ENTERPRISE PRODUCTS PARTNERS L P
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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: 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 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, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

There were 2,148,986,109 common units of Enterprise Products Partners L.P. outstanding at the close of business on July 31, 2017. 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)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$28.6	$63.1
Restricted cash	35.4	354.5
Accounts receivable – trade, net of allowance for doubtful accounts of $12.1 at June 30, 2017 and $11.3 at December 31, 2016	2,655.7	3,329.5
Accounts receivable – related parties	3.0	1.1
Inventories	1,604.3	1,770.5
Derivative assets (see Note 12)	70.0	541.4
Prepaid and other current assets	387.5	468.1
Total current assets	4,784.5	6,528.2
Property, plant and equipment, net	34,220.7	33,292.5
Investments in unconsolidated affiliates	2,661.3	2,677.3
Intangible assets, net of accumulated amortization of $1,483.9 at June 30, 2017 and $1,403.1 at December 31, 2016 (see Note 6)	3,782.4	3,864.1
Goodwill (see Note 6)	5,745.2	5,745.2
Other assets	119.2	86.7
Total assets	$51,313.3	$52,194.0
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of debt (see Note 7)	$3,354.8	$2,576.8
Accounts payable – trade	674.4	397.7
Accounts payable – related parties	62.9	105.1
Accrued product payables	2,951.1	3,613.7
Accrued interest	339.9	340.8
Derivative liabilities (see Note 12)	48.9	737.7
Other current liabilities	386.6	478.7
Total current liabilities	7,818.6	8,250.5
Long-term debt (see Note 7)	20,026.5	21,120.9
Deferred tax liabilities	53.4	52.7
Other long-term liabilities	534.6	503.9
Commitments and contingencies (see Note 14)		
Equity: (see Note 8)		
Partners' equity:		
Limited partners:		
Common units (2,148,035,389 units outstanding at June 30, 2017 and 2,117,588,414 units outstanding at December 31, 2016)	22,788.8	22,327.0

Accumulated other comprehensive loss	(128.7)	(280.0)
Total partners' equity	22,660.1	22,047.0
Noncontrolling interests	220.1	219.0
Total equity	22,880.2	22,266.0
Total liabilities and equity	$51,313.3	$52,194.0

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,	
	2017	2016	2017	2016
Revenues:				
Third parties	$6,597.7	$5,604.6	$13,907.3	$10,594.3
Related parties	9.9	13.2	20.7	28.8
Total revenues (see Note 9)	6,607.6	5,617.8	13,928.0	10,623.1
Costs and expenses:				
Operating costs and expenses:				
Third parties	5,457.6	4,551.9	11,539.2	8,418.2
Related parties	272.6	270.3	524.2	550.9
Total operating costs and expenses	5,730.2	4,822.2	12,063.4	8,969.1
General and administrative costs:				
Third parties	16.0	6.6	36.7	20.9
Related parties	29.7	28.5	59.4	58.1
Total general and administrative costs	45.7	35.1	96.1	79.0
Total costs and expenses (see Note 9)	5,775.9	4,857.3	12,159.5	9,048.1
Equity in income of unconsolidated affiliates	107.0	76.4	201.8	177.5
Operating income	938.7	836.9	1,970.3	1,752.5
Other income (expense):				
Interest expense	(245.8)	(244.1)	(495.1)	(484.7)
Change in fair market value of Liquidity Option Agreement (see Note 14)	(18.6)	(23.3)	(24.1)	(21.1)
Other, net	0.4	0.4	0.6	1.8
Total other expense, net	(264.0)	(267.0)	(518.6)	(504.0)
Income before income taxes	674.7	569.9	1,451.7	1,248.5
Benefit from (provision for) income taxes	(8.7)	0.1	(14.7)	(8.3)
Net income	666.0	570.0	1,437.0	1,240.2
Net income attributable to noncontrolling interests	(12.3)	(11.5)	(22.6)	(20.5)
Net income attributable to limited partners	$653.7	$558.5	$1,414.4	$1,219.7
Earnings per unit: (see Note 10)				
Basic earnings per unit	$0.30	$0.27	$0.66	$0.59
Diluted earnings per unit	$0.30	$0.27	$0.66	$0.59

See Notes to Unaudited Condensed Consolidated Financial Statements.

