ENTERPRISE PRODUCTS PARTNERS L P
Form 10-Q
August 11, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

o 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: 1-14323

ENTERPRISE PRODUCTS PARTNERS L.P.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	76-0568219
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1100 Louisiana Street, 10th Floor Houston, Texas 77002
(Address of Principal Executive Offices, including Zip Code)

(713) 381-6500
(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 þ No o

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 þ 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

There were 938,965,811 common units of Enterprise Products Partners L.P. outstanding at the close of business on July 31, 2014. Our common units trade on the New York Stock Exchange under the ticker symbol "EPD."

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

ASSETS	June 30, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$242.0	$56.9
Restricted cash	56.7	65.6
Accounts receivable – trade, net of allowance for doubtful accounts of $14.8 at June 30, 2014 and $7.5 at December 31, 2013	5,393.5	5,475.5
Accounts receivable – related parties	56.3	6.8
Inventories	1,318.3	1,093.1
Prepaid and other current assets	405.1	325.5
Total current assets	7,471.9	7,023.4
Property, plant and equipment, net	27,554.7	26,946.6
Investments in unconsolidated affiliates	2,879.3	2,437.1
Intangible assets, net of accumulated amortization of $1,194.3 at June 30, 2014 and $1,150.0 at December 31, 2013	1,414.9	1,462.2
Goodwill (see Note 8)	2,079.9	2,080.0
Other assets	170.6	189.4
Total assets	$41,571.3	$40,138.7
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of debt (see Note 9)	$1,300.0	$1,125.0
Accounts payable – trade	705.9	723.7
Accounts payable – related parties	114.0	150.5
Accrued product payables	5,606.6	5,608.7
Accrued interest	319.6	304.3
Other current liabilities	423.8	326.5
Total current liabilities	8,469.9	8,238.7
Long-term debt (see Note 9)	17,062.9	16,226.5
Deferred tax liabilities	61.2	60.8
Other long-term liabilities	174.9	172.3
Commitments and contingencies (see Note 14)		
Equity: (see Note 10)		
Partners' equity:		
Limited partners:		
Common units (938,975,136 units outstanding at June 30, 2014 and 935,685,008 units outstanding at December 31, 2013)	15,930.8	15,573.8
Accumulated other comprehensive loss	(354.2)	(359.0)
Total partners' equity	15,576.6	15,214.8
Noncontrolling interests	225.8	225.6
Total equity	15,802.4	15,440.4

Total liabilities and equity	$41,571.3	$40,138.7

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
(Dollars in millions, except per unit amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Third parties	$12,503.5	$11,142.6	$25,377.9	$22,519.8
Related parties	17.3	6.7	52.8	12.6
Total revenues (see Note 11)	12,520.8	11,149.3	25,430.7	22,532.4
Costs and expenses:				
Operating costs and expenses:				
Third parties	11,382.4	10,143.0	23,000.8	20,349.2
Related parties	256.7	224.2	518.8	438.4
Total operating costs and expenses	11,639.1	10,367.2	23,519.6	20,787.6
General and administrative costs:				
Third parties	18.9	17.5	41.9	37.2
Related parties	28.8	28.0	59.0	57.8
Total general and administrative costs	47.7	45.5	100.9	95.0
Total costs and expenses (see Note 11)	11,686.8	10,412.7	23,620.5	20,882.6
Equity in income of unconsolidated affiliates	50.3	37.6	106.8	82.1
Operating income	884.3	774.2	1,917.0	1,731.9
Other income (expense):				
Interest expense	(228.9)	(200.2)	(449.8)	(396.1)
Interest income	0.5	0.3	0.8	0.5
Other, net	0.6	(0.6)	--	(0.9)
Total other expense, net	(227.8)	(200.5)	(449.0)	(396.5)
Income before income taxes	656.5	573.7	1,468.0	1,335.4
Provision for income taxes	(10.0)	(20.4)	(14.8)	(26.8)
Net income	646.5	553.3	1,453.2	1,308.6
Net income attributable to noncontrolling interests (see Note 10)	(8.8)	(0.8)	(16.7)	(2.6)
Net income attributable to limited partners	$637.7	$552.5	$1,436.5	$1,306.0
Earnings per unit: (see Note 13)				
Basic earnings per unit	$0.70	$0.62	$1.57	$1.48
Diluted earnings per unit	$0.68	$0.60	$1.53	$1.43

