Western Gas Partners LP
Form 10-Q
May 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2010

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: 001-34046

WESTERN GAS PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware	**26-1075808**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1201 Lake Robbins Drive The Woodlands, Texas	**77380**
(Address of principal executive offices)	*(Zip Code)*

(832) 636-6000

(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 (§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 o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if 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 36,995,614 common units outstanding as of April 30, 2010.

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Definitions

As generally used within the energy industry and in this quarterly report on Form 10-Q, the identified terms have the following meanings:

Barrel or Bbl: 42 U.S. gallons measured at 60 degrees Fahrenheit.

Bcf/d: One billion cubic feet per day.

Btu: British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Condensate: A natural gas liquid with a low vapor pressure mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

Drip condensate: Heavier hydrocarbon liquids that fall out of the natural gas stream and are recovered in the gathering system without processing.

Imbalance: Imbalances result from (i) differences between gas volumes nominated by customers and gas volumes received from those customers and (ii) differences between gas volumes received from customers and gas volumes delivered to those customers.

MMBtu: One million British thermal units.

MMBtu/d: One million British thermal units per day.

MMcf/d: One million cubic feet per day. All volumes presented herein are based on a standard pressure base of 14.73 pounds per square inch, absolute.

Natural gas: Hydrocarbon gas found in the earth composed of methane, ethane, butane, propane and other gases.

Natural gas liquids or NGLs: The combination of ethane, propane, butane and natural gasoline that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

Pounds per square inch, absolute: The pressure resulting from a one pound-force applied to an area of one square inch, including local atmospheric pressure.

Residue gas: The natural gas remaining after being processed or treated.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Western Gas Partners, LP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in thousands, except per-unit amounts)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009[1]
Revenues affiliates		
Gathering, processing and transportation of natural gas	$ 37,114	$ 36,074
Natural gas, natural gas liquids and condensate sales	45,159	42,160
Equity income and other	1,557	1,730
Total revenues affiliates	83,830	79,964
Revenues third parties		
Gathering, processing and transportation of natural gas	6,245	7,260
Natural gas, natural gas liquids and condensate sales	3,693	1,472
Other, net	551	464
Total revenues third parties	10,489	9,196
Total revenues	94,319	89,160
Operating expenses [2]		
Cost of product	32,578	33,645
Operation and maintenance	15,167	14,086
General and administrative	5,074	6,285
Property and other taxes	2,769	2,821
Depreciation and amortization	13,683	12,016
Total operating expenses	69,271	68,853
Operating income	25,048	20,307
Interest income, net [3]	697	2,677
Other income, net	20	7
Income before income taxes	25,765	22,991
Income tax expense	957	266
Net income	24,808	22,725

Net income attributable to noncontrolling interests	1,894	2,139
Net income attributable to Western Gas Partners, LP	$ 22,914	$ 20,586
Limited partner interest in net income:		
Net income attributable to Western Gas Partners, LP [4]	$ 22,914	$ 20,586
Pre-acquisition (income) loss allocated to Parent	1,218	(3,628)
General partner interest in net income	(483)	(339)
Limited partner interest in net income	$ 23,649	$ 16,619
Net income per common unit basic and diluted	$ 0.37	$ 0.30
Net income per subordinated unit basic and diluted	$ 0.37	$ 0.30

(1) Financial information for 2009 has been revised to include results attributable to the Chipeta assets and Granger assets. See *Note 1 Description of Business and Basis of Presentation Acquisitions*.

(2) Operating expenses include amounts charged by Anadarko to the Partnership (Anadarko and Partnership are as defined in *Note 1 Description of Business and Basis of Presentation)* for services as well as reimbursement of amounts paid by Anadarko to third parties on behalf of the Partnership. Cost of product expenses include product purchases from Anadarko of $11.1 million and $13.8 million for the three months ended March 31, 2010 and 2009, respectively. Operation and maintenance expenses include charges from Anadarko of $8.5 million and $5.3 million for the three months ended

March 31, 2010 and 2009, respectively. General and administrative expenses include charges from Anadarko of $3.5 million and $5.0 million for the three months ended March 31, 2010 and 2009, respectively. See *Note 4 Transactions with Affiliates.*

(3) Interest income, net includes net interest income from affiliates of $2.4 million and $2.7 million for the three months ended March 31, 2010 and 2009, respectively. See *Note 4 Transactions with Affiliates.*

(4) General and limited partner interest in net income represents net income for periods including and subsequent to the Partnership s acquisition of the Partnership Assets (as defined in *Note 1 Description of Business and Basis of Presentation Presentation of Partnership Acquisitions*). See also *Note 3 Net Income per Limited Partner Unit.*

See accompanying notes to unaudited consolidated financial statements.

