

Edgar Filing: Energy Transfer Partners, L.P. - Form 10-Q

Energy Transfer Partners, L.P.
Form 10-Q
May 08, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

Commission file number 1-11727

ENERGY TRANSFER PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

73-1493906
(I.R.S. Employer
Identification No.)

3738 Oak Lawn Avenue, Dallas, Texas 75219

(Address of principal executive offices) (zip code)

(214) 981-0700

(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 (§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

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 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

At May 1, 2015, the registrant had 499,168,333 Common Units outstanding.

Table of Contents

FORM 10-Q

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

Consolidated Balance Sheets 1

Consolidated Statements of Operations 3

Consolidated Statements of Comprehensive Income 4

Consolidated Statement of Equity 5

Consolidated Statements of Cash Flows 6

Notes to Consolidated Financial Statements 7

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 31

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 50

ITEM 4. CONTROLS AND PROCEDURES 52

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS 53

ITEM 1A. RISK FACTORS 53

ITEM 6. EXHIBITS 54

SIGNATURE 55

Table of Contents

Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by Energy Transfer Partners, L.P. (the “Partnership,” or “ETP”) in periodic press releases and some oral statements of the Partnership’s officials during presentations about the Partnership, include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “may,” “will” or similar expressions help identify forward-looking statements. Although the Partnership and its general partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Partnership’s actual results may vary materially from those anticipated, projected or expected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are difficult to predict and beyond management’s control. For additional discussion of risks, uncertainties and assumptions, see “Part I – Item 1A. Risk Factors” in the Partnership’s Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 2, 2015.

Definitions

The following is a list of certain acronyms and terms generally used in the energy industry and throughout this document:

/d	per day
AmeriGas	AmeriGas Partners, L.P.
AOCI	accumulated other comprehensive income (loss)
Bbls	barrels
Btu	British thermal unit, an energy measurement used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used
Capacity	capacity of a pipeline, processing plant or storage facility refers to the maximum capacity under normal operating conditions and, with respect to pipeline transportation capacity, is subject to multiple factors (including natural gas injections and withdrawals at various delivery points along the pipeline and the utilization of compression) which may reduce the throughput capacity from specified capacity levels
Citrus	Citrus, LLC
CrossCountry	CrossCountry Energy, LLC
ET Crude Oil	Energy Transfer Crude Oil Company, LLC, a joint venture owned 60% by ETE and 40% by ETP
ETC Compression	ETC Compression, LLC
ETC FEP	ETC Fayetteville Express Pipeline, LLC
ETC OLP	La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company

ETC Tiger	ETC Tiger Pipeline, LLC
ETE	Energy Transfer Equity, L.P., a publicly traded partnership and the owner of ETP LLC
ETE Holdings	ETE Common Holdings, LLC, a wholly-owned subsidiary of ETE
ET Interstate	Energy Transfer Interstate Holdings, LLC
ETP Credit Facility	ETP's \$3.75 billion revolving credit facility
ETP GP	Energy Transfer Partners GP, L.P., the general partner of ETP
ETP Holdco	ETP Holdco Corporation
ETP LLC	Energy Transfer Partners, L.L.C., the general partner of ETP GP
Exchange Act	Securities Exchange Act of 1934
FEP	Fayetteville Express Pipeline LLC

Table of Contents

FERC	Federal Energy Regulatory Commission
FGT	Florida Gas Transmission Company, LLC
GAAP	accounting principles generally accepted in the United States of America
IDRs	incentive distribution rights
Lake Charles LNG	Lake Charles LNG Company, LLC (previously named Trunkline LNG Company, LLC), a subsidiary of ETE
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
Lone Star	Lone Star NGL LLC
MMBtu	million British thermal units
MMcf	million cubic feet
MTBE	methyl tertiary butyl ether
NGL	natural gas liquid, such as propane, butane and natural gasoline
NYMEX	New York Mercantile Exchange
OSHA	federal Occupational Safety and Health Act
OTC	over-the-counter
Panhandle	Panhandle Eastern Pipe Line Company, LP and its subsidiaries
PCBs	polychlorinated biphenyls
PEPL Holdings	PEPL Holdings, LLC
PES	Philadelphia Energy Solutions
PHMSA	Pipeline Hazardous Materials Safety Administration
Regency	Regency Energy Partners LP, a subsidiary of ETE
Retail Holdings	ETP Retail Holdings, a joint venture between subsidiaries of ETC OLP and Sunoco, Inc.
Sea Robin	Sea Robin Pipeline Company, LLC, a subsidiary of Panhandle
SEC	Securities and Exchange Commission

Southern Union	Southern Union Company
Sunoco Logistics	Sunoco Logistics Partners L.P.
Sunoco LP	Sunoco LP (previously named Susser Petroleum Partners, LP)
Sunoco Partners	Sunoco Partners LLC, the general partner of Sunoco Logistics
Susser	Susser Holdings Corporation
Transwestern	Transwestern Pipeline Company, LLC
Trunkline	Trunkline Gas Company, LLC, a subsidiary of Panhandle

Adjusted EBITDA is a term used throughout this document, which we define as earnings before interest, taxes, depreciation, amortization and other non-cash items, such as non-cash compensation expense, gains and losses on disposals of assets, the allowance for equity funds used during construction, unrealized gains and losses on commodity risk management activities and other non-operating income or expense items. Unrealized gains and losses on commodity risk management activities include unrealized gains and losses on commodity derivatives and inventory fair value adjustments (excluding lower of cost or market adjustments). Adjusted EBITDA reflects amounts for less than wholly-owned subsidiaries based on 100% of the subsidiaries' results of operations and for unconsolidated affiliates based on the Partnership's proportionate ownership.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

(unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,789	\$639
Accounts receivable, net	2,464	2,879
Accounts receivable from related companies	127	210
Inventories	1,388	1,389
Exchanges receivable	36	44
Price risk management assets	12	7
Other current assets	390	271
Total current assets	6,206	5,439
PROPERTY, PLANT AND EQUIPMENT	35,304	33,200
ACCUMULATED DEPRECIATION	(3,655	) (3,457)
	31,649	29,743
ADVANCES TO AND INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,723	3,840
GOODWILL	6,256	6,419
INTANGIBLE ASSETS, net	2,093	2,087
OTHER NON-CURRENT ASSETS, net	702	693
Total assets	\$50,629	\$48,221

The accompanying notes are an integral part of these consolidated financial statements.

1

Table of ContentsENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

(unaudited)

	March 31, 2015	December 31, 2014
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$2,548	\$2,992
Accounts payable to related companies	94	62
Exchanges payable	155	183
Price risk management liabilities	16	21
Accrued and other current liabilities	1,625	1,774
Current maturities of long-term debt	269	1,008
Total current liabilities	4,707	6,040
LONG-TERM DEBT, less current maturities	20,430	18,332
NON-CURRENT PRICE RISK MANAGEMENT LIABILITIES	214	138
DEFERRED INCOME TAXES	4,036	4,226
OTHER NON-CURRENT LIABILITIES	1,256	1,206
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTERESTS	15	15
EQUITY:		
General Partner	282	184
Limited Partners:		
Common Unitholders	9,232	10,430
Class H Unitholder	3,432	1,512
Class I Unitholder	33	—
Accumulated other comprehensive loss	(13	) (56
Total partners' capital	12,966	12,070
Noncontrolling interest	7,005	6,194
Total equity	19,971	18,264
Total liabilities and equity	\$50,629	\$48,221

The accompanying notes are an integral part of these consolidated financial statements.

2

Table of ContentsENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS(Dollars in millions, except per unit data)
(unaudited)

	Three Months Ended March 31,		
	2015	2014	
REVENUES:			
Natural gas sales	\$670	\$1,103	
NGL sales	849	951	
Crude sales	2,208	4,093	
Gathering, transportation and other fees	686	655	
Refined product sales	3,656	4,478	
Other	1,461	952	
Total revenues	9,530	12,232	
COSTS AND EXPENSES:			
Cost of products sold	8,040	10,866	
Operating expenses	485	336	
Depreciation and amortization	322	266	
Selling, general and administrative	100	76	
Total costs and expenses	8,947	11,544	
OPERATING INCOME	583	688	
OTHER INCOME (EXPENSE):			
Interest expense, net of interest capitalized	(228	) (219)
Equity in earnings of unconsolidated affiliates	40	79	
Gain on sale of AmeriGas common units	—	70	
Losses on interest rate derivatives	(77	) (2)
Other, net	3	(3)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	321	613	
Income tax expense from continuing operations	13	146	
INCOME FROM CONTINUING OPERATIONS	308	467	
Income from discontinued operations	—	24	
NET INCOME	308	491	
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	27	76	
NET INCOME ATTRIBUTABLE TO PARTNERS	281	415	
General Partner's interest in net income	242	113	
Class H Unitholder's interest in net income	54	49	
Class I Unitholder's interest in net income	33	—	
Common Unitholders' interest in net income (loss)	\$(48	) \$253	
INCOME (LOSS) FROM CONTINUING OPERATIONS PER COMMON UNIT:			
Basic	\$(0.17	) \$0.69	
Diluted	\$(0.17	) \$0.69	
NET INCOME (LOSS) PER COMMON UNIT:			
Basic	\$(0.17	) \$0.76	
Diluted	\$(0.17	) \$0.76	

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	\$308	\$491
Other comprehensive income (loss), net of tax:		
Reclassification to earnings of gains and losses on derivative instruments accounted for as cash flow hedges	—	4
Change in value of derivative instruments accounted for as cash flow hedges	1	(4
Change in value of available-for-sale securities	1	—
Actuarial gain (loss) relating to pension and other postretirement benefits	45	(1
Foreign currency translation adjustments	(2	) (3
Change in other comprehensive income from unconsolidated affiliates	(2	) (7
	43	(11
Comprehensive income	351	480
Less: Comprehensive income attributable to noncontrolling interest	27	76
Comprehensive income attributable to partners	\$324	\$404

The accompanying notes are an integral part of these consolidated financial statements.

4

Table of ContentsENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015

(Dollars in millions)

(unaudited)

	Limited Partners				Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	General Partner	Common Units	Class H Units	Class I Units			
Balance, December 31, 2014	\$184	\$10,430	\$1,512	\$—	\$ (56)	\$ 6,194	\$18,264
Distributions to partners	(145)	(353)	(60)	—	—	—	(558)
Distributions to noncontrolling interest	—	—	—	—	—	(114)	(114)
Units issued for cash	—	135	—	—	—	—	135
Subsidiary units issued for cash	1	71	—	—	—	617	689
Capital contributions from noncontrolling interest	—	—	—	—	—	250	250
Other comprehensive income, net of tax	—	—	—	—	43	—	43
Sale of noncontrolling interest in Rover Pipeline LLC to AE-Midco Rover, LLC	—	4	—	—	—	60	64
Bakken Pipeline Transaction	—	(979)	1,926	—	—	72	1,019
Sunoco Logistics acquisition of noncontrolling interest	—	(30)	—	—	—	(99)	(129)
Other, net	—	2	—	—	—	(2)	—
Net income (loss)	242	(48)	54	33	—	27	308
Balance, March 31, 2015	\$282	\$9,232	\$3,432	\$33	\$ (13)	\$ 7,005	\$19,971