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Dollars in millions)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$646.5	$553.3	$1,453.2	$1,308.6
Other comprehensive income (loss):				
Cash flow hedges:				
Commodity derivative instruments:				
Changes in fair value of cash flow hedges	(32.8)	34.1	(42.0)	(13.5)
Reclassification of losses (gains) to net income	14.9	(7.2)	30.9	0.1
Interest rate derivative instruments:				
Changes in fair value of cash flow hedges	--	--	--	6.7
Reclassification of losses to net income	8.0	7.8	15.9	13.7
Total cash flow hedges	(9.9)	34.7	4.8	7.0
Other	--	0.4	--	0.4
Total other comprehensive income (loss)	(9.9)	35.1	4.8	7.4
Comprehensive income	636.6	588.4	1,458.0	1,316.0
Comprehensive income attributable to noncontrolling interests	(8.8)	(0.8)	(16.7)	(2.6)
Comprehensive income attributable to limited partners	$627.8	$587.6	$1,441.3	$1,313.4

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in millions)

	For the Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net income	$1,453.2	$1,308.6
Reconciliation of net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	651.0	599.8
Non-cash asset impairment charges (see Note 4)	12.5	38.1
Equity in income of unconsolidated affiliates	(106.8)	(82.1)
Distributions received from unconsolidated affiliates	157.1	119.3
Net gains attributable to asset sales and insurance recoveries (see Note 16)	(96.4)	(58.2)
Deferred income tax expense	0.6	14.8
Changes in fair market value of derivative instruments	(6.2)	(1.2)
Net effect of changes in operating accounts (see Note 16)	(198.6)	(409.2)
Other operating activities	5.5	1.0
Net cash flows provided by operating activities	1,871.9	1,530.9
Investing activities:		
Capital expenditures	(1,186.4)	(1,447.3)
Contributions in aid of construction costs	13.9	14.9
Decrease (increase) in restricted cash	8.9	(22.0)
Investments in unconsolidated affiliates	(498.8)	(547.9)
Proceeds from asset sales and insurance recoveries (see Note 16)	113.2	199.2
Other investing activities	(5.7)	0.5
Cash used in investing activities	(1,554.9)	(1,802.6)
Financing activities:		
Borrowings under debt agreements	4,182.8	7,064.5
Repayments of debt	(3,161.3)	(6,281.6)
Debt issuance costs	(18.1)	(23.7)
Monetization of interest rate derivative instruments (see Note 4)	--	(168.8)
Cash distributions paid to limited partners (see Note 10)	(1,288.4)	(1,171.9)
Cash payments made in connection with distribution equivalent rights	(1.2)	--
Cash distributions paid to noncontrolling interests	(19.7)	(4.7)
Cash contributions from noncontrolling interests (see Note 10)	4.0	95.9
Net cash proceeds from the issuance of common units	223.3	835.4
Other financing activities	(53.3)	(44.2)
Cash provided by (used in) financing activities	(131.9)	300.9
Net change in cash and cash equivalents	185.1	29.2
Cash and cash equivalents, January 1	56.9	16.1
Cash and cash equivalents, June 30	$242.0	$45.3

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED EQUITY
(See Note 10 for Unit History, Accumulated Other Comprehensive
Income (Loss) and Noncontrolling Interests)
(Dollars in millions)