Western Gas Partners, LP
CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except number of units)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 55,223	$ 69,984
Accounts receivable, net third parties	4,304	4,076
Accounts receivable affiliates	6,165	2,203
Natural gas imbalance receivables third parties	688	266
Natural gas imbalance receivables affiliates	41	448
Other current assets	3,392	3,287
Total current assets	69,813	80,264
Note receivable Anadarko	260,000	260,000
Property, plant and equipment		
Cost	1,250,664	1,246,155
Less accumulated depreciation	265,939	252,778
Net property, plant and equipment	984,725	993,377
Goodwill	31,248	31,248
Equity investment	20,289	20,060
Other assets	2,586	2,974
Total assets	$ 1,368,661	$ 1,387,923
LIABILITIES, EQUITY AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable third parties	$ 9,203	$ 12,003
Natural gas imbalance payable third parties	193	289
Natural gas imbalance payable affiliates	1,512	1,319
Accrued ad valorem taxes	4,239	3,046
Income taxes payable	545	412
Accrued liabilities third parties	10,896	8,717
Accrued liabilities affiliates	291	470
Total current liabilities	26,879	26,256
Long-term liabilities		
Long-term debt third party	210,000	
Note payable Anadarko	175,000	175,000
Deferred income taxes	380	92,891
Asset retirement obligations and other	15,392	15,077
Total long-term liabilities	400,772	282,968
Total liabilities	427,651	309,224

Commitments and contingencies (Note 8)		
Equity and partners capital		
Common units (36,995,614 and 36,374,925 units issued and outstanding at March 31, 2010 and December 31, 2009, respectively)	556,627	497,230
Subordinated units (26,536,306 units issued and outstanding at March 31, 2010 and December 31, 2009)	277,723	276,571
General partner units (1,296,570 and 1,283,903 units issued and outstanding at March 31, 2010 and December 31, 2009, respectively)	14,960	13,726
Parent net investment		200,250
Total partners capital	849,310	987,777
Noncontrolling interests	91,700	90,922
Total equity and partners capital	941,010	1,078,699
Total liabilities, equity and partners capital	$ 1,368,661	$ 1,387,923

See accompanying notes to unaudited consolidated financial statements.

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Western Gas Partners, LP
CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS CAPITAL
(Unaudited, in thousands)

	Partners Capital					
	Parent Net Investment	Limited Partners Common	Limited Partners Subordinated	General Partner	Noncontrolling Interests	Total
Balance at December 31, 2009	$ 200,250	$ 497,230	$ 276,571	$ 13,726	$ 90,922	$ 1,078,699
Net pre-acquisition contributions from Parent	7,914					7,914
Elimination of net deferred tax liabilities	92,203					92,203
Contribution of Granger assets	(300,367)	57,513		1,174		(241,680)
Contributions from noncontrolling interest owners and Parent					1,985	1,985
Non-cash equity-based compensation		73				73
Net income	(1,218)	13,741	9,908	483	1,894	24,808
Distributions to unitholders		(12,210)	(8,756)	(427)		(21,393)
Distributions to noncontrolling interest owners					(2,806)	(2,806)
Other	1,218	280		4	(295)	1,207
Balance at March 31, 2010	$	$ 556,627	$ 277,723	$ 14,960	$ 91,700	$ 941,010

See accompanying notes to unaudited consolidated financial statements.

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Western Gas Partners, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2010	**2009**(1)
Cash flows from operating activities		
Net income	$ 24,808	$ 22,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,683	12,016
Deferred income taxes	(621)	(689)
Changes in assets and liabilities:		
Increase in accounts receivable	(4,381)	(8,829)
(Increase) decrease in natural gas imbalance receivable	(15)	1,354
Decrease (increase) in accounts payable, accrued liabilities and natural gas imbalance payable	9,124	(6,749)
Change in other items, net	313	(251)
Net cash provided by operating activities	42,911	19,577
Cash flows from investing activities		
Granger acquisition	(241,680)	
Capital expenditures	(5,297)	(24,110)
Net cash used in investing activities	(246,977)	(24,110)
Cash flows from financing activities		
Borrowings under revolving credit facility, net of issuance costs	209,987	
Contributions from noncontrolling interest owners and Parent	1,985	22,327
Distributions to unitholders	(21,393)	(17,029)
Distributions to noncontrolling interest owners	(2,806)	
Net pre-acquisition contributions from (distributions to) Parent	1,532	(2,729)
Net cash provided by financing activities	189,305	2,569
Net decrease in cash and cash equivalents	(14,761)	(1,964)
Cash and cash equivalents at beginning of period	69,984	36,074
Cash and cash equivalents at end of period	$ 55,223	$ 34,110
Supplemental disclosures		
Decrease in accrued capital expenditures	$ 358	$ 405
Interest paid	$ 2,671	$ 1,455
Interest received	$ 4,225	$ 4,225

(1) Financial information for 2009 has been revised to include activity attributable to the Chipeta

assets and Granger assets.
See *Note 1 Description of Business and Basis of Presentation Acquisitions*.