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$308	\$491
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	322	266
Deferred income taxes	21	(107)
Amortization included in interest expense	(13)	(16)
Inventory valuation adjustments	34	(14)
Non-cash compensation expense	16	14
Gain on sale of AmeriGas common units	—	(70)
Distributions on unvested awards	(3)	(5)
Equity in earnings of unconsolidated affiliates	(40)	(79)
Distributions from unconsolidated affiliates	46	49
Other non-cash	(4)	(6)
Net change in operating assets and liabilities, net of effects of acquisitions and deconsolidations	(181)	159
Net cash provided by operating activities	506	682
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash proceeds from Bakken Pipeline Transaction	980	—
Cash paid for acquisition of a noncontrolling interest	(129)	—
Cash paid for all other acquisitions	(370)	—
Cash proceeds from sale of noncontrolling interest in Rover Pipeline LLC to AE–Midco Rover, LLC	64	—
Cash proceeds from the sale of AmeriGas common units	—	381
Capital expenditures (excluding allowance for equity funds used during construction)	(1,686)	(727)
Contributions in aid of construction costs	4	7
Contributions to unconsolidated affiliates	(7)	(43)
Distributions from unconsolidated affiliates in excess of cumulative earnings	32	32
Proceeds from the sale of assets	6	6
Change in restricted cash	—	3
Other	(5)	(24)
Net cash used in investing activities	(1,111)	(365)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	6,303	939
Repayments of long-term debt	(4,928)	(454)
Net proceeds from issuance of Common Units	135	142
Subsidiary equity offerings, net of issue costs	689	—
Capital contributions received from noncontrolling interest	250	40
Distributions to partners	(558)	(481)
Distributions to noncontrolling interest	(114)	(73)
Debt issuance costs	(22)	—
Net cash provided by financing activities	1,755	113
INCREASE IN CASH AND CASH EQUIVALENTS	1,150	430

Edgar Filing: Energy Transfer Partners, L.P. - Form 10-Q

CASH AND CASH EQUIVALENTS, beginning of period	639	549
CASH AND CASH EQUIVALENTS, end of period	\$1,789	\$979

The accompanying notes are an integral part of these consolidated financial statements.

6

Table of Contents

ENERGY TRANSFER PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar and unit amounts, except per unit data, are in millions)

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION:

Energy Transfer Partners, L.P., a publicly traded Delaware master limited partnership, and its subsidiaries (collectively, the “Partnership,” “we,” “us,” “our” or “ETP”) are managed by our general partner, ETP GP, which is in turn managed by its general partner, ETP LLC. ETE, a publicly traded master limited partnership, owns ETP LLC, the general partner of our General Partner. The consolidated financial statements of the Partnership presented herein include our operating subsidiaries described below.

Our activities are primarily conducted through our operating subsidiaries (collectively, the “Operating Companies”) as follows:

ETC OLP, a Texas limited partnership primarily engaged in midstream and intrastate transportation and storage natural gas operations. ETC OLP owns and operates, through its wholly and majority-owned subsidiaries, natural gas gathering systems, intrastate natural gas pipeline systems and gas processing plants and is engaged in the business of purchasing, gathering, transporting, processing, and marketing natural gas and NGLs in the states of Texas, Louisiana, New Mexico and West Virginia. ETC OLP’s intrastate transportation and storage operations primarily focus on transporting natural gas in Texas through our Oasis pipeline, ET Fuel System, East Texas pipeline and HPL System. ETC OLP’s midstream operations focus on the gathering, compression, treating, conditioning and processing of natural gas, primarily on or through our Southeast Texas System, Eagle Ford System, North Texas System and Northern Louisiana assets. ETC OLP also owns a 70% interest in Lone Star.

ET Interstate, a Delaware limited liability company with revenues consisting primarily of fees earned from natural gas transportation services and operational gas sales. ET Interstate is the parent company of:

Transwestern, a Delaware limited liability company engaged in interstate transportation of natural gas. Transwestern’s revenues consist primarily of fees earned from natural gas transportation services and operational gas sales.

ETC FEP, a Delaware limited liability company that directly owns a 50% interest in FEP, which owns 100% of the Fayetteville Express interstate natural gas pipeline.

ETC Tiger, a Delaware limited liability company engaged in interstate transportation of natural gas.

CrossCountry, a Delaware limited liability company that indirectly owns a 50% interest in Citrus, which owns 100% of the FGT interstate natural gas pipeline.

ETC Compression, a Delaware limited liability company engaged in natural gas compression services and related equipment sales.

ETP Holdco, a Delaware limited liability company that indirectly owns Panhandle and Sunoco, Inc. Panhandle and Sunoco, Inc. operations are described as follows:

Panhandle owns and operates assets in the regulated and unregulated natural gas industry and is primarily engaged in the transportation and storage of natural gas in the United States. In January 2014, Panhandle consummated a merger with Southern Union, the indirect parent of Panhandle, and PEPL Holdings, the sole limited partner of Panhandle, pursuant to which each of Southern Union and PEPL Holdings were merged with and into Panhandle, with Panhandle surviving the merger.