	Partners' Equity			
	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, December 31, 2013	$15,573.8	$ (359.0)	$ 225.6	$15,440.4
Net income	1,436.5	--	16.7	1,453.2
Cash distributions paid to limited partners	(1,288.4)	--	--	(1,288.4)
Cash payments made in connection with distribution equivalent rights	(1.2)	--	--	(1.2)
Cash distributions paid to noncontrolling interests	--	--	(19.7)	(19.7)
Cash contributions from noncontrolling interests	--	--	4.0	4.0
Net cash proceeds from the issuance of common units	223.3	--	--	223.3
Amortization of fair value of equity-based awards	39.9	--	--	39.9
Cash flow hedges	--	4.8	--	4.8
Other	(53.1)	--	(0.8)	(53.9)
Balance, June 30, 2014	$15,930.8	$ (354.2)	$ 225.8	$15,802.4

	Partners' Equity			
	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, December 31, 2012	$13,558.1	$ (370.4)	$ 108.3	$13,296.0
Net income	1,306.0	--	2.6	1,308.6
Cash distributions paid to limited partners	(1,171.9)	--	--	(1,171.9)
Cash distributions paid to noncontrolling interests	--	--	(4.7)	(4.7)
Cash contributions from noncontrolling interests	--	--	95.9	95.9
Net cash proceeds from the issuance of common units	835.4	--	--	835.4
Amortization of fair value of equity-based awards	35.6	--	--	35.6
Cash flow hedges	--	7.0	--	7.0
Other	(44.3)	0.4	(5.2)	(49.1)
Balance, June 30, 2013	$14,518.9	$ (363.0)	$ 196.9	$14,352.8

See Notes to Unaudited Condensed Consolidated Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

With the exception of per unit amounts, or as noted within the context of each disclosure, the dollar amounts presented in the tabular data within these disclosures are stated in millions of dollars.

KEY REFERENCES USED IN THESE
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references to "we," "us," "our," "Enterprise" or "Enterprise Products Partners" are intended to mean the business and operations of Enterprise Products Partners L.P. and its consolidated subsidiaries. References to "EPO" mean Enterprise Products Operating LLC, which is a wholly owned subsidiary of Enterprise, and its consolidated subsidiaries, through which Enterprise Products Partners L.P. conducts its business. Enterprise is managed by its general partner, Enterprise Products Holdings LLC ("Enterprise GP"), which is a wholly owned subsidiary of Dan Duncan LLC, a privately held Texas limited liability company.

The membership interests of Dan Duncan LLC are owned of record by a voting trust, the current trustees ("DD LLC Trustees") of which are: (i) Randa Duncan Williams, who is also a director and Chairman of the Board of Enterprise GP; (ii) Dr. Ralph S. Cunningham; and (iii) Richard H. Bachmann. Each of the DD LLC Trustees also currently serves as one of the three managers of Dan Duncan LLC.

References to "EPCO" mean Enterprise Products Company, a privately held Texas corporation, and its privately held affiliates. A majority of the outstanding voting capital stock of EPCO is owned of record by a voting trust, the current trustees ("EPCO Trustees") of which are: (i) Ms. Williams, who also serves as Chairman of EPCO; (ii) Dr. Cunningham, who also serves as a Vice Chairman of EPCO; and (iii) Mr. Bachmann, who also serves as the President and Chief Executive Officer ("CEO") of EPCO. Each of the EPCO Trustees is also a director of EPCO.

In addition to owning our general partner, privately held affiliates of EPCO owned approximately 36.4% of our limited partner interests at June 30, 2014.

References to "TEPPCO" mean TEPPCO Partners, L.P. prior to its merger with one of our wholly owned subsidiaries in October 2009.

Note 1. Partnership Operations and Organization

General

We are a publicly traded Delaware limited partnership, the common units of which are listed on the New York Stock Exchange ("NYSE") under the ticker symbol "EPD." We were formed in April 1998 to own and operate certain natural gas liquids ("NGLs") related businesses of EPCO and are a leading North American provider of midstream energy services to producers and consumers of natural gas, NGLs, crude oil, petrochemicals and refined products.

