Cheniere Energy Partners, L.P.
Form 10-Q
August 02, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-33366
Cheniere Energy Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	20-5913059
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Milam Street, Suite 800 Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 375-5000
(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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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. (Check one):

Large accelerated filer £	Accelerated filer T
Non-accelerated filer £	Smaller reporting company £

(Do not check if a 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 T
As of July 20, 2013, the issuer had 57,078,848 common units, 145,333,334 Class B units and 135,383,831 subordinated units outstanding.

CHENIERE ENERGY PARTNERS, L.P.
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit data)

	June 30, 2013	December 31, 2012 [(1)]
ASSETS	(unaudited)	
Current assets		
Cash and cash equivalents	$355,304	$419,292
Restricted cash and cash equivalents	533,057	92,519
Accounts and interest receivable	23,923	44
Accounts receivable—affiliate	3,473	2,152
Advances to affiliate	8,483	4,987
LNG inventory	11,146	2,625
LNG inventory—affiliate	584	4,420
Prepaid expenses and other	9,730	7,084
Total current assets	945,700	533,123
Non-current restricted cash and cash equivalents	1,777,749	272,425
Property, plant and equipment, net	4,831,351	3,219,592
Debt issuance costs, net	351,830	220,949
Non-current derivative assets	81,762	—
Other	23,206	19,698
Total assets	$8,011,598	$4,265,787
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable	$19,882	$73,760
Accounts payable—affiliate	—	1,122
Accrued liabilities	457,691	47,848
Accrued liabilities—affiliate	44,744	5,744
Deferred revenue	26,585	26,540
Deferred revenue—affiliate	696	696
Other	3,653	126
Total current liabilities	553,251	155,836
Long-term debt, net of discount	5,572,008	2,167,113
Deferred revenue	19,500	21,500
Deferred revenue—affiliate	17,173	14,720
Long-term derivative liability	—	26,424
Other non-current liabilities	1,212	216
Commitments and contingencies		
Partners' equity		
Creole Trail Pipeline Business equity	—	517,170

Common unitholders' interest (57.1 million units and 39.5 million units issued and outstanding at June 30, 2013 and December 31, 2012, respectively)	806,193	448,412
Class B unitholders' interest (145.3 million units and 133.3 million units issued and outstanding at June 30, 2013 and December 31, 2012, respectively)	(38,216)	(37,342)
Subordinated unitholder's interest (135.4 million units issued and outstanding at June 30, 2013 and December 31, 2012)	1,042,320	949,482
General partner's interest (2% interest with 6.9 million units and 6.3 million units issued and outstanding at June 30, 2013 and December 31, 2012, respectively)	38,157	29,496
Accumulated other comprehensive loss	—	(27,240)
Total partners’ equity	1,848,454	1,879,978
Total liabilities and partners’ equity	$8,011,598	$4,265,787

(1) Retrospectively adjusted as discussed in Note 2.

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

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CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit data)
(unaudited)

	Three Months Ended June 30, 2013	2012 (1)	Six Months Ended June 30, 2013	2012 (1)
Revenues				
Revenues	$66,842	$60,767	$132,406	$127,731
Revenues—affiliate	795	656	1,341	3,044
Total revenues	67,637	61,423	133,747	130,775
Expenses				
Operating and maintenance expense	20,902	7,466	29,198	13,668
Operating and maintenance expense—affiliate	10,307	3,247	17,220	6,776
Depreciation expense	14,355	14,336	28,658	28,645
Development expense	3,318	14,472	6,803	31,141
Development expense—affiliate	611	1,031	1,062	2,262
General and administrative expense	2,028	2,193	5,803	4,497
General and administrative expense—affiliate	36,543	5,928	59,759	11,875
Total expenses	88,064	48,673	148,503	98,864
Income (loss) from operations	(20,427)	12,750	(14,756)	31,911
Other income (expense)				
Interest expense, net	(42,016)	(43,458)	(82,278)	(86,916)
Loss on early extinguishment of debt	(80,510)	—	(80,510)	—
Derivative gain (loss), net	95,509	261	78,041	(575)
Other	434	61	760	132
Total other expense	(26,583)	(43,136)	(83,987)	(87,359)
Net loss	$(47,010)	$(30,386)	$(98,743)	$(55,448)
Net loss attributable to the Creole Trail Pipeline Business	$(9,148)	$(5,525)	$(18,394)	$(11,255)
Net loss attributable to partners	(37,862)	(24,861)	(80,349)	(44,193)
Net loss	$(47,010)	$(30,386)	$(98,743)	$(55,448)
Basic and diluted net income per common unit	$0.11	$0.17	$0.21	$0.40
Weighted average number of common units outstanding used for basic and diluted net income per common unit calculation	57,079	31,328	51,345	31,173

(1) Retrospectively adjusted as discussed in Note 2.

