

Dominion Midstream Partners, LP
Form 10-Q
May 05, 2015
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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**

For the transition period from _____ to _____

Commission File	Exact name of registrants as specified in their charters, address of	I.R.S. Employer
Number	principal executive offices and registrants telephone number	Identification Number
001-36684	Dominion Midstream Partners, LP	46-5135781

120 Tredegar Street

Richmond, Virginia 23219

(804) 819-2000

State or other jurisdiction of incorporation or organization of the registrant: Delaware

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 ☒

The registrant had 37,092,305 common units and 31,972,789 subordinated units outstanding as of April 30, 2015.

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Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to Cove Point, the Predecessor, our predecessor, and we, our, us, our partnership or like terms when used in a historical context (prior to October 20, 2014), refer to Dominion Cove Point LNG, LP as our predecessor for accounting purposes, and when used in the present tense or prospectively (periods beginning October 20, 2014), Dominion Midstream, we, our, us or like terms refer to Dominion Midstream Partners, LP and its wholly-owned subsidiaries, Cove Point GP Holding Company, LLC and Dominion Carolina Gas Transmission, LLC (effective April 1, 2015).

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GLOSSARY OF TERMS

The following abbreviations or acronyms used in this Form 10-Q are defined below:

Abbreviation or Acronym	Definition
2005 Agreement	An agreement effective March 1, 2005, in which Cove Point entered into a new agreement with the Sierra Club and the Maryland Conservation Council, Inc.
Additional Return Distributions	The additional cash distribution equal to 3.0% of Cove Point's Modified Net Operating Income in excess of \$600 million distributed each year
Adjusted EBITDA	EBITDA after adjustment for a noncontrolling interest in Cove Point held by Dominion subsequent to the Offering
AFUDC	Allowance for funds used during construction
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC, a limited liability company owned by Dominion, Duke Energy Corporation, Piedmont Natural Gas Company, Inc. and AGL Resources Inc.
Bcfe	Billion cubic feet equivalent
Blue Racer	Blue Racer Midstream, LLC, a joint venture between Dominion and Caiman Energy II, LLC
CAA	Clean Air Act
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Conflicts Committee	Conflicts Committee of the Board of Directors of Dominion Midstream GP, LLC
Cove Point	Dominion Cove Point LNG, LP
Cove Point Facilities	Collectively the Liquefaction Project, Cove Point LNG Facility and Cove Point Pipeline
Cove Point Holdings	Cove Point GP Holding Company, LLC
Cove Point LNG Facility	An LNG import/regasification and storage facility located on the Chesapeake Bay in Lusby, Maryland owned by Cove Point
Cove Point Pipeline	An approximately 136-mile natural gas pipeline owned by Cove Point that connects the Cove Point LNG Facility to interstate natural gas pipelines
CPCN	Certificate of Public Convenience and Necessity
CWA	Clean Water Act
D.C.	District of Columbia
DCGT	Dominion Carolina Gas Transmission, LLC (successor by statutory conversion to and formerly known as Carolina Gas Transmission Corporation)
DCGT Interests	Membership interests held by Dominion Midstream in DCGT
DCPI	Dominion Cove Point, Inc.

DOE	Department of Energy
Dominion	The legal entity, Dominion Resources, Inc., one or more of its consolidated subsidiaries (other than Dominion Midstream GP, LLC and its subsidiaries) or operating segments or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries
Dominion Midstream	The legal entity, Dominion Midstream Partners, LP, its consolidated subsidiaries, Cove Point Holdings and DCGT (effective April 1, 2015), or the entirety of Dominion Midstream Partners, LP and its consolidated subsidiaries
DRS	Dominion Resources Services, Inc.
Dth	Dekatherm
EBITDA	Earnings before interest and associated charges, income tax expense, depreciation and amortization
Edgemoor Project	DCGT project to provide firm transportation service from an existing interconnect with Transcontinental Gas Pipe Line Company, LLC in Cherokee County, South Carolina to customers in Calhoun and Lexington Counties, South Carolina.
EPA	Environmental Protection Agency
Export Customers	ST Cove Point, LLC, a joint venture of Sumitomo Corporation and Tokyo Gas Co., Ltd., and GAIL Global (USA) LNG LLC
FERC	Federal Energy Regulatory Commission
FERC Order	FERC order issued on September 29, 2014 that granted authorization for Cove Point to construct, modify and operate the Liquefaction Project, subject to conditions, and also granted authorization to enhance the Cove Point Pipeline
GAAP	U.S. generally accepted accounting principles
GHG	Greenhouse gas
IDR	Incentive distribution right

