedges	(14,622)	(47,071)	(9,242)	(49,905)
Comprehensive income (loss)	\$(22,311)	\$(22,001)	\$117,243	\$(3,980)
Comprehensive (income) loss attributable to noncontrolling interest	(65)	69	(100)	(3)
Comprehensive income (loss) attributable to Regency Energy Partners LP	\$(22,376)	\$(21,932)	\$117,143	\$(3,983)

See accompanying notes to condensed consolidated financial statements

Regency Energy Partners LP
Condensed Consolidated Statements of Cash Flows
Unaudited
(in thousands)

	Six Months Ended June 30,	
	2009	2008
OPERATING ACTIVITIES		
Net income	\$ 154,379	\$ 20,323
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization, including debt issuance cost amortization	56,750	49,598
Noncash income from unconsolidated subsidiary	(23)	-
Risk management portfolio valuation changes	(6,293)	20,582
Loss (gain) on asset sales, net	(133,280)	468
Unit based compensation expenses	2,750	1,839
Cash flow changes in current assets and liabilities:		
Trade accounts receivable, accrued revenues, and related party receivables	38,073	(72,784)
Other current assets	3,728	(2,914)
Trade accounts payable, accrued cost of gas and liquids, and related party payables	(38,809)	53,088
Other current liabilities	(7,396)	15,314
Other assets and liabilities	(608)	1,420
Net cash flows provided by operating activities	69,271	86,934
INVESTING ACTIVITIES		
Capital expenditures	(119,185)	(148,888)
Acquisitions	-	(577,345)
Proceeds from asset sales	83,182	580
Net cash flows used in investing activities	(36,003)	(725,653)
FINANCING ACTIVITIES		
Net (repayments) borrowings under revolving credit facilities	(177,249)	681,000
Proceeds from issuance of senior notes, net of discount	236,240	-
Debt issuance costs	(11,939)	(3,313)
Partner contributions	-	7,663
Partner distributions	(71,644)	(52,317)
Proceeds from option exercises	-	2,700
Net cash flows (used in) provided by financing activities	(24,592)	635,733
Net increase (decrease) in cash and cash equivalents	8,676	(2,986)
Cash		