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Crestwood Equity Partners LP
Form 10-K
March 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-34664

Crestwood Equity Partners LP

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	43-1918951 (I.R.S. Employer Identification No.)
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700 Louisiana Street, Suite 2550 Houston, Texas (Address of principal executive offices) (832) 519-2200 (Registrant's telephone number, including area code)	77002 (Zip code)
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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Units representing limited partnership interests	The New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 Act). Yes No

The aggregate market value of the 111,166,893 common units of the registrant held by non-affiliates computed by reference to the \$7.09 closing price of such common units on February 13, 2015, was \$0.8 billion. As of June 30, 2014, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the registrant's common units held by non-affiliates of the registrant was \$1.6 billion based on a closing price of \$14.87 per common unit as reported on the New York Stock Exchange on such date. As of February 13, 2015, the registrant had 187,349,776 common units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the indicated parts of this report: None.

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GLOSSARY

The terms below are common to our industry and used throughout this report.

/d	per day
AOD	Area of dedication, which means the acreage dedicated to a company by an oil and/or natural gas producer under one or more contracts.
ASC	Accounting Standards Codification.
Barrel (Bbl)	One barrel of petroleum products equal to 42 U.S. gallons.
Base gas	A quantity of natural gas held within the confines of the natural gas storage facility and used for pressure support and to maintain a minimum facility pressure. May consist of injected base gas or native base gas. Also known as cushion gas.
Bcf	One billion cubic feet of natural gas. A standard volume measure of natural gas products.
Cycle	A complete withdrawal and injection of working gas. Cycling refers to the process of completing one cycle.
Dth	One dekatherm of natural gas.
EPA	Environmental Protection Agency.
FASB	Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission.
Firm service	Services pursuant to which customers receive an assured or firm right to (i) in the context of storage service, store product in the storage facility or (ii) in the context of transportation service, transport product through a pipeline, over a defined period of time.
GAAP	Generally Accepted Accounting Principles.
Gas storage capacity	The maximum volume of natural gas that can be cost-effectively injected into a storage facility and extracted during the normal operation of the storage facility. Gas storage capacity excludes base gas.
G&P	Gathering and processing.
Hub	Geographic location of a storage facility and multiple pipeline interconnections.
Hub services	With respect to our natural gas storage and transportation operations, the following services: (i) interruptible storage services, (ii) firm and interruptible park and loan services, (iii) interruptible wheeling services, and (iv) balancing services.
Injection rate	The rate at which a customer is permitted to inject natural gas into a natural gas storage facility.
Interruptible service	Services pursuant to which customers receive only limited assurances regarding the availability of (i) with respect to storage services, capacity and deliverability in storage facilities or (ii) with respect to transportation services, capacity and deliverability from receipt points to delivery points. Customers pay fees for interruptible services based on their actual utilization of the storage or transportation assets.
LIBOR	London Interbank Offered Rate.
MMbtu	One million British thermal units, which is approximately equal to one Mcf. One British thermal unit is equivalent to an amount of heat required to raise the temperature of one pound of water by one degree.
MMcf	One million cubic feet of natural gas.
Natural gas	A gaseous mixture of hydrocarbon compounds, primarily methane together with varying quantities of ethane, propane, butane and other gases.
Natural Gas Act	Federal law enacted in 1938 that established the FERC's authority to regulate interstate pipelines.
Natural gas liquids (NGLs)	

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Those hydrocarbons in natural gas that are separated from the natural gas as liquids through the process of absorption, condensation, adsorption or other methods in natural gas processing or cycling plants. NGLs include natural gas plant liquids (primarily ethane, propane, butane and isobutane) and lease condensate (primarily pentanes produced from natural gas at lease separators and field facilities).

NYSE

New York Stock Exchange.

Salt cavern

A man-made cavern developed in a salt dome or salt beds by leaching or mining of the salt.

SEC

Securities and Exchange Commission.

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Wheeling	The transportation of natural gas from one pipeline to another pipeline through the pipeline facilities of a natural gas storage facility. The gas does not flow into or out of actual storage, but merely uses the surface facilities of the storage operation.
Withdrawal rate	The rate at which a customer is permitted to withdraw gas from a natural gas storage facility.
Working gas	Natural gas in a storage facility in excess of base gas. Working gas may or may not be completely withdrawn during any particular withdrawal season.
Working gas storage capacity	See gas storage capacity (above).

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PART I

Item 1. Business.

Unless the context requires otherwise, references to (i) “we,” “us,” “our,” “ours,” “our company,” the “Company,” the “Partner,” “Crestwood Equity,” and similar terms refer to either Crestwood Equity Partners LP itself or Crestwood Equity Partners LP and its consolidated subsidiaries, as the context requires, (ii) “Crestwood Midstream” refers to Crestwood Midstream Partners LP and its consolidated subsidiaries following the Crestwood Merger (defined below), (iii) “Legacy Inergy” refers to Inergy, L.P. and its consolidated subsidiaries prior to the Crestwood Merger, (iii) “Inergy Midstream” refers to Inergy Midstream, L.P. and its consolidated subsidiaries prior to the Crestwood Merger, and (iv) “Legacy Crestwood” refers to Crestwood Midstream Partners LP and its consolidated subsidiaries prior to the Crestwood Merger. Unless otherwise indicated, information contained herein is reported as of December 31, 2014.