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Abbreviation or Acronym	Definition
Import Shippers	The three LNG import shippers consisting of BP Energy Company, Shell NA LNG, Inc. and Statoil Natural Gas, LLC
IRA	Individual retirement account
IRC	Internal Revenue Code
IRS	Internal Revenue Service
Liquefaction Project	A natural gas export/liquefaction facility currently under construction by Cove Point
LNG	Liquefied natural gas
Maryland Commission	Public Service Commission of Maryland
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MLP	Master limited partnership, equivalent to publicly traded partnership
Modified Net Operating Income	Cove Point's Net Operating Income plus any interest expense included in the computation of Net Operating Income
Net Operating Income	Cove Point's gross revenues from operations minus its interest expense and operating expenses, but excluding depreciation and amortization, as determined for U.S. federal income tax purposes
NGA	Natural Gas Act of 1938, as amended
Non-FTA Authorization	Authorization from the DOE for the export of up to 0.77 Bcfe/day of natural gas to countries that do not have an FTA for trade in natural gas
NYSE	New York Stock Exchange
Offering	The initial public offering of common units of Dominion Midstream
Pipeline Safety Act	The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011
Preferred Equity Interest	A perpetual, non-convertible preferred equity interest in Cove Point entitled to the Preferred Return Distributions and the Additional Return Distributions
Preferred Return Distributions	The first \$50.0 million of annual cash distributions made by Cove Point
RCRA	Resource Conservation and Recovery Act as amended
SEC	Securities and Exchange Commission
Statoil	Statoil Natural Gas, LLC
Storage Customers	The four local distribution companies that receive firm peaking services from Cove Point, consisting of: Atlanta Gas Light Company, Public Service Company of North Carolina, Incorporated, Virginia Natural Gas, Inc. and Washington Gas Light Company
U.S.	United States of America

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DOMINION MIDSTREAM PARTNERS, LP****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended	
	March 31,	
	2015	2014
		(Predecessor)
(millions, except per unit data)		
Operating Revenue⁽¹⁾	\$ 67.2	\$ 68.9
Operating Expenses		
Purchased gas ⁽¹⁾	3.9	5.3
Other operations and maintenance:		
Affiliated suppliers	2.3	2.0
Other	6.2	8.4
Depreciation and amortization	9.3	7.8
Other taxes	5.1	5.6
Total operating expenses	26.8	29.1
Income from operations	40.4	39.8
Other income	0.1	
Income from operations including noncontrolling interest before income taxes	40.5	39.8
Income tax expense		15.2
Net Income including noncontrolling interest	\$ 40.5	\$ 24.6
Less: Net income attributable to noncontrolling interest	28.7	
Net income attributable to limited partners	\$ 11.8	
Net income attributable to partners' ownership interest		
Common unitholders' interest in net income	\$ 5.9	
Subordinated unitholder's interest in net income	5.9	
Net income per unit (basic and diluted)		
Common units	\$ 0.19	
Subordinated units	\$ 0.19	

(1) See Note 10 for amounts attributable to related parties.

The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.