See accompanying notes to unaudited consolidated financial statements.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Basis of presentation. Western Gas Partners, LP (the Partnership) is a Delaware limited partnership formed in August 2007. The Partnership is engaged in the business of gathering, compressing, processing, treating and transporting natural gas and natural gas liquids (NGLs) for Anadarko Petroleum Corporation and its consolidated subsidiaries as well as for third-party producers and customers. The Partnership s assets consist of ten gathering systems, six natural gas treating facilities, six gas processing facilities, one interstate pipeline and one NGL pipeline. The Partnership s assets are located in East and West Texas, the Rocky Mountains and the Mid-Continent. For purposes of these financial statements, the Partnership refers to Western Gas Partners, LP and its subsidiaries; Anadarko refers to Anadarko Petroleum Corporation and its consolidated subsidiaries, excluding the Partnership; Parent refers to Anadarko prior to our acquisition of assets from Anadarko; and affiliates refers to wholly owned and partially owned subsidiaries of Anadarko, excluding the Partnership. The initial assets collectively refer to Anadarko Gathering Company LLC, or AGC, Pinnacle Gas Treating LLC, or PGT, and MIGC LLC, or MIGC, all of which the Partnership acquired in connection with its May 2008 initial public offering. The Powder River assets collectively refer to the Partnership s 100% ownership interest in the Hilight system, 50% interest in the Newcastle system and 14.81% limited liability company membership interest in Fort Union Gas Gathering, L.L.C., or Fort Union, all of which the Partnership acquired from Anadarko in December 2008, and the Powder River acquisition refers to the acquisition of the Powder River assets. The Chipeta assets collectively refer to the 51% membership interest in Chipeta Processing LLC, or Chipeta, and associated natural gas liquids, or NGL, pipeline, which the Partnership acquired from Anadarko in July 2009, and the Chipeta acquisition refers to the acquisition of the Chipeta assets. The Granger assets collectively refer to the Granger gathering system and Granger complex, which the Partnership acquired from Anadarko in January 2010, and the Granger acquisition refers to the acquisition of the Granger assets. The Partnership s general partner is Western Gas Holdings, LLC, a wholly owned subsidiary of Anadarko.

The consolidated financial statements include the accounts of the Partnership and entities in which it holds a controlling financial interest. All significant intercompany transactions have been eliminated. Investments in non-controlled entities over which the Partnership exercises significant influence are accounted for under the equity method. The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of financial position as of March 31, 2010 and December 31, 2009, results of operations for the three months ended March 31, 2010 and 2009, statement of equity and partners capital for the three months ended March 31, 2010 and statements of cash flows for the three months ended March 31, 2010 and 2009. The Partnership s financial results for the three months ended March 31, 2010 are not necessarily indicative of the results for the full year ending December 31, 2010.

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). To conform to these accounting principles, management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes thereto. These estimates are evaluated on an ongoing basis, utilizing historical experience and other methods considered reasonable under the particular circumstances. Although these estimates are based on management s knowledge and the best available information at the time, changes may result in revised estimates and actual results may differ from these estimates. Effects on the Partnership s business, financial position and results of operations resulting from revisions to estimates are recognized when the facts that give rise to the revision become known.

The accompanying consolidated financial statements and notes should be read in conjunction with the Partnership s annual report on Form 10-K, as filed with the Securities and Exchange Commission (the SEC) on March 11, 2010, as revised by the Partnership s current report on Form 8-K, filed with the SEC on May 4, 2010 (the annual report on Form 10-K) to, as discussed below, recast the Partnership s financial statements to reflect the results generated by the Granger assets from the date in which those assets were acquired by Anadarko.