Introduction

Crestwood Equity, a Delaware limited partnership formed in 2004, is a master limited partnership (MLP) that develops, acquires, owns or controls, and operates primarily fee-based assets and operations within the energy midstream sector. Headquartered in Houston, Texas, we provide broad-ranging infrastructure solutions across the value chain to service premier liquids-rich and crude oil shale plays across the United States. Our common units representing limited partner interests are listed on the NYSE under the symbol “CEQP.”

We own and operate a diversified portfolio of crude oil and natural gas gathering, processing, storage and transportation assets that connect fundamental energy supply with energy demand across North America. Our consolidated operating assets include:

• natural gas facilities with approximately 2.5 Bcf/d of gathering capacity, 481 MMcf/d of processing capacity, 1.1 Bcf/d of firm transmission capacity, and 41 Bcf of certificated working gas storage capacity;

• NGL facilities with approximately 24,000 Bbls/d of fractionation capacity and 2.8 million barrels of storage capacity;

• crude oil facilities with approximately 125,000 Bbls/d of gathering capacity, approximately 1.1 million barrels of storage capacity, 48,000 Bbls/d of transportation capacity and 160,000 Bbls/d of rail loading capacity; and

• a fleet of transportation assets supporting our proprietary NGL supply and logistics business, including 8 truck and rail terminals and approximately 543 truck/trailer units and 1,600 rail units that can transport more than 294,000 Bbls/d of NGLs.

Our primary business objective is to increase the cash distributions that we pay to our unitholders. We have worked to position Crestwood Midstream as a growth MLP through which we will expand our midstream platform and to reposition the Company as more of a “pure play” general partner rather than an operating company, and we expect to continue this strategy going forward. We therefore expect to increase cash available for distribution to our unitholders primarily through our investment in Crestwood Midstream and, to a lesser extent, through growth opportunities involving the assets owned by us. We anticipate that the contribution of our remaining operating assets into Crestwood Midstream will enhance our value based on our ownership interests in Crestwood Midstream (including our ownership of its incentive distribution rights or IDRs), and we expect to consummate such drop downs at an appropriate time in the future.

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Ownership Structure

The diagram below reflects a simplified version of our ownership structure as of December 31, 2014:

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Our non-economic general partner interest is held by Crestwood Equity GP LLC, our general partner and which is indirectly owned by Crestwood Holdings LLC (Crestwood Holdings). Crestwood Holdings, which is substantially owned and controlled by First Reserve Management, L.P. (First Reserve), also owns approximately 27% of our limited partner units as of December 31, 2014.

We own the non-economic general partner interest of Crestwood Midstream and, therefore, control and consolidate Crestwood Midstream. We also own 100% of the IDRs and approximately 4% of the common units representing limited partnership interests of Crestwood Midstream as of December 31, 2014.

In May 2013, the former owners of our general partner and Crestwood Holdings entered into a series of transactions that would effectively consolidate and combine the operations of Legacy Crestwood and Legacy Inergy. The parties first completed a series of “upstairs” transactions in June 2013 that resulted in Crestwood Holdings’ acquisition of control of us. The strategic business combination was completed in October 2013 when Legacy Crestwood merged with and into Inergy Midstream (the Crestwood Merger) and Inergy Midstream changed its name to Crestwood Midstream Partners LP. See Part IV, Item 15, Exhibits, Financial Statement Schedules, Notes 1 and 3 for additional information on these related transactions.

Our Assets

We, through our wholly-owned subsidiaries, own and operate a proprietary NGL supply and logistics business, which includes our West Coast NGL operations, our Seymour NGL storage facility and our fleet of NGL transportation and related rail-to-truck terminal assets. All of our other consolidated assets are owned by or through Crestwood Midstream.

We have three reporting segments: (i) gathering and processing (G&P), (ii) storage and transportation, and (iii) NGL and crude services.

Gathering and Processing

We provide natural gas gathering, processing, treating and compression services to producers in multiple unconventional shale plays located in West Virginia, Wyoming, Texas, Arkansas, New Mexico, and Louisiana. We own rich gas systems in the Marcellus, Barnett, Granite Wash, Avalon/Bone Spring and Powder River Basin (PRB) Niobrara Shale plays, as well as dry gas gathering systems in the Barnett, Fayetteville and Haynesville/Bossier Shale plays.

The table below summarizes certain information about our G&P systems (including our equity investment) as of December 31, 2014:

Shale Play (State)	Counties / Parishes	Pipeline (Miles)	Gathering Capacity (MMcf/d)	Average Gathering Volume (MMcf/d)	Compression (HP)	Number of In-Service Processing Plants	Processing Capacity (MMcf/d)	Gross Acreage Dedication
Marcellus West Virginia	Harrison, Barbour and Doddridge	77	875	598	138,080	—	—	140,000
Barnett Texas	Hood, Somervell, Johnson, Tarrant, and Denton	496	955	417	153,465	2	425	140,000

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Fayetteville Arkansas	Conway, Faulkner, Van Buren, and White	171	510	98	27,645	—	—	143,000
Granite Wash Texas	Roberts	36	36	23	12,240	1	36	22,000
Haynesville / Bossier Louisiana	Sabine	57	100	9	—	—	—	22,000
Avalon / Bone Spring New Mexico	Eddy	71	50	13	955	1	20	107,000
Consolidated Total		908	2,526	1,158	332,385	4	481	574,000
PRB Niobrara ⁽¹⁾ Wyoming	Converse	162	90	56	24,080	—	—	311,000
Total		1,070	2,616					