Sunoco, Inc. owns and operates retail marketing assets, which sell gasoline and middle distillates at retail locations and operates convenience stores primarily on the east coast and in the midwest region of the United States. Effective June 1, 2014, the Partnership combined certain Sunoco, Inc. retail assets with another wholly-owned subsidiary of ETP to form a limited liability company owned by ETP and Sunoco, Inc.

Sunoco Logistics, a publicly traded Delaware limited partnership that owns and operates a logistics business, consisting of products, crude oil and NGL pipelines, terminalling and storage assets, and refined products, crude oil and NGL acquisition and marketing assets.

ETP owns an indirect 100% equity interest in Susser and the general partner interest, incentive distribution rights and a 44% limited partner interest in Sunoco LP. Susser operates convenience stores in Texas, New Mexico and Oklahoma. Sunoco LP distributes motor fuels to convenience stores and retail fuel outlets in Texas, New Mexico,

Oklahoma, Kansas, Louisiana, Maryland, Virginia, Tennessee, Georgia and Hawaii and other commercial customers. These operations are reported within the retail marketing segment.

7

Table of Contents

Our financial statements reflect the following reportable business segments:

- intrastate transportation and storage;
- interstate transportation and storage;
- midstream;
- liquids transportation and services;
- investment in Sunoco Logistics;
- retail marketing; and
- all other.

The unaudited financial information included in this Form 10-Q has been prepared on the same basis as the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of the Partnership's management, such financial information reflects all adjustments necessary for a fair presentation of the financial position and the results of operations for such interim periods in accordance with GAAP. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

The unaudited consolidated financial statements have been prepared in conformity with GAAP, which includes the use of estimates and assumptions made by management that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities that exist at the date of the consolidated financial statements. Although these estimates are based on management's available knowledge of current and expected future events, actual results could be different from those estimates.

Certain prior period amounts have been reclassified to conform to the 2015 presentation. These reclassifications had no impact on net income or total equity.

We record the collection of taxes to be remitted to government authorities on a net basis except for our retail marketing segment in which consumer excise taxes on sales of refined products and merchandise are included in both revenues and cost of products sold in the consolidated statements of operations, with no net impact on net income. Excise taxes collected by our retail marketing segment were \$736 million and \$530 million for the three months ended March 31, 2015 and 2014, respectively.

New Accounting Pronouncement

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810) ("ASU 2015-02"), which changed the requirements for consolidations analysis. Under ASU 2015-02, reporting entities are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years beginning after December 15, 2015, and early adoption is permitted. We expect to adopt this standard for the year ending December 31, 2016, and we are currently evaluating the impact that it will have on our consolidated financial statements and related disclosures.

2. ACQUISITIONS, DIVESTITURES AND RELATED TRANSACTIONS:

2015 Transactions

Regency Merger

In April 2015, ETP and Regency completed the previously announced merger of an indirect subsidiary of ETP, with and into Regency, with Regency surviving the merger as a wholly-owned subsidiary of ETP (the "Regency Merger"). As part of the merger consideration, each Regency common unit and Class F unit was converted into the right to receive 0.4124 ETP Common Units. Based on the Regency units outstanding, ETP issued approximately 172.2 million ETP Common Units to Regency unitholders, including approximately 15.5 million units issued to ETP subsidiaries. The approximately 1.9 million outstanding Regency series A preferred units were converted into corresponding new ETP Series A Preferred Units.

In connection with the transaction, ETE, which owns the general partner and 100% of the incentive distribution rights of ETP, will reduce the incentive distributions it receives from ETP by a total of \$320 million over a five-year period. The IDR subsidy will be \$80 million in the first year post-closing and \$60 million per year for the following four years.

ETP and Regency are under common control of ETE; therefore, we expect to account for the Regency Merger at historical cost as a reorganization of entities under common control. Accordingly, beginning with the quarter ending June 30, 2015,

8

Table of Contents

ETP's consolidated financial statements will be retrospectively adjusted to reflect consolidation of Regency for all prior periods subsequent to May 26, 2010 (the date ETE acquired Regency's general partner).

The following table summarizes the assets and liabilities of Regency as of March 31, 2015 and December 31, 2014, which amounts will be retrospectively consolidated in ETP's consolidated balance sheets beginning with the quarter ending June 30, 2015, subject to the elimination of intercompany balances:

	March 31, 2015	December 31, 2014
Current assets	\$663	\$703
Property, plant and equipment	9,540	9,217
Goodwill	1,223	1,223
Intangible assets	3,405	3,439
Other non-current assets	2,585	2,521
	\$17,416	\$17,103
Current liabilities	\$643	\$756
Long-term debt, less current maturities	7,221	6,641
Long-term derivative liabilities	14	16
Other non-current liabilities	74	72
Series A Preferred Units	33	33
Partners' capital and noncontrolling interest	9,431	9,585
	\$17,416	\$17,103

Dropdown of Sunoco, LLC Interests

In April 2015, Sunoco LP completed the acquisition of a 31.58% equity interest in Sunoco, LLC from Retail Holdings. Sunoco, LLC distributes approximately 5.3 billion gallons per year of motor fuel to customers in the east, midwest and southwest regions of the United States. The transaction was valued at approximately \$816 million. Sunoco LP paid \$775 million in cash and issued \$41 million of Sunoco LP common units to Retail Holdings, based on the five-day volume weighted average price of Sunoco LP's common units as of March 20, 2015.