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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,	
	2017	2016	2017	2016
Net income	$666.0	$570.0	$1,437.0	$1,240.2
Other comprehensive income (loss):				
Cash flow hedges:				
Commodity derivative instruments:				
Changes in fair value of cash flow hedges	30.4	(73.7)	175.2	(74.9)
Reclassification of losses (gains) to net income	(46.0)	35.4	(38.9)	(21.8)
Interest rate derivative instruments:				
Changes in fair value of cash flow hedges	(6.9)	(9.4)	(4.5)	(9.4)
Reclassification of losses to net income	10.0	9.2	19.6	18.4
Total cash flow hedges	(12.5)	(38.5)	151.4	(87.7)
Other	--	--	(0.1)	(0.1)
Total other comprehensive income (loss)	(12.5)	(38.5)	151.3	(87.8)
Comprehensive income	653.5	531.5	1,588.3	1,152.4
Comprehensive income attributable to noncontrolling interests	(12.3)	(11.5)	(22.6)	(20.5)
Comprehensive income attributable to limited partners	$641.2	$520.0	$1,565.7	$1,131.9

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,	
	2017	2016
Operating activities:		
Net income	$1,437.0	$1,240.2
Reconciliation of net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	808.8	763.4
Asset impairment and related charges (see Note 12)	25.2	22.3
Equity in income of unconsolidated affiliates	(201.8)	(177.5)
Distributions received on earnings from unconsolidated affiliates	205.1	195.1
Net losses attributable to asset sales	--	6.6
Deferred income tax expense	0.7	4.3
Change in fair market value of derivative instruments	(43.9)	68.3
Change in fair market value of Liquidity Option Agreement	24.1	21.1
Net effect of changes in operating accounts (see Note 15)	82.1	(294.6)
Other operating activities	(2.4)	(4.0)
Net cash flows provided by operating activities	2,334.9	1,845.2
Investing activities:		
Capital expenditures	(1,142.7)	(1,880.4)
Contributions in aid of construction costs	29.6	23.6
Decrease (increase) in restricted cash (see Note 2)	319.1	(356.7)
Cash used for Azure acquisition (see Note 4)	(191.4)	--
Investments in unconsolidated affiliates	(24.1)	(92.4)
Distributions received for return of capital from unconsolidated affiliates	24.8	39.4
Proceeds from asset sales	3.2	27.9
Other investing activities	2.0	--
Cash used in investing activities	(979.5)	(2,238.6)
Financing activities:		
Borrowings under debt agreements	33,307.8	33,235.3
Repayments of debt	(33,639.3)	(32,986.7)
Debt issuance costs	--	(9.7)
Cash distributions paid to limited partners (see Note 8)	(1,757.8)	(1,610.5)
Cash payments made in connection with distribution equivalent rights	(7.2)	(5.3)
Cash distributions paid to noncontrolling interests	(23.1)	(20.8)
Cash contributions from noncontrolling interests	0.3	16.0
Net cash proceeds from the issuance of common units	757.2	1,888.3
Other financing activities	(27.8)	(18.7)
Cash provided by (used in) financing activities	(1,389.9)	487.9
Net change in cash and cash equivalents	(34.5)	94.5
Cash and cash equivalents, January 1	63.1	19.0
Cash and cash equivalents, June 30	$28.6	$113.5

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 8 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, January 1, 2017	$22,327.0	$ (280.0)	$ 219.0	$22,266.0
Net income	1,414.4	--	22.6	1,437.0
Cash distributions paid to limited partners	(1,757.8)	--	--	(1,757.8)
Cash payments made in connection with distribution equivalent rights	(7.2)	--	--	(7.2)
Cash distributions paid to noncontrolling interests	--	--	(23.1)	(23.1)
Cash contributions from noncontrolling interests	--	--	0.3	0.3
Net cash proceeds from the issuance of common units	757.2	--	--	757.2
Common units issued in connection with employee compensation	33.7	--	--	33.7
Amortization of fair value of equity-based awards	49.8	--	--	49.8
Cash flow hedges	--	151.4	--	151.4
Other	(28.3)	(0.1)	1.3	(27.1)
Balance, June 30, 2017	$22,788.8	$ (128.7)	$ 220.1	$22,880.2

	Partners' Equity			
	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, January 1, 2016	$20,514.3	$ (219.2)	$ 206.0	$20,501.1
Net income	1,219.7	--	20.5	1,240.2
Cash distributions paid to limited partners	(1,610.5)	--	--	(1,610.5)
Cash payments made in connection with distribution equivalent rights	(5.3)	--	--	(5.3)
Cash distributions paid to noncontrolling interests	--	--	(20.8)	(20.8)
Cash contributions from noncontrolling interests	--	--	16.0	16.0
Net cash proceeds from the issuance of common units	1,888.3	--	--	1,888.3
Amortization of fair value of equity-based awards	45.6	--	--	45.6
Cash flow hedges	--	(87.7)	--	(87.7)
Other	(20.9)	(0.1)	--	(21.0)
Balance, June 30, 2016	$22,031.2	$ (307.0)	$ 221.7	$21,945.9

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 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 Directors (the “Board”) of Enterprise GP; (ii) Richard H. Bachmann, who is also a director and Vice Chairman of the Board of Enterprise GP; and (iii) Dr. Ralph S. Cunningham. Ms. Duncan Williams and Mr. Bachmann also currently serve as managers of Dan Duncan LLC along with W. Randall Fowler, who is also a director and President of Enterprise GP.