Acquisitions

Chipeta acquisition. In July 2009, the Partnership acquired certain midstream assets from Anadarko for (i) approximately $101.5 million in cash, which was financed by borrowing $101.5 million from Anadarko pursuant to the terms of a 7.0% fixed-rate, three-year term loan agreement, and (ii) the issuance of 351,424 common units and 7,172 general partner units. These assets provide processing and transportation services in the Greater Natural Buttes area in Uintah County, Utah. The acquisition consisted of a 51% membership interest in Chipeta, together with an associated NGL pipeline. Chipeta owns a natural gas processing plant complex, which includes two processing trains: a refrigeration unit completed in November 2007 and a cryogenic unit which was completed in April 2009.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

In November 2009, Chipeta closed its acquisition of a compressor station and processing plant (the Natural Buttes plant) from a third party for $9.1 million. The noncontrolling interest owners contributed $4.5 million to Chipeta during the year ended December 31, 2009 to fund their proportionate share of the Natural Buttes plant acquisition. The Natural Buttes plant is located in Uintah County, Utah.

As of March 31, 2010, Chipeta is owned 51% by the Partnership, 24% by Anadarko and 25% by a third-party member. The interests in Chipeta held by Anadarko and the third-party member are reflected as noncontrolling interests in the consolidated financial statements.

Granger acquisition. In January 2010, the Partnership acquired Anadarko s entire 100% ownership interest in the following assets located in Southwestern Wyoming: (i) the Granger gathering system with related compressors and other facilities, and (ii) the Granger complex, consisting of two cryogenic trains, two refrigeration trains, an NGLs fractionation facility and ancillary equipment. The Granger acquisition was financed primarily with $210.0 million in borrowings under the Partnership s revolving credit facility plus $31.7 million of cash on hand, as well as through the issuance of 620,689 common units and 12,667 general partner units to Anadarko.

Presentation of Partnership acquisitions. The initial assets, Powder River assets, Chipeta assets and Granger assets are referred to collectively as the Partnership Assets. Unless otherwise noted, references to periods prior to our acquisition of the Partnership Assets and similar phrases refer to periods prior to May 2008, with respect to the initial assets, periods prior to December 2008, with respect to the Powder River assets, periods prior to July 2009, with respect to the Chipeta assets, and periods prior to January 2010, with respect to the Granger assets. Unless otherwise noted, references to periods subsequent to our acquisition of the Partnership Assets and similar phrases refer to periods including and subsequent to May 2008, with respect to the initial assets, periods including and subsequent to December 2008, with respect to the Powder River assets, periods including and subsequent to July 2009, with respect to the Chipeta assets, and periods including and subsequent to January 2010, with respect to the Granger assets. Anadarko acquired the Granger assets in connection with its August 23, 2006 acquisition of Western Gas Resources, Inc. (Western) and Anadarko acquired the Chipeta assets in connection with its August 10, 2006 acquisition of Kerr-McGee Corporation (Kerr-McGee). The acquisitions by the Partnership of the Chipeta assets and Granger assets were considered transfers of net assets between entities under common control. Accordingly, the Partnership is required to revise its financial statements to include the activities of the Partnership Assets as of the date of common control. The Partnership s historical financial statements for the three months ended March 31, 2009 as presented in the Partnership s quarterly report on Form 10-Q for the quarter ended March 31, 2009, which included the results attributable to the initial assets and the Powder River assets, have been recast to include the results attributable to the Chipeta assets and the Granger assets as if the Partnership owned such assets for all periods presented. Net income attributable to the Partnership Assets for periods prior to each acquisition is not allocated to the limited partners for purposes of calculating net income per limited partner unit.

The consolidated financial statements for periods prior to the Partnership s acquisition of the Partnership Assets have been prepared from Anadarko s historical cost-basis accounts and may not necessarily be indicative of the actual results of operations that would have occurred if the Partnership had owned the assets during the periods reported.

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Notes to unaudited consolidated financial statements of Western Gas Partners, LP

Limited partner and general partner units

The Partnership s common units are listed on the New York Stock Exchange under the symbol WES. The following table summarizes common, subordinated and general partner units issued during the three months ended March 31, 2010 (in thousands):

	Limited Partner Units		General Partner	
	Common	Subordinated	Units	Total
Balance at December 31, 2009	36,375	26,536	1,284	64,195
Granger acquisition	621		12	633
Balance at March 31, 2010	36,996	26,536	1,296	64,828

Anadarko holdings of Partnership Equity. As of March 31, 2010, Anadarko held 1,296,570 general partner units representing a 2.0% general partner interest in the Partnership, 100% of the Partnership s incentive distribution rights (IDRs), 9,254,435 common units and 26,536,306 subordinated units. Anadarko owned an aggregate 55.2% limited partner interest in the Partnership based on its holdings of common and subordinated units. The public held 27,741,179 common units, representing a 42.8% limited partner interest in the Partnership.