Bakken Pipeline Transaction

In March 2015, ETE transferred 30.8 million ETP Common Units, ETE's 45% interest in the Bakken pipeline project, and \$879 million in cash to the Partnership in exchange for 30.8 million newly issued Class H Units of ETP that, when combined with the 50.2 million previously issued Class H Units, generally entitle ETE to receive 90.05% of the cash distributions and other economic attributes of the general partner interest and IDRs of Sunoco Logistics (the "Bakken Pipeline Transaction"). In connection with this transaction, ETP also issued to ETE 100 Class I Units that provide distributions to ETE to offset IDR subsidies previously provided to ETP. The IDR subsidies from ETE to ETP, including the impact from distributions on Class I Units, will be reduced by \$55 million in 2015 and \$30 million in 2016.

Discontinued Operations

Discontinued operations for the three months ended March 31, 2014 included the results of operations for a marketing business that had been recently acquired and was sold effective April 1, 2014.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include all cash on hand, demand deposits, and investments with original maturities of three months or less. We consider cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

We place our cash deposits and temporary cash investments with high credit quality financial institutions. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

Table of Contents

The net change in operating assets and liabilities (net of acquisitions and deconsolidations) included in cash flows from operating activities is comprised as follows:

	Three Months Ended March 31,		
	2015	2014	
Accounts receivable	\$364	\$(751))
Accounts receivable from related companies	92	(23))
Inventories	(40)	) 338)
Exchanges receivable	8	(44))
Other current assets	(130)	) 39)
Other non-current assets, net	35	(15))
Accounts payable	(422)	) 441)
Accounts payable to related companies	(73)	) 57)
Exchanges payable	(28)	) (1))
Accrued and other current liabilities	(176)	) 104)
Other non-current liabilities	120	(25))
Price risk management assets and liabilities, net	69	39)
Net change in operating assets and liabilities, net of effects of acquisitions and deconsolidations	\$(181)	) \$159)

Non-cash investing and financing activities are as follows:

	Three Months Ended March 31,	
	2015	2014
NON-CASH INVESTING ACTIVITIES:		
Accrued capital expenditures	\$578	\$168
Net gains from subsidiary common unit issuances	\$72	\$—
NON-CASH FINANCING ACTIVITIES:		
Issuance of Class H Units in connection with the Bakken Pipeline Transaction	\$1,926	\$—
Redemption of Common Units in connection with the Bakken Pipeline Transaction	\$979	\$—
Redemption of Common Units in connection with the Lake Charles LNG Transaction	\$—	\$1,167

4. INVENTORIES:

Inventories consisted of the following:

	March 31,	December 31,
	2015	2014
Natural gas and NGLs	\$277	\$369
Crude oil	470	364
Refined products	367	392
Other	274	264
Total inventories	\$1,388	\$1,389

5. FAIR VALUE MEASUREMENTS:

We have commodity derivatives and interest rate derivatives that are accounted for as assets and liabilities at fair value in our consolidated balance sheets. We determine the fair value of our assets and liabilities subject to fair value measurement by using the highest possible “level” of inputs. Level 1 inputs are observable quotes in an active market for identical assets and

Table of Contents

liabilities. We consider the valuation of marketable securities and commodity derivatives transacted through a clearing broker with a published price from the appropriate exchange as a Level 1 valuation. Level 2 inputs are inputs observable for similar assets and liabilities. We consider OTC commodity derivatives entered into directly with third parties as a Level 2 valuation since the values of these derivatives are quoted on an exchange for similar transactions. Additionally, we consider our options transacted through our clearing broker as having Level 2 inputs due to the level of activity of these contracts on the exchange in which they trade. We consider the valuation of our interest rate derivatives as Level 2 as the primary input, the LIBOR curve, is based on quotes from an active exchange of Eurodollar futures for the same period as the future interest swap settlements. Level 3 inputs are unobservable. During the three months ended March 31, 2015, no transfers were made between any levels within the fair value hierarchy. Based on the estimated borrowing rates currently available to us and our subsidiaries for loans with similar terms and average maturities, the aggregate fair value and carrying amount of our consolidated debt obligations at March 31, 2015 was \$22.03 billion and \$20.70 billion, respectively. As of December 31, 2014, the aggregate fair value and carrying amount of our consolidated debt obligations was \$20.40 billion and \$19.34 billion, respectively. The fair value of our consolidated debt obligations is a Level 2 valuation based on the observable inputs used for similar liabilities.

Table of Contents

The following tables summarize the fair value of our financial assets and liabilities measured and recorded at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 based on inputs used to derive their fair values:

	Fair Value Total	Fair Value Measurements at March 31, 2015	
		Level 1	Level 2
Assets:			
Interest rate derivatives	\$6	\$—	\$6
Commodity derivatives:			
Natural Gas:			
Basis Swaps IFERC/NYMEX	11	11	—
Swing Swaps IFERC	2	—	2
Fixed Swaps/Futures	295	295	—
Forward Physical Swaps	1	—	1
Power:			
Forwards	5	—	5
Futures	4	4	—
Options – Calls	2	2	—
Natural Gas Liquids – Forwards/Swaps	25	25	—
Refined Products – Futures	7	7	—
Crude – Futures	2	2	—
Total commodity derivatives	354	346	8
Total assets	\$360	\$346	\$14
Liabilities:			
Interest rate derivatives	\$(226)	\$—	\$(226)
Commodity derivatives:			
Natural Gas:			
Basis Swaps IFERC/NYMEX	(10)	(10)	—
Swing Swaps IFERC	(4)	(1)	(3)
Fixed Swaps/Futures	(293)	(293)	—
Power:			
Forwards	(4)	—	(4)
Futures	(3)	(3)	—
Options – Puts	(4)	(4)	—
Natural Gas Liquids – Forwards/Swaps	(22)	(22)	—
Refined Products – Futures	(5)	(5)	—
Crude – Futures	(3)	(3)	—
Total commodity derivatives	(348)	(341)	(7)
Total liabilities	\$(574)	\$(341)	\$(233)

