

Regency Energy Partners LP
Form 10-Q
November 10, 2008

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 September 30, 2008
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
(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)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer, accelerated filer, and small reporting

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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, or the Partnership, and to Regency Gas Services LLC, all the outstanding member interests of which were contributed to the Partnership on February 3, 2006, and its subsidiaries. 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
ASC	ASC Hugoton LLC, an affiliate of GECC
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
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
DOT	U.S. Department of Transportation
EIA	Energy Information Administration
EnergyOne	FrontStreet EnergyOne LLC
El Paso	El Paso Field Services, LP
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FrontStreet	FrontStreet Hugoton LLC
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
GSTC	Gulf States Transmission Corporation
HLPSA	Hazardous Liquid Pipeline Safety Act
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
MMbtu	One million BTUs
MMbtu/d	One million BTUs per day
MMcf	One million cubic feet
MMcf/d	One million cubic feet per day
MQD	Minimum Quarterly Distribution
Nexus	Nexus Gas Holdings, LLC
NOE	Notice of Enforcement
NGA	Natural Gas Act of 1938
NGLs	Natural gas liquids
NGPA	Natural Gas Policy Act of 1978
NGPSA	Natural Gas Pipeline Safety Act of 1968, as amended
NPDES	National Pollutant Discharge Elimination System
Nasdaq	Nasdaq Stock Market, LLC
NYMEX	New York Mercantile Exchange
OSHA	Occupational Safety and Health Act
Partnership	Regency Energy Partners LP
	Amended and Restated Agreement of Limited Partnership of Regency Energy Partners LP

Partnership
Agreement

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Pueblo	Pueblo Midstream Gas Corporation
RCRA	Resource Conservation and Recovery Act
RGS	Regency Gas Services LLC
RIGS	Regency Intrastate Gas LLC
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
TRRC	Texas Railroad Commission

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 can not 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:

- changes in laws and regulations impacting the midstream and compression sectors of the natural gas industry;
- declines in the credit markets and the availability of credit for us as well as for producers connected to our systems and our customers;
- the level of creditworthiness of our counterparties and customers;
- our ability to access the debt and equity markets;
- 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, demand for our services;
- 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 operations of 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. Many of the factors that will determine these results are beyond our ability to control or predict. For additional discussion of risks, uncertainties and assumptions, see “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and in Part II, Item 1A of our quarterly reports on Form 10-Q.

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.

Part 1-Financial Information
Item 1. Financial Statements

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

	September 30, 2008 (Unaudited)	December 31, 2007*
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 14,819	\$ 32,971
Restricted cash	10,042	6,029
Trade accounts receivable, net of allowance of \$870 in 2008 and \$61 in 2007	35,608	16,487
Accrued revenues	131,058	117,622
Related party receivables	1,508	61
Assets from risk management activities	9,521	-
Other current assets	6,685	6,723
Total current assets	209,241	179,893
Property, plant and equipment		
Gathering and transmission systems	616,187	635,206
Compression equipment	754,710	145,555
Gas plants and buildings	142,690	134,300
Other property, plant and equipment	154,810	105,399
Construction-in-progress	127,687	33,552
Total property, plant and equipment	1,796,084	1,054,012
Less accumulated depreciation	(203,317)	(140,903)
Property, plant and equipment, net	1,592,767	913,109
Other Assets:		
Intangible assets, net of accumulated amortization of \$18,866 in 2008 and \$8,929 in 2007	205,447	77,804
Long-term assets from risk management activities	14,424	-
Goodwill	265,990	94,075
Other, net of accumulated amortization of debt issuance costs of \$4,601 in 2008 and \$2,488 in 2007	16,974	13,529
Total other assets	502,835	185,408
TOTAL ASSETS	\$ 2,304,843	\$ 1,278,410
LIABILITIES & PARTNERS' CAPITAL		
Current Liabilities:		
Trade accounts payable	\$ 66,107	\$ 48,904
Accrued cost of gas and liquids	104,648	96,026
Related party payables	-	50
Escrow payable	10,042	6,029
Liabilities from risk management activities	24,027	37,852
Other current liabilities	31,845	9,397