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 by a voting trust, the current trustees (“EPCO Trustees”) of which are: (i) Ms. Duncan Williams, who serves as Chairman of EPCO; (ii) Dr. Cunningham, who serves as Vice Chairman of EPCO; and (iii) Mr. Bachmann, who serves as the President and Chief Executive Officer of EPCO. Ms. Duncan Williams and Mr. Bachmann also currently serve as directors of EPCO along with Mr. Fowler, who is also the Executive Vice President and Chief Administrative Officer of EPCO. EPCO, together with its privately held affiliates, owned approximately 32% of our limited partner interests at June 30, 2017.

References to “Oiltanking acquisition” mean the two-step acquisition of Oiltanking Partners, L.P. and its general partner that was completed in February 2015.

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, Organization and Basis of Presentation

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 the Gulf of Mexico with domestic consumers and international markets. Our midstream energy operations currently include: natural gas gathering, treating, processing, transportation and storage; NGL transportation, fractionation, storage, and export and import terminals (including those used to export liquefied petroleum gases, or “LPG,” and ethane); crude oil gathering, transportation, storage, and export and import terminals; petrochemical and refined products transportation, storage, export and import terminals, and related services; and a marine transportation business that operates primarily on the U.S. inland and Intracoastal Waterway systems. Our assets currently include approximately 50,000 miles of pipelines; 260 million barrels ("MMBbls") of storage capacity for NGLs, crude oil, petrochemicals and refined products; and 14 billion cubic feet ("Bcf") of natural gas storage capacity.

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

We conduct substantially all of our business through EPO and are owned 100% by our limited partners from an economic perspective. Enterprise GP manages our partnership and owns 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. Like many publicly traded partnerships, we have no employees. All of our management, administrative and operating functions are performed by employees of EPCO pursuant to an administrative services agreement (the "ASA") or by other service providers. See Note 13 for information regarding the ASA and other related party matters.

Our operations are reported under four business segments: (i) NGL Pipelines & Services, (ii) Crude Oil Pipelines & Services, (iii) Natural Gas Pipelines & Services and (iv) Petrochemical & Refined Products Services. See Note 9 for information regarding our business segments.

Note 2. General Accounting and Disclosure Matters

Our results of operations for the six months ended June 30, 2017 are not necessarily indicative of results expected for the full year of 2017. 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, 2016 (the "2016 Form 10-K") filed with the SEC on February 24, 2017.

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 the likelihood of loss is believed to be only reasonably possible or remote. For contingencies where an unfavorable outcome is reasonably possible and the impact would be material to our consolidated financial statements, we disclose the nature of the contingency and, where 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.

Derivative Instruments

We use derivative instruments such as futures, swaps, forward contracts and other arrangements to manage price risks associated with inventories, firm commitments, interest rates 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 12 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.

Fair Value Measurements

Our fair value estimates are based on either (i) actual market data or (ii) assumptions that other market participants would use in pricing an asset or liability, including estimates of risk, in the principal market of the asset or liability at a specified measurement date. Recognized valuation techniques employ inputs such as contractual prices, quoted market prices or rates, operating costs, discount factors and business growth rates. These inputs may be either readily observable, corroborated by market data or generally unobservable. In developing our estimates of fair value, we endeavor to utilize the best information available and apply market-based data to the highest extent possible. Accordingly, we utilize valuation techniques (such as the market approach) that maximize the use of observable inputs and minimize the use of unobservable inputs.

A three-tier hierarchy has been established that classifies fair value amounts recognized in the financial statements based on the observability of inputs used to estimate such fair values. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). At each balance sheet reporting date, we categorize our financial assets and liabilities using this hierarchy.

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

Recent Developments involving Accounting for Revenues and Leases
Revenue Recognition. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification 606, Revenues from Contracts with Customers ("ASC 606"). The new accounting standard, along with its related amendments, replaces the current rules-based U.S.