Our integrated midstream energy asset network links producers of natural gas, NGLs and crude oil from some of the largest supply basins in the United States ("U.S."), Canada and Gulf of Mexico with domestic consumers and international markets. Our midstream energy operations include: natural gas gathering, treating, processing, transportation and storage; NGL transportation, fractionation, storage, and import and export terminals (including liquefied petroleum gas or "LPG"); crude oil gathering, transportation, storage and terminals; offshore production platforms; petrochemical and refined products transportation and services; and a marine transportation business that operates primarily on the U.S. inland and Intracoastal Waterway systems and in the Gulf of Mexico. Our assets include approximately 51,000 miles of onshore and offshore pipelines; 200 million barrels ("MMBbls") of storage capacity for NGLs, petrochemicals, refined products and crude oil; and 14 billion cubic feet ("Bcf") of natural gas storage capacity. In addition, our asset portfolio includes 24 natural gas processing plants, 22 NGL and propylene fractionators, six offshore hub platforms located in the Gulf of Mexico, a butane isomerization complex, NGL import and LPG export terminals, and octane enhancement and high-purity isobutylene production facilities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have five reportable business segments: (i) NGL Pipelines & Services; (ii) Onshore Natural Gas Pipelines & Services; (iii) Onshore Crude Oil Pipelines & Services; (iv) Offshore Pipelines & Services; and (v) Petrochemical & Refined Products Services.

We are 100% owned by our limited partners from an economic perspective. We are managed and controlled by Enterprise GP, which has a non-economic general partner interest in us. We, Enterprise GP, EPCO and Dan Duncan LLC are affiliates under the collective common control of the DD LLC Trustees and the EPCO Trustees. We have no employees. All of our operating functions and general and administrative support services are provided by employees of EPCO pursuant to an administrative services agreement (the "ASA") or by other service providers. See Note 12 for information regarding the ASA and other related party matters.

Note 2. General Accounting Matters

Our results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of results expected for the full year of 2014. In our opinion, the accompanying Unaudited Condensed Consolidated Financial Statements include all adjustments consisting of normal recurring accruals necessary for fair presentation. Although we believe the disclosures in these financial statements are adequate and make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

These Unaudited Condensed Consolidated Financial Statements and Notes thereto should be read in conjunction with the Audited Consolidated Financial Statements and Notes thereto included in our annual report on Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K") filed with the SEC on March 3, 2014.

See Note 18 for information regarding a two-for-one common unit split announced on July 15, 2014. All per unit amounts and number of units outstanding in these Unaudited Condensed Consolidated Financial Statements and Notes thereto are presented on a pre-split basis.

Contingencies

Certain conditions may exist as of the date our consolidated financial statements are issued, which may result in a loss to us but which will only be resolved when one or more future events occur or fail to occur. Management has regular quarterly litigation reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies, and such assessment inherently involves an exercise in judgment. In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, our management and legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

We accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not record a contingent liability when the likelihood of loss is probable but the amount cannot be reasonably estimated or when it is believed to be only reasonably possible or remote.

For contingencies where an unfavorable outcome is reasonably possible and the impact would be material, we disclose the nature of the contingency and, if feasible, an estimate of the possible loss or range of loss.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. See Note 14 for additional information regarding our contingencies.

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Derivative Instruments

We use derivative instruments such as futures, swaps, options, forward contracts and other arrangements to manage price risks associated with inventories, firm commitments, interest rates, foreign currencies and certain anticipated future commodity transactions. To qualify for hedge accounting, the hedged item must expose us to risk and the related derivative instrument must reduce the exposure to that risk and meet specific hedge documentation requirements related to designation dates, expectations for hedge effectiveness and the probability that hedged future transactions will occur as forecasted. We formally designate derivative instruments as hedges and document and assess their effectiveness at inception of the hedge and on a monthly basis thereafter. Forecasted transactions are evaluated for the probability of occurrence and are periodically back-tested once the forecasted period has passed to determine whether similarly forecasted transactions are probable of occurring in the future.

For certain physical forward commodity derivative contracts, we apply the normal purchase/normal sale exception, whereby changes in the mark-to-market values of such contracts are not recognized in income. As a result, the revenues and expenses associated with such physical transactions are recognized during the period when volumes are physically delivered or received. Physical forward commodity contracts subject to this exception are evaluated for the probability of future delivery and are periodically back-tested once the forecasted period has passed to determine whether similar forward contracts are probable of physical delivery in the future. See Note 4 for additional information regarding our derivative instruments.