Table of Contents

	Fair Value Total	Fair Value Measurements at December 31, 2014	
		Level 1	Level 2
Assets:			
Interest rate derivatives	\$3	\$—	\$3
Commodity derivatives:			
Natural Gas:			
Basis Swaps IFERC/NYMEX	19	19	—
Swing Swaps IFERC	26	1	25
Fixed Swaps/Futures	541	541	—
Forward Physical Swaps	1	—	1
Power:			
Forwards	3	—	3
Futures	4	4	—
Natural Gas Liquids – Forwards/Swaps	46	46	—
Refined Products – Futures	21	21	—
Total commodity derivatives	661	632	29
Total assets	\$664	\$632	\$32
Liabilities:			
Interest rate derivatives	\$(155)	\$—	\$(155)
Commodity derivatives:			
Natural Gas:			
Basis Swaps IFERC/NYMEX	(18)	(18)	—
Swing Swaps IFERC	(25)	(2)	(23)
Fixed Swaps/Futures	(490)	(490)	—
Power:			
Forwards	(4)	—	(4)
Futures	(2)	(2)	—
Natural Gas Liquids – Forwards/Swaps	(32)	(32)	—
Refined Products – Futures	(7)	(7)	—
Total commodity derivatives	(578)	(551)	(27)
Total liabilities	\$(733)	\$(551)	\$(182)

6. NET INCOME PER LIMITED PARTNER UNIT:

Net income for partners' capital and statement of operations presentation purposes is allocated to the General Partner and Limited Partners in accordance with their respective partnership percentages, after giving effect to priority income allocations for incentive distributions, if any, to the General Partner, the holder of the IDRs pursuant to the Partnership Agreement, which are declared and paid following the close of each quarter. Earnings in excess of distributions are allocated to the General Partner and Limited Partners based on their respective ownership interests.

Table of Contents

A reconciliation of income from continuing operations and weighted average units used in computing basic and diluted income from continuing operations per unit is as follows:

	Three Months Ended March 31,		
	2015	2014	
Income from continuing operations	\$308	\$467	
Less: Income from continuing operations attributable to noncontrolling interest	27	76	
Income from continuing operations, net of noncontrolling interest	281	391	
General Partner's interest in income from continuing operations	242	113	
Class H Unitholder's interest in income from continuing operations	54	49	
Class I Unitholder's interest in income from continuing operations	33	—	
Common Unitholders' interest in income (loss) from continuing operations	(48	) 229
Additional earnings allocated to General Partner	(2) (1)
Distributions on employee unit awards, net of allocation to General Partner	(4) (3)
Income (loss) from continuing operations available to Common Unitholders	\$(54	) \$225
Weighted average Common Units – basic	323.8	324.5	
Basic income (loss) from continuing operations per Common Unit	\$(0.17	) \$0.69
Dilutive effect of unvested Unit Awards	—	1.0	
Weighted average Common Units, assuming dilutive effect of unvested Unit Awards	323.8	325.5	
Diluted income (loss) from continuing operations per Common Unit	\$(0.17	) \$0.69
Basic income from discontinued operations per Common Unit	\$0.00	\$0.07	
Diluted income from discontinued operations per Common Unit	\$0.00	\$0.07	

Based on the declared distribution rate of \$1.015 per Common Unit, distributions to be paid for the three months ended March 31, 2015 are expected to exceed net income attributable to partners for the period. Due to the closing of the Regency Merger prior to the record date for the distributions to be paid for the three months ended March 31, 2015, the amount of distributions to be paid for the period will include distributions on the Common Units issued in connection with the Regency Merger. The allocation of the distributions in excess of net income is based on the proportionate ownership interests of the Limited Partners and General Partner. Based on this allocation approach, the distributions paid to the General Partner, including incentive distributions, further exceeded the net income for the three months ended March 31, 2015, and as a result, net losses were allocated to the Limited Partners for the period.

7. DEBT OBLIGATIONS:**Senior Notes**

In March 2015, ETP issued \$1.0 billion aggregate principal amount of 4.05% senior notes due March 2025, \$500 million aggregate principal amount of 4.90% senior notes due March 2035, and \$1.0 billion aggregate principal amount of 5.15% senior notes due March 2045. ETP used the \$2.48 billion net proceeds from the offering to pay outstanding borrowings under the ETP Credit Facility, to fund growth capital expenditures and for general partnership purposes.

In April 2015, Sunoco LP issued \$800 million aggregate principal amount of 6.375% senior notes due April 2023. The net proceeds from the offering were used to fund the cash portion of the dropdown of Sunoco, LLC interests.

Credit Facilities**ETP Credit Facility**

The ETP Credit Facility allows for borrowings of up to \$3.75 billion and expires in November 2019. The indebtedness under the ETP Credit Facility is unsecured and not guaranteed by any of the Partnership's subsidiaries and has equal rights to holders of our current and future unsecured debt. As of March 31, 2015, the ETP Credit Facility had no outstanding borrowings.