Table of Contents**DOMINION MIDSTREAM PARTNERS, LP****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31, 2015	December 31, 2014
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 38.8	\$ 175.4
Customer receivables	22.7	19.9
Affiliated receivables	6.1	6.1
Prepayments	5.9	9.5
Materials and supplies	9.0	8.7
Regulatory assets	3.2	1.7
Other	2.9	4.7
Total current assets	88.6	226.0
Property, Plant and Equipment		
Property, plant and equipment	2,471.3	2,203.1
Accumulated depreciation and amortization	(230.8)	(231.2)
Total property, plant and equipment, net	2,240.5	1,971.9
Deferred Charges and Other Assets		
Goodwill	45.9	45.9
Intangible assets, net	12.1	12.1
Regulatory assets	2.6	2.5
Total deferred charges and other assets	60.6	60.5
Total assets	\$ 2,389.7	\$ 2,258.4

The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.

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DOMINION MIDSTREAM PARTNERS, LP
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Unaudited)

	March 31, 2015	December 31, 2014
(millions)		
LIABILITIES AND EQUITY AND PARTNERS CAPITAL		
Current Liabilities		
Accounts payable	\$ 103.3	\$ 3.3
Payables to affiliates	2.5	2.5
Accrued payroll and taxes	1.1	1.5
Regulatory liabilities	0.2	3.6
Deferred revenue	0.7	3.9
Natural gas imbalances ⁽¹⁾	5.9	2.7
CPCN obligation	7.9	7.9
Other	8.8	6.4
Total current liabilities	130.4	31.8
Deferred Credits and Other Liabilities		
Pension and other postretirement benefit liabilities ⁽¹⁾	4.6	4.4
Regulatory liabilities	34.6	33.5
CPCN obligation	36.2	36.2
Other	1.5	1.7
Total deferred credits and other liabilities	76.9	75.8
Total liabilities	207.3	107.6
Commitments and Contingencies (see Note 8)		
Equity and Partners Capital		
Common unitholders - public (20,132,377 units issued and outstanding)	396.3	395.4
Common unitholder - Dominion (11,847,789 units issued and outstanding)	214.2	213.7
Subordinated unitholder - Dominion (31,972,789 units issued and outstanding)	467.7	466.2
General Partner interest - Dominion (non-economic interest)		
Total Dominion Midstream Partners, LP partners capital	1,078.2	1,075.3
Noncontrolling interest	1,104.2	1,075.5
Total equity and partners capital	2,182.4	2,150.8
Total liabilities and equity and partners capital	\$ 2,389.7	\$ 2,258.4

(1) See Note 10 for amounts attributable to related parties.

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DOMINION MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS' CAPITAL

(Unaudited)

	Partnership				Total General Partner Dominion Partners, LP		Total Equity and Partners Capital
	Common Unitholders Public	Common Unitholder Dominion	Subordinated Unitholder Dominion	(non- economic interest)	Partners Equity and Capital	Noncontrolling interest	
(millions)							
December 31, 2014	\$ 395.4	\$ 213.7	\$ 466.2	\$	\$ 1,075.3	\$ 1,075.5	\$ 2,150.8
Net income including noncontrolling interest	3.7	2.2	5.9		11.8	28.7	40.5
Distributions	(2.8)	(1.7)	(4.4)		(8.9)		(8.9)
March 31, 2015	\$ 396.3	\$ 214.2	\$ 467.7	\$	\$ 1,078.2	\$ 1,104.2	\$ 2,182.4

The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.

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DOMINION MIDSTREAM PARTNERS, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three Months Ended March 31, (millions)	2015	2014 (Predecessor)
Operating Activities		
Net income including noncontrolling interest	\$ 40.5	\$ 24.6
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	9.3	7.8
Deferred income taxes		5.1
Changes in:		
Customer receivables	(2.8)	
Affiliated receivables		(0.8)
Prepayments	3.6	2.9
Accounts payable	(0.5)	(0.7)
Payables to affiliates		2.5
Accrued payroll and taxes	(0.4)	10.9
Other operating assets and liabilities	(3.4)	(3.3)
Net cash provided by operating activities	46.3	49.0
Investing Activities		
Plant construction and other property additions	(173.7)	(76.2)
Other		