Estimates

Preparing our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates that affect amounts presented in the financial statements. Our most significant estimates relate to (i) the useful lives and depreciation/amortization methods used for fixed and identifiable intangible assets; (ii) measurement of fair value and projections used in impairment testing of fixed and intangible assets (including goodwill); (iii) contingencies; and (iv) revenue and expense accruals.

Actual results could differ materially from our estimates. On an ongoing basis, we review our estimates based on currently available information. Any changes in the facts and circumstances underlying our estimates may require us to update such estimates, which could have a material impact on our consolidated financial statements.

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board finished their joint project to converge U.S. GAAP and International Financial Reporting Standards in the area of revenue recognition. The resulting accounting standards update eliminates the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principles based approach for determining revenue recognition.

The core principle in the new guidance is that a company should recognize revenue in a manner that depicts the transfer of goods or services to customers in an amount that reflects the consideration the company expects to receive for those goods or services. In order to apply this core principle, companies will apply the following five steps in determining the amount of revenues to recognize:

§ identify the contract;

§ identify the performance obligations in the contract;

§ determine the transaction price;

§ allocate the transaction price to the performance obligations in the contract; and

§ recognize revenue when (or as) the performance obligation is satisfied.

Each of these steps involves judgment and an analysis of the contract's terms and conditions.

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ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We are continuing to evaluate this recently issued accounting guidance; therefore, we are currently not in a position to estimate its impact on our consolidated financial statements. The effective date of the new standard is January 1, 2017. At present, we expect to adopt the new standard using the modified retrospective method. This modified approach allows us to apply the new standard to (i) all new contracts after the effective date and (ii) all existing contracts as of the effective date through a cumulative adjustment to equity. Consolidated revenues for periods prior to the effective date would not be retrospectively adjusted.

Restricted Cash

Restricted cash represents amounts held in segregated bank accounts by our clearing brokers as margin in support of our commodity derivative instruments portfolio and related physical purchases and sales of natural gas, crude oil, refined products and NGLs. Additional cash may be restricted to maintain our commodity derivative instruments portfolio as prices fluctuate or deposit requirements change. At June 30, 2014 and December 31, 2013, our restricted cash amounts were $56.7 million and $65.6 million, respectively. See Note 4 for information regarding our derivative instruments and hedging activities.

Note 3. Equity-based Awards

An allocated portion of the fair value of EPCO's equity-based awards is charged to us under the ASA. The following table summarizes compensation expense we recognized in connection with equity-based awards for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Equity-classified awards:				
Restricted common unit awards	$9.0	$18.3	$20.6	$34.9
Unit option awards	--	0.2	--	0.6
Phantom unit awards	13.6	--	19.4	--
Liability-classified awards	0.2	0.1	0.3	0.3
Total	$22.8	$18.6	$40.3	$35.8

The fair value of equity-classified awards is amortized to earnings over the requisite service or vesting period. Equity-classified awards are expected to result in the issuance of common units upon vesting. Compensation expense for liability-classified awards is recognized over the requisite service or vesting period based on the fair value of the award remeasured at each reporting date. Liability-classified awards are settled in cash upon vesting.

At June 30, 2014, EPCO's significant long-term incentive plans applicable to us were the Enterprise Products 1998 Long-Term Incentive Plan ("1998 Plan") and the 2008 Enterprise Products Long-Term Incentive Plan (Third Amendment and Restatement) ("2008 Plan"). Up to 7,000,000 of our common units may be issued as awards under the 1998 Plan. The maximum number of common units available for issuance under the 2008 Plan was 12,500,000 at June 30, 2014. This amount will automatically increase under the terms of the 2008 Plan by 2,500,000 common units on January 1, 2015 and will continue to automatically increase annually on January 1 thereafter during the term of the 2008 Plan; provided, however, that in no event shall the maximum aggregate number exceed 35,000,000 common units. After giving effect to awards granted under the 1998 Plan and 2008 Plan through June 30, 2014, a total of 1,340,885 and 6,388,498 additional common units could be issued under these plans, respectively.