On April 30, 2015, ETP borrowed \$1.5 billion under the ETP Credit Facility to partially fund the repayment of the Regency Credit Facility.

Table of Contents

Sunoco Logistics Credit Facilities

In March 2015, Sunoco Logistics amended and restated its \$1.5 billion unsecured credit facility, which was scheduled to mature in November 2018. The amended and restated credit facility is a \$2.5 billion unsecured revolving credit agreement (the “Sunoco Logistics Credit Facility”), which matures in March 2020. The Sunoco Logistics Credit Facility contains an accordion feature, under which the total aggregate commitment may be increased to \$3.25 billion under certain conditions. As of March 31, 2015, the Sunoco Logistics Credit Facility had \$350 million of outstanding borrowings.

Sunoco LP Credit Facility

Sunoco LP maintains a \$1.25 billion revolving credit facility (the “Sunoco LP Credit Facility”), which expires in September 2019. The Sunoco LP Credit Facility can be increased from time to time upon Sunoco LP’s written request, subject to certain conditions, up to an additional \$250 million. As of March 31, 2015, the Sunoco LP Credit Facility had \$685 million of outstanding borrowings.

In April 2015, Sunoco LP amended the Sunoco LP Credit Facility to allow for borrowings of up to \$1.5 billion.

Compliance with Our Covenants

We were in compliance with all requirements, tests, limitations, and covenants related to our credit agreements as of March 31, 2015.

8. REDEEMABLE NONCONTROLLING INTERESTS:

The noncontrolling interest holders in one of Sunoco Logistics’ consolidated subsidiaries have the option to sell their interests to Sunoco Logistics. In accordance with applicable accounting guidance, the noncontrolling interest is excluded from total equity and reflected as redeemable interest on ETP’s consolidated balance sheets.

9. EQUITY:

Class H Units and Class I Units

In March 2015, ETE transferred 30.8 million ETP Common Units, ETE’s 45% interest in the Bakken pipeline project, and \$879 million in cash to the Partnership in exchange for 30.8 million newly issued Class H Units of ETP that, when combined with the 50.2 million previously issued Class H Units, generally entitle ETE to receive 90.05% of the cash distributions and other economic attributes of the general partner interest and IDRs of Sunoco Logistics. In connection with this transaction, ETP also issued to ETE 100 Class I Units that provide distributions to ETE to offset IDR subsidies previously provided to ETP. The IDR subsidies from ETE to ETP, including the impact from distributions on Class I Units, will be reduced by \$55 million in 2015 and \$30 million in 2016.

The impact of (i) the IDR subsidy adjustments and (ii) the Class I Unit distributions, along with the currently effective IDR subsidies, is included in the table below under “Quarterly Distributions of Available Cash.”

ETP Common Unit Activity

The change in ETP Common Units during the three months ended March 31, 2015 was as follows:

	Number of Units
Number of Common Units at December 31, 2014	355.5
Common Units issued in connection with Equity Distribution Agreements	1.2
Common Units issued in connection with the Distribution Reinvestment Plan	1.0
Common Units redeemed in connection with the Bakken Pipeline Transaction	(30.8)
Number of Common Units at March 31, 2015	326.9

During the three months ended March 31, 2015, the Partnership received proceeds of \$76 million, net of commissions of \$1 million, from the issuance of units pursuant to equity distribution agreements, which were used for general partnership purposes. As of March 31, 2015, approximately \$1.33 billion of the Partnership’s Common Units remained available to be issued under an equity distribution agreement.

Table of Contents

During the three months ended March 31, 2015, distributions of \$59 million were reinvested under the Distribution Reinvestment Plan resulting in the issuance of 1.0 million Common Units. As of March 31, 2015, a total of 6.3 million Common Units remain available to be issued under the existing registration statement.

Sales of Common Units by Subsidiaries

With respect to our investments in Sunoco Logistics and Sunoco LP, we account for the difference between the carrying amount of our investment in and the underlying book value arising from the issuance or redemption of units by the respective subsidiary (excluding transactions with us) as capital transactions.

As a result of Sunoco Logistics' issuances of common units during the three months ended March 31, 2015, we recognized increases in partners' capital of \$72 million.

Sales of Common Units by Sunoco Logistics

In 2014, Sunoco Logistics entered into equity distribution agreements pursuant to which Sunoco Logistics may sell from time to time common units having aggregate offering prices of up to \$1.25 billion. During the three months ended March 31, 2015, Sunoco Logistics received proceeds of \$142 million, net of commissions of \$1 million, which were used for general partnership purposes.

Additionally, Sunoco Logistics completed a public offering of 13.5 million common units for net proceeds of \$547 million in March 2015. The net proceeds were used to repay outstanding borrowings under the \$2.5 billion Sunoco Logistics Credit Facility and for general partnership purposes. In April 2015, an additional 2.0 million common units were issued for net proceeds of \$82 million related to the exercise of an option in connection with the March 2015 offering.

Quarterly Distributions of Available Cash

Following are distributions declared and/or paid by ETP subsequent to December 31, 2014:

Quarter Ended	Record Date	Payment Date	Rate
December 31, 2014	February 6, 2015	February 13, 2015	\$0.9950
March 31, 2015	May 8, 2015	May 15, 2015	1.0150

In connection with previous transactions, including the Regency Merger, ETE has agreed to relinquish its right to the following amounts of incentive distributions in future periods, including distributions on Class I Units.