2. PARTNERSHIP DISTRIBUTIONS

The partnership agreement requires that, within 45 days subsequent to the end of each quarter, beginning with the quarter ended June 30, 2008, the Partnership distribute all of its available cash (as defined in the partnership agreement) to unitholders of record on the applicable record date. During the three months ended March 31, 2010, the Partnership paid cash distributions to its unitholders of approximately $21.4 million, representing the $0.33 per-unit distribution for the quarter ended December 31, 2009. During the three months ended March 31, 2009, the Partnership paid cash distributions to its unitholders of approximately $17.0 million, representing the $0.30 per-unit distribution for the quarter ended December 31, 2008. See also *Note 9 Subsequent Events* concerning distributions approved in April 2010.

3. NET INCOME PER LIMITED PARTNER UNIT

The Partnership s net income attributable to the Partnership Assets for periods including and subsequent to the Partnership s acquisitions of the Partnership Assets is allocated to the general partner and the limited partners, including any subordinated unitholders, in accordance with their respective ownership percentages, and, when applicable, giving effect to unvested units granted under the Western Gas Partners, LP 2008 Long-Term Incentive Plan (the LTIP) and incentive distributions allocable to the general partner. The allocation of undistributed earnings, or net income in excess of distributions, to the incentive distribution rights is limited to available cash (as defined by the partnership agreement) for the period. The Partnership s net income allocable to the limited partners is allocated between the common and subordinated unitholders by applying the provisions of the partnership agreement that govern actual cash distributions as if all earnings for the period had been distributed. Accordingly, if current net income allocable to the limited partners is less than the minimum quarterly distribution, or if cumulative net income allocable to the limited partners since May 14, 2008 is less than the cumulative minimum quarterly distributions, more income is allocated to the common units than the subordinated units for that quarterly period.

Basic and diluted net income per limited partner unit is calculated by dividing limited partners interest in net income by the weighted average number of limited partner units outstanding during the period. The common units and general partner units issued during the period are included on a weighted-average basis for the days in which they were outstanding.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

The following table illustrates the Partnership s calculation of net income per unit for common and subordinated limited partner units (in thousands, except per-unit information):

	Three Months Ended March 31,	
	2010	**2009[1]**
Net income attributable to Western Gas Partners, LP	$ 22,914	$ 20,586
Pre-acquisition (income) loss allocated to Parent	1,218	(3,628)
General partner interest in net income	(483)	(339)
Limited partner interest in net income	$ 23,649	$ 16,619
Net income allocable to common units	$ 13,741	$ 8,728
Net income allocable to subordinated units	9,908	7,891
Limited partner interest in net income	$ 23,649	$ 16,619
Net income per limited partner unit basic and diluted		
Common units	$ 0.37	$ 0.30
Subordinated units	$ 0.37	$ 0.30
Total	$ 0.37	$ 0.30
Weighted average limited partner units outstanding basic and diluted		
Common units	36,803	29,093
Subordinated units	26,536	26,536
Total	63,339	55,629

(1) Financial information for 2009 has been revised to include results attributable to the Chipeta assets and Granger assets. See *Note 1 Description of Business and Basis of Presentation Acquisitions*.

4. TRANSACTIONS WITH AFFILIATES

Affiliate transactions. The Partnership provides natural gas gathering, compression, processing, treating and transportation services to Anadarko and a portion of the Partnership s expenditures are paid by or to Anadarko, which results in affiliate transactions. Except for volumes taken in-kind by certain producers, an affiliate of Anadarko sells the natural gas and extracted NGLs attributable to the Partnership s processing activities, which also result in affiliate transactions. In addition, affiliate-based transactions also result from contributions to and distributions from Fort Union and Chipeta, which are paid or received by Anadarko.

Contribution of Partnership Assets to the Partnership. In January 2010, Anadarko contributed the Granger assets to the Partnership. In connection with the Granger acquisition, substantially all deferred tax liabilities attributable to the

Granger assets were reversed and outstanding affiliate balances were entirely settled through an adjustment to parent net investment. See *Note 1 Description of Business and Basis of Presentation*.

Cash management. Anadarko operates a cash management system whereby excess cash from most of its subsidiaries, held in separate bank accounts, is generally swept to centralized accounts. Prior to January 1, 2010, with respect to the Granger assets, sales and purchases related to third-party transactions were received or paid in cash by Anadarko within its centralized cash management system. Anadarko charged the Partnership interest at a variable rate on outstanding affiliate balances attributable to such assets for the periods these balances remained outstanding. The outstanding affiliate balances were entirely settled through an adjustment to parent net investment in connection with the Granger acquisition. Subsequent to January 1, 2010, with respect to the Granger assets, the Partnership cash-settles transactions directly with third parties and with Anadarko affiliates and affiliate-based interest expense on current intercompany balances is not charged.

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Notes to unaudited consolidated financial statements of