Restricted Common Unit Awards

Restricted common unit awards allow recipients to acquire our common units (at no cost to the recipient apart from fulfilling service and other conditions) once a defined vesting period expires, subject to customary forfeiture provisions. Restricted common unit awards generally vest at a rate of 25% per year beginning one year after the grant date and are non-vested until the required service periods expire. Restricted common units are included in the number of common units outstanding as presented on our Unaudited Condensed Consolidated Balance Sheets.

The following table presents information regarding restricted common unit awards for the period indicated:

	Number of Units	Weighted-Average Grant Date Fair Value per Unit (1)
Restricted common units at December 31, 2013	3,610,607	$ 51.66
Vested	(1,276,762)	$ 47.81
Forfeited	(115,250)	$ 52.49
Restricted common units at June 30, 2014	2,218,595	$ 53.84

(1) Determined by dividing the aggregate grant date fair value of awards (before an allowance for forfeitures) by the number of awards issued.

Each recipient of a restricted common unit award is entitled to nonforfeitable cash distributions equal to the product of the number of restricted common units outstanding for the participant and the cash distribution per unit paid by Enterprise to its common unitholders. These distributions are included in "Cash distributions paid to limited partners" as presented on our Unaudited Condensed Statements of Consolidated Cash Flows.

The following table presents supplemental information regarding our restricted common unit awards for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Cash distributions paid to restricted common unitholders	$1.6	$3.0	$4.1	$5.6
Total intrinsic value of restricted common unit awards that vested during period	$2.7	$54.0	$84.1	$106.4

For the EPCO group of companies, the unrecognized compensation cost associated with restricted common unit awards was an aggregate $47.1 million at June 30, 2014, of which our allocated share of the cost is currently estimated to be $42.2 million. Due to the graded vesting provisions of these awards, we expect to recognize our share of the unrecognized compensation cost for these awards over a weighted-average period of 1.7 years.

Unit Option Awards

EPCO's long-term incentive plans provide for the issuance of non-qualified incentive options denominated in the common units of Enterprise Products Partners L.P. In general, unit option awards have a vesting period of four years from the date of grant and expire at the end of the calendar year following the year of vesting (e.g., an option vesting on May 29, 2013 will expire on December 31, 2014). However, unit option awards only become exercisable at certain times during the calendar year following the year in which they vest (typically the months of February, May, August and November).

The following table presents unit option award activity for the period indicated:

	Number of Units	Weighted-Average Strike Price (dollars/unit)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Unit option awards at December 31, 2013	2,025,000	$ 26.49	1.3	$ 57.0
Exercised	(1,360,000)	$ 23.66		
Forfeited	(30,000)	$ 32.27		
Unit option awards at June 30, 2014	635,000	$ 32.27	1.5	$ 29.2

(1) Aggregate intrinsic value reflects fully vested unit option awards at the date indicated.
(2) None of the unit option awards outstanding at June 30, 2014 and December 31, 2013 were exercisable as of such dates, respectively.

In order to fund its unit option award-related obligations, EPCO may purchase common units at fair value either in the open market or directly from us. When employees exercise unit option awards, we reimburse EPCO for the cash difference between the strike price paid by the employee and the actual purchase price paid by EPCO for the units issued to the employee.

The following table presents supplemental information regarding unit option awards during the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Total intrinsic value of unit option awards exercised during period	$2.8	$3.4	$57.5	$19.8
Cash received from EPCO in connection with the exercise of unit option awards	1.6	2.0	33.4	11.5
Unit option award-related cash reimbursements to EPCO	2.8	3.4	57.5	19.8

As of June 30, 2014, all compensation expense related to unit option awards had been recognized.

Phantom Unit Awards

Phantom unit awards allow recipients to acquire our common units (at no cost to the recipient apart from fulfilling service and other conditions) once a defined vesting period expires, subject to customary forfeiture provisions. Phantom unit awards generally vest at a rate of 25% per year beginning one year after the grant date and are non-vested until the required service periods expire.

