

Crestwood Equity Partners LP
Form 10-K
February 28, 2014
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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, 2013

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 43-1918951
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

700 Louisiana Street, Suite 2060 77002
Houston, Texas (Zip code)

(Address of principal executive offices)
(832) 519-2200
(Registrant's telephone number, including area code)

Inergy, L.P. Two Brush Creek Blvd., Suite 200 September 30
(Former name) (Former address) (Former fiscal year)

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 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. x

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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 Exchange Act). Yes No

The aggregate market value of the 110,283,259 common units of the registrant held by non-affiliates computed by reference to the \$12.72 closing price of such common units on February 14, 2014, was \$1.4 billion. As of June 28, 2013, 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 \$1.8 billion based on a closing price of \$16.02 per common unit as reported on the New York Stock Exchange on such date. As of February 14, 2014, the registrant had 186,429,575 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.
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.
Mcf	One thousand cubic feet of natural gas. We have converted throughput numbers from a heating value number to a volumetric number based upon a conversion factor of 1 MMBtu equals 1 Mcf.
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	

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Natural gas liquids (NGLs)	Federal law enacted in 1938 that established the FERC's authority to regulate interstate pipelines. 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.

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SEC	Securities and Exchange Commission.
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,” “our company,” the “Company,” “Crestwood Equity” and like terms refer to Crestwood Equity Partners LP and its consolidated subsidiaries, (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, 2013.

As explained below and in Part IV, Item 15, Exhibits and Financial Statement Schedules, Notes 1 and 2, our acquisition of the Legacy Crestwood’s general partner in June 2013 was accounted for as a reverse acquisition under the purchase method of accounting. The general partner of Legacy Crestwood, Crestwood Gas Services GP, LLC (“Legacy Crestwood GP”), is therefore treated as the acquirer for accounting purposes, whereas we acquired Legacy Crestwood GP for legal purposes. Notwithstanding this distinction, references in this Part I to “we,” “us,” “our,” “our company,” the “Company,” and “Crestwood Equity” refer to the combined operations of Legacy Crestwood GP and the Company unless the context requires otherwise.

Introduction

Crestwood Equity, a Delaware limited partnership formed in March 2001, 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, 471 MMcf/d of processing capacity, 1.0 Bcf/d of firm transmission capacity, and 79.4 Bcf of 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 100,000 Bbls/d of gathering capacity, 960,000 barrels of storage capacity, and 120,000 Bbls/d of rail loading capacity; and

7 truck and rail terminals and a transportation fleet of approximately 557 truck/trailer units and 1,071 rail units that can transport more than 330,000 Bbls/d of NGLs for our proprietary supply and logistics business.

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 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), 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, 2013:

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Our non-economic general partner interest is held by Crestwood Equity GP LLC, which we refer to as 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 100% of our incentive distribution rights (“IDRs”) and approximately 29% of our limited partner units as of December 31, 2013.

We own the non-economic general partner interest of Crestwood Midstream and, therefore, control 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, 2013.

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 Inergy Midstream. The parties first completed a series of “upstairs” transactions in June 2013 that resulted in Crestwood Holdings’ acquisition of control of us, and our legal acquisition of Legacy Crestwood GP, on June 19, 2013. 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. Contemporaneously with the Crestwood Merger, we changed our name from Inergy, L.P. to Crestwood Equity Partners LP and changed our NYSE listing symbol from “NRGY” to “CEQP.” See Part IV, Item 15, Exhibits and Financial Statement Schedules, Notes 1 and 2 for additional information on these related transactions.

Our Assets

We, through our wholly-owned subsidiaries, own and operate a proprietary NGL and crude oil supply and logistics business, a West Coast NGL business, and the Tres Palacios natural gas storage facility. All of our other consolidated assets are owned by or through Crestwood Midstream.

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

Gathering and Processing

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

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The table below summarizes certain information about our gathering and processing systems as of December 31, 2013:

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	65	605	420	82,340	—	—	140,000
PRB Niobrara ⁽¹⁾ Wyoming	Converse	146	60	45	15,600	—	—	311,000
Barnett Texas	Hood, Somervell, Johnson, Tarrant, and Denton	491	955	429	153,465	2	425	140,000
Fayetteville Arkansas	Conway, Faulkner, Van Buren, and White	171	510	98	27,645	—	—	143,000
Granite Wash Texas	Roberts	36	36	21	12,240	1	36	22,000
Haynesville / Bossier Louisiana	Sabine	57	100	22	—	—	—	22,000
Avalon / Bone Spring New Mexico	Eddy	49	50					