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Total current liabilities	236,669	198,258
Long-term liabilities from risk management activities	6,170	15,073
Other long-term liabilities	15,591	15,393
Long-term debt	1,006,500	481,500
Minority interest in consolidated subsidiary	12,389	4,893
Commitments and contingencies		
Partners' Capital:		
Common units (55,586,453 and 41,283,079 units authorized; 54,813,451 and 40,514,895 units issued and outstanding at September 30, 2008 and December 31, 2007)	766,658	490,351
Class D common units (7,276,506 units authorized, issued and outstanding at September 30, 2008)	224,902	-
Class E common units (4,701,034 units authorized, issued and outstanding at December 31, 2007)	-	92,962
Subordinated units (19,103,896 units authorized, issued and outstanding at September 30, 2008 and December 31, 2007)	(609)	7,019
General partner interest	29,232	11,286
Accumulated other comprehensive income (loss)	7,341	(38,325)
Total partners' capital	1,027,524	563,293
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$ 2,304,843	\$ 1,278,410

See accompanying notes to condensed consolidated financial statements

* Recast to reflect an acquisition accounted for in a manner similar to a pooling of interests.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007 *	September 30, 2008	September 30, 2007 *
REVENUES				
Gas sales	\$ 323,411	\$ 175,107	\$ 922,872	\$ 538,360
NGL sales	120,538	90,605	355,558	237,382
Gathering, transportation and other fees, including related party amounts of \$939, \$541, \$2,865 and \$1,325	74,267	30,478	206,429	69,553
Net realized and unrealized gain (loss) from risk management activities	6,817	(8,088)	(39,600)	(10,798)
Other	22,142	7,722	53,856	20,584
Total revenues	547,175	295,824	1,499,115	855,081
OPERATING COSTS AND EXPENSES				
Cost of sales, including related party amounts of \$632, \$656, \$1,878 and \$13,829	408,165	234,946	1,168,441	696,644
Operation and maintenance	33,688	18,134	95,049	41,031
General and administrative	13,976	6,983	38,784	32,928
(Gain) loss on asset sales, net	(34)	(777)	434	1,562
Management services termination fee	-	-	3,888	-
Transaction expenses	2	-	536	-
Depreciation and amortization	26,422	14,993	74,638	39,123
Total operating costs and expenses	482,219	274,279	1,381,770	811,288
OPERATING INCOME	64,956	21,545	117,345	43,793
Interest expense, net	(16,072)	(10,894)	(48,261)	(41,740)
Loss on debt refinancing	-	(21,200)	-	(21,200)
Other income and deductions, net	118	713	450	951
Minority interest	(162)	(156)	(165)	(130)
INCOME (LOSS) BEFORE INCOME TAXES	48,840	(9,992)	69,369	(18,326)
Income tax expense (benefit)	(67)	(160)	142	65
NET INCOME (LOSS)	\$ 48,907	\$ (9,832)	\$ 69,227	\$ (18,391)
General partner's interest in current period net income (loss), including IDR	7,592	(256)	8,661	(433)
Beneficial conversion feature for Class C common units	-	-	-	1,385
Beneficial conversion feature for Class D common units	1,887	-	5,312	-
Limited partners' interest in net income (loss)	\$ 39,428	\$ (9,576)	\$ 55,254	\$ (19,343)

Basic and Diluted earnings per unit:

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Amount allocated to common and subordinated units	\$ 39,428	\$ (12,540)	\$ 55,254	\$ (22,621)
Weighted average number of common and subordinated units outstanding	70,043,532	55,269,457	63,838,515	48,306,666
Basic income (loss) per common and subordinated unit	\$ 0.56	\$ (0.23)	\$ 0.87	\$ (0.47)
Diluted income (loss) per common and subordinated unit	\$ 0.53	\$ (0.23)	\$ 0.85	\$ (0.47)
Distributions per unit	\$ 0.445	\$ 0.38	\$ 1.265	\$ 1.13
Amount allocated to Class B common units	\$ -	\$ -	\$ -	\$ -
Weighted average number of Class B common units outstanding	-	-	-	871,673
Income per Class B common unit	\$ -	\$ -	\$ -	\$ -
Distributions per unit	\$ -	\$ -	\$ -	\$ -
Amount allocated to Class C common units	\$ -	\$ -	\$ -	\$ 1,385
Total number of Class C common units outstanding	-	-	-	2,857,143
Income per Class C common unit due to beneficial conversion feature	\$ -	\$ -	\$ -	\$ 0.48
Distributions per unit	\$ -	\$ -	\$ -	\$ -
Amount allocated to Class D common units	\$ 1,887	\$ -	\$ 5,312	\$ -
Total number of Class D common units outstanding	7,276,506	-	7,276,506	-
Income per Class D common unit due to beneficial conversion feature	\$ 0.26	\$ -	\$ 0.73	\$ -
Distributions per unit	\$ -	\$ -	\$ -	\$ -
Amount allocated to Class E common units	\$ -	\$ 2,964	\$ -	\$ 3,278
Total number of Class E common units outstanding	-	4,701,034	4,701,034	4,701,034
Income per Class E common unit	\$ -	\$ 0.63	\$ -	\$ 0.70
Distributions per unit	\$ -	\$ 2.06	\$ -	\$ 2.32