At June 30, 2014, substantially all of our phantom unit awards are expected to result in the issuance of common units upon vesting; therefore, the applicable awards are accounted for as equity-classified awards. Compensation expense attributable to these awards is based on the grant date fair value of the award, net of an allowance for estimated forfeitures, amortized over the requisite service or vesting period. The grant date fair value of a phantom unit award is based on the market price per unit of Enterprise's common units on the date of grant. These awards were first issued in February 2014.

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The following table presents phantom unit award activity for the period indicated:

	Number of Units	Weighted-Average Grant Date Fair Value per Unit (1)
Phantom unit awards at December 31, 2013	--	$ --
Granted (2)	1,737,945	$ 66.11
Vested	(15,800)	$ 66.08
Forfeited	(32,070)	$ 66.08
Phantom unit awards at June 30, 2014	1,690,075	$ 66.11

(1) Determined by dividing the aggregate grant date fair value of awards (before an allowance for forfeitures) by the number of awards issued.
(2) The aggregate grant date fair value of phantom unit awards issued during 2014 was $114.9 million based on a grant date market price of our common units ranging from $66.08 to $74.55 per unit. An estimated annual forfeiture rate of 3.4% was applied to these awards.

Our long-term incentive plans provide for the issuance of distribution equivalent rights ("DERs") in connection with phantom unit awards. A DER entitles the participant to nonforfeitable cash payments equal to the product of the number of phantom unit awards outstanding for the participant and the cash distribution per common unit paid by Enterprise to its common unitholders. Cash payments made in connection with DERs are charged to partners' equity when the phantom unit award is expected to result in the issuance of common units; otherwise, such amounts are expensed.

The following table presents supplemental information regarding our phantom unit awards and DERs for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Cash payments made in connection with DERs	$1.2	$ --	$1.2	$ --
Total intrinsic value of phantom unit awards that vested during period	$1.2	$ --	$1.2	$ --

For the EPCO group of companies, the unrecognized compensation cost associated with phantom unit awards was $84.2 million at June 30, 2014, of which our allocated share of the cost is currently estimated to be $77.4 million. Due to the graded vesting provisions of these awards, we expect to recognize our share of the unrecognized compensation cost for these awards over a weighted-average period of 2.3 years.

Note 4. Derivative Instruments, Hedging Activities and Fair Value Measurements

In the normal course of our business operations, we are exposed to certain risks, including changes in interest rates and commodity prices. In order to manage risks associated with assets, liabilities and certain anticipated future transactions, we use derivative instruments such as futures, forward contracts, swaps, options and other instruments with similar characteristics. Substantially all of our derivatives are used for non-trading activities.

Interest Rate Hedging Activities

We may utilize interest rate swaps, forward starting swaps and similar derivative instruments to manage our exposure to changes in interest rates charged on borrowings under certain consolidated debt agreements. The following table summarizes our portfolio of interest rate swaps at June 30, 2014:

Hedged Transaction	Number and Type of Derivatives Outstanding	Notional Amount	Period of Hedge	Rate Swap	Accounting Treatment
Senior Notes AA	10 fixed-to-floating swaps	$ 750.0	1/2011 to 2/2016	3.2% to 1.2%	Fair value hedge
Undesignated swaps	6 floating-to-fixed swaps	$ 600.0	5/2010 to 7/2014	0.2% to 2.0%	Mark-to-market

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In July 2014, six undesignated floating-to-fixed swaps having an aggregate notional amount of $600.0 million, that were outstanding at June 30, 2014, expired. These swaps were accounted for as mark-to-market instruments with changes in fair value recorded in "Interest expense" on our Unaudited Condensed Statements of Consolidated Operations.

In connection with the issuance of Senior Notes II and HH in March 2013, we settled 16 forward starting swaps having an aggregate notional amount of $1.0 billion, that were outstanding at December 31, 2012, which resulted in cash losses totaling $168.8 million. These losses are a component of accumulated other comprehensive loss and are being amortized to earnings (as an increase in interest expense) over the forecasted hedge period of ten years using the effective interest method.