	Total Year
2015 (remainder)	\$84
2016	137
2017	145
2018	140
2019	130
2020	35
2021	35
2022	35
2023	35
2024	18

Sunoco Logistics Quarterly Distributions of Available Cash

Following are distributions declared and/or paid by Sunoco Logistics subsequent to December 31, 2014:

Quarter Ended	Record Date	Payment Date	Rate
December 31, 2014	February 9, 2015	February 13, 2015	\$0.4000
March 31, 2015	May 11, 2015	May 15, 2015	0.4190

Table of Contents

Sunoco LP Quarterly Distributions of Available Cash

Following are distributions declared and/or paid by Sunoco LP subsequent to December 31, 2014:

Quarter Ended	Record Date	Payment Date	Rate
December 31, 2014	February 17, 2015	February 27, 2015	\$0.6000
March 31, 2015	May 19, 2015	May 29, 2015	0.6450

Accumulated Other Comprehensive Income (Loss)

The following table presents the components of AOCI, net of tax:

	March 31, 2015	December 31, 2014
Available-for-sale securities	\$4	\$3
Foreign currency translation adjustment	(5	) (3
Net loss on commodity related hedges	—	(1
Actuarial loss related to pensions and other postretirement benefits	(12	) (57
Investments in unconsolidated affiliates, net	—	2
Total AOCI, net of tax	\$(13	) \$(56

10. INCOME TAXES:

For the three months ended March 31, 2015, the Partnership's income tax expense from continuing operations included favorable state income tax adjustments of \$14 million. For the three months ended March 31, 2014, the Partnership's income tax expense from continuing operations included unfavorable income tax adjustments of \$85 million related to the Lake Charles LNG Transaction, which was treated as a sale for tax purposes.

During the three months ended March 31, 2015, Sunoco received a notice of disallowance denying previously filed refund claims related to certain government incentive payments. However, Sunoco intends to file a refund suit with the United States Court of Federal Claims or the United States District Court having jurisdiction. In preparation for filing its complaint to the Court, Sunoco formalized its claims by filing amended Federal income tax returns with the Internal Revenue Service on March 10, 2015. The amended returns include an increase in the claims of \$92 million, bringing the total claimed amount to \$464 million. This increase relates primarily to the inclusion of certain tax years that were previously regarded as closed for purposes of calculating the potential refund. Consistent with prior treatment, Sunoco has established a reserve for the full amount of the increase due to the uncertain nature of the claims.

11. REGULATORY MATTERS, COMMITMENTS, CONTINGENCIES AND ENVIRONMENTAL LIABILITIES:

Contingent Matters Potentially Impacting the Partnership from Our Investment in Citrus

Florida Gas Pipeline Relocation Costs. The Florida Department of Transportation, Florida's Turnpike Enterprise ("FDOT/FTE") has various turnpike/State Road 91 widening projects that have impacted or may, over time, impact one or more of FGTs' mainline pipelines located in FDOT/FTE rights-of-way. Certain FDOT/FTE projects have been or are the subject of litigation in Broward County, Florida. On November 16, 2012, FDOT paid to FGT the sum of approximately \$100 million, representing the amount of the judgment, plus interest, in a case tried in 2011.

On April 14, 2011, FGT filed suit against the FDOT/FTE and other defendants in Broward County, Florida seeking an injunction and damages as the result of the construction of a mechanically stabilized earth wall and other encroachments in FGT easements as part of FDOT/FTE's I-595 project. On August 21, 2013, FGT and FDOT/FTE entered into a settlement agreement pursuant to which, among other things, FDOT/FTE paid FGT approximately \$19 million in September 2013 in settlement of FGT's claims with respect to the I-595 project. The settlement agreement also provided for agreed easement widths for FDOT/FTE right-of-way and for cost sharing between FGT and FDOT/FTE for any future relocations. Also in September 2013, FDOT/FTE paid FGT an additional approximate \$1 million for costs related to the aforementioned turnpike/State Road 91 case tried in 2011.

Table of Contents

FGT will continue to seek rate recovery in the future for these types of costs to the extent not reimbursed by the FDOT/FTE. There can be no assurance that FGT will be successful in obtaining complete reimbursement for any such relocation costs from the FDOT/FTE or from its customers or that the timing of such reimbursement will fully compensate FGT for its costs.

Contingent Residual Support Agreement – AmeriGas

In connection with the closing of the contribution of its propane operations in January 2012, ETP agreed to provide contingent, residual support of \$1.55 billion of intercompany borrowings made by AmeriGas and certain of its affiliates with maturities through 2022 from a finance subsidiary of AmeriGas that have maturity dates and repayment terms that mirror those of an equal principal amount of senior notes issued by this finance company subsidiary to third party purchases.

Panhandle Guarantee of Collection

Panhandle guarantees the collections of the payment of \$600 million of Regency 4.50% senior notes due 2023.

NGL Pipeline Regulation

We have interests in NGL pipelines located in Texas and New Mexico. We commenced the interstate transportation of NGLs in 2013, which is subject to the jurisdiction of the FERC under the Interstate Commerce Act (“ICA”) and the Energy Policy Act of 1992. Under the ICA, tariff rates must be just and reasonable and not unduly discriminatory and pipelines may not confer any undue preference. The tariff rates established for interstate services were based on a negotiated agreement; however, the FERC’s rate-making methodologies may limit our ability to set rates based on our actual costs, may delay or limit the use of rates that reflect increased costs and may subject us to potentially burdensome and expensive operational, reporting and other requirements. Any of the foregoing could adversely affect our business, revenues and cash flow.