See accompanying notes to condensed consolidated financial statements

* Recast to reflect an acquisition accounted for in a manner similar to a pooling of interests.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007 *	September 30, 2008	September 30, 2007 *
Net income (loss)	\$ 48,907	\$ (9,832)	\$ 69,227	\$ (18,391)
Net hedging amounts reclassified to earnings	14,787	4,641	40,389	7,457
Net change in fair value of cash flow hedges	55,182	(11,694)	5,277	(33,072)
Comprehensive income (loss)	\$ 118,876	\$ (16,885)	\$ 114,893	\$ (44,006)

See accompanying notes to condensed consolidated financial statements

* Recast to reflect an acquisition accounted for in a manner similar to a pooling of interests.

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

	Nine Months Ended	
	September 30, 2008	September 30, 2007 *
OPERATING ACTIVITIES		
Net income (loss)	\$ 69,227	\$ (18,391)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization, including debt issuance cost amortization	76,751	40,627
Write-off of debt issuance costs	-	5,078
Equity income and minority interest in earnings	165	130
Risk management portfolio valuation changes	(1,007)	1,634
Loss on asset sales	434	1,562
Unit based compensation expenses	3,087	14,790
Gain on insurance settlements	(3,282)	-
Cash flow changes in current assets and liabilities:		
Trade accounts receivable and accrued revenues	(11,084)	(14,857)
Other current assets	38	251
Trade accounts payable, accrued cost of gas and liquids, and related party payables	(11,125)	15,171
Other current liabilities	22,448	4,132
Other assets and liabilities	3,628	(946)
Net cash flows provided by operating activities	149,280	49,181
INVESTING ACTIVITIES		
Capital expenditures	(243,660)	(108,983)
Acquisitions	(577,344)	(34,844)
Acquisition of investment in unconsolidated subsidiary, net of \$100 cash	-	(5,000)
Proceeds from asset sales	696	11,723
Proceeds from insurance settlements	3,282	-
Net cash flows used in investing activities	(817,026)	(137,104)
FINANCING ACTIVITIES		
Net borrowings under revolving credit facilities	525,000	33,300
Repayments under credit facilities	-	(50,000)
Repayments of senior notes, net of debt issuance costs	-	(192,500)
Partner contributions	11,753	7,735
Partner distributions	(86,448)	(56,208)
Proceeds from option exercises	2,700	-
Debt issuance costs	(2,925)	(1,164)
FrontStreet distributions	-	(4,800)
FrontStreet contributions	-	10,895
Proceeds from equity issuances, net of issuance costs	199,514	353,446

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Net cash flows provided by financing activities	649,594	100,704
Net increase (decrease) in cash and cash equivalents	(18,152)	12,781
Cash and cash equivalents at beginning of period	32,971	11,932
Cash and cash equivalents at end of period	\$ 14,819	\$ 24,713
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	\$ 37,634	\$ 51,324
Income taxes paid	596	-
Non-cash capital expenditures in accounts payable	24,871	3,359
Non-cash capital expenditures for consolidation of investment in previously unconsolidated subsidiary	-	5,650
Non-cash capital expenditure upon entering into a capital lease obligation	-	3,000
Issuance of common units for an acquisition	219,590	19,724
Release of escrow payable from restricted cash	4,487	-

See accompanying notes to condensed consolidated financial statements

* Recast to reflect an acquisition accounted for in a manner similar to a pooling of interests.

Regency Energy Partners LP
 Condensed Consolidated Statements of Partners' Capital
 Unaudited
 (in thousands except unit data)

Units							General	Accumulated Other	
Class	Class	Common	Class D	Class E	Subordinated	Partner	Comprehensive	Income (Loss)	Total
Common	D	E	Subordinated	Unitholders	Unitholders	Unitholders	Unitholders	Interest	Total