Commodity Hedging Activities

The prices of natural gas, NGLs, crude oil, refined products and petrochemical products are subject to fluctuations in response to changes in supply and demand, market conditions and a variety of additional factors that are beyond our control. In order to manage such price risks, we enter into commodity derivative instruments such as physical forward contracts, futures contracts, fixed-for-float swaps, basis swaps and option contracts. The following table summarizes our portfolio of commodity derivative instruments outstanding at June 30, 2014 (volume measures as noted):

	Volume (1)		Accounting
Derivative Purpose	Current (2)	Long-Term (2)	Treatment
Derivatives designated as hedging instruments:			
Natural gas processing:			
Forecasted natural gas purchases for plant thermal reduction (Bcf)	2.2	n/a	Cash flow hedge
Forecasted sales of NGLs (MMBbls) (3)	0.6	n/a	Cash flow hedge
Octane enhancement:			
Forecasted purchases of NGLs (MMBbls)	0.1	n/a	Cash flow hedge
Forecasted sales of octane enhancement products (MMBbls)	1.6	n/a	Cash flow hedge
Natural gas marketing:			
Natural gas storage inventory management activities (Bcf)	3.3	n/a	Fair value hedge
NGL marketing:			
Forecasted purchases of NGLs and related hydrocarbon products (MMBbls)	6.2	n/a	Cash flow hedge
Forecasted sales of NGLs and related hydrocarbon products (MMBbls)	7.6	n/a	Cash flow hedge
Refined products marketing:			
Forecasted purchases of refined products (MMBbls)	0.6	n/a	Cash flow hedge
Forecasted sales of refined products (MMBbls)	1.0	n/a	Cash flow hedge
Refined products inventory management activities (MMBbls)	0.2	n/a	Fair value hedge
Crude oil marketing:			
Forecasted purchases of crude oil (MMBbls)	3.3	n/a	Cash flow hedge
Forecasted sales of crude oil (MMBbls)	5.0	n/a	Cash flow hedge
Derivatives not designated as hedging instruments:			
Natural gas risk management activities (Bcf) (4,5)	73.1	12.6	Mark-to-market
Crude oil risk management activities (MMBbls) (5)	13.2	n/a	Mark-to-market

(1) Volume for derivatives designated as hedging instruments reflects the total amount of volumes hedged whereas volume for derivatives not designated as hedging instruments reflects the absolute value of derivative notional volumes.

(2) The maximum term for derivatives designated as cash flow hedges, derivatives designated as fair value hedges and derivatives not designated as hedging instruments is March 2015, August 2014 and October 2016, respectively.
(3) Forecasted sales of NGL volumes under natural gas processing exclude 0.6 MMBbls of additional hedges executed under contracts that have been designated as normal sales agreements.
(4) Current volumes include 37.7 Bcf of physical derivative instruments that are predominantly priced at a marked-based index plus a premium or minus a discount related to location differences.
(5) Reflects the use of derivative instruments to manage risks associated with transportation, processing and storage assets.

At June 30, 2014, our predominant commodity hedging strategies consisted of (i) hedging anticipated future purchases and sales of commodity products associated with transportation, storage and blending activities, (ii) hedging the fair value of commodity products held in inventory, (iii) hedging natural gas processing margins, and (iv) hedging octane enhancement margins.

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Tabular Presentation of Fair Value Amounts, and Gains and Losses on Derivative Instruments and Related Hedged Items

The following table provides a balance sheet overview of our derivative assets and liabilities at the dates indicated:

	Asset Derivatives				Liability Derivatives			
	June 30, 2014		December 31, 2013		June 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments								
Interest rate derivatives	Other current assets	$20.4	Other current assets	$20.2	Other current liabilities	$ --	Other current liabilities	$ --
Interest rate derivatives	Other assets	6.9	Other assets	12.4	Other liabilities	--	Other liabilities	--
Total interest rate derivatives		27.3		32.6		--		--
Commodity derivatives	Other current assets	35.7	Other current assets	30.9				