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012 [1]	2013	2012 [1]
Net loss	$(47,010)	$(30,386)	$(98,743)	$(55,448)
Other comprehensive income				
Interest rate cash flow hedges				
Loss on settlements retained in other comprehensive income	—	—	(30)	—
Change in fair value of interest rate cash flow hedges	—	—	21,297	—
Losses reclassified into earnings as a result of discontinuance of cash flow hedge accounting	5,973	—	5,973	—
Total other comprehensive income	5,973	—	27,240	—
Comprehensive loss	$(41,037)	$(30,386)	$(71,503)	$(55,448)

(1) Retrospectively adjusted as discussed in Note 2.

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' AND OWNERS' EQUITY
(in thousands)
(unaudited)

	Common Unitholders' Interest		Class B Unitholders' Interest		Subordinated Unitholder's Interest		General Partner's Interest		Accumulated Other Comprehensive Loss	Creole Trail Pipeline Business Equity	Total Partners' Equity
	Units	Amount	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2012 (1)	39,488	$448,412	133,333	$(37,342)	135,384	$949,482	6,290	$29,496	$(27,240)	$517,170	$1,879,97
Net loss	—	(21,344)	—	—	—	(56,277)	—	(2,728)	—	(18,394)	(98,743
Contributions to Creole Trail Pipeline Business from Cheniere, net	—	—	—	—	—	—	—	—	—	20,705	20,705
Acquisition of Creole Trail Pipeline Business	—	—	—	—	—	—	—	—	—	(519,481)	(519,481
Excess of acquired assets over the purchase price		1,988	—	—	—	22,498	—	1,105	—	—	25,591
Issuance of Class B units associated with acquisition of Creole Trail Pipeline Business	—	—	12,000	179,126	—	—	—	—	—	—	179,126
Sale of common and general partner units	17,590	364,795	—	—	—	—	604	11,122	—	—	375,917
Distributions	—	(41,041)	—	—	—	—	—	(838)	—	—	(41,879
Interest rate cash flow hedges	—	—	—	—	—	—	—	—	27,240	—	27,240
Beneficial conversion feature of	—	53,383	—	(180,000)	—	126,617	—	—	—	—	—

Class B units											
Balance at June 30, 2013	57,078	$806,193	145,333	$(38,216)	135,384	$1,042,320	6,894	$38,157	$—	$—	$1,848,45

(1) Retrospectively adjusted as discussed in Note 2.

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2013	2012 [(1)]
Cash flows from operating activities		
Net loss	$(98,743)	$(55,448)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	28,658	28,645
Use of restricted cash and cash equivalents	35,070	—
Amortization of debt discount	2,799	2,347
Amortization of debt issuance costs	2,120	2,185
Non-cash derivative (gain) loss, net	(77,989)	821
Loss on early extinguishment of debt	80,510	—
Changes in operating assets and liabilities:		
Accounts and interest receivable	(23,879)	499
Accounts receivable—affiliate	(1,409)	(629)
Accounts payable and accrued liabilities	2,523	7,679
Accounts payable and accrued liabilities—affiliate	31,197	3,668
Deferred revenue	(1,955)	(3,481)
Advances to affiliate	(3,027)	(1,508)
LNG inventory—affiliate	3,837	3,399
Other	(4,397)	(5,691)
Net cash used in operating activities	(24,685)	(17,514)
Cash flows from investing activities		
Use of restricted cash and cash equivalents	1,266,347	—
LNG terminal costs, net	(1,271,830)	(39,161)
Purchase of Creole Trail Pipeline Business, net	(313,892)	—
Other	(2,990)	(4,714)
Net cash used in investing activities	(322,365)	(43,875)
Cash flows from financing activities		
Proceeds from Sabine Pass Liquefaction Senior Notes, net	3,012,500	—
Proceeds from CTPL Credit Facility, net	391,978	—
Proceeds from 2013 Liquefaction Credit Facilities	100,000	—
Proceeds from sale of partnership common and general partner units, net	375,917	12,379
Proceeds from sale of Class B units	—	166,667
Contributions to Creole Trail Pipeline Business from Cheniere, net	20,705	4,449
Investment in restricted cash and cash equivalents	(3,247,277)	—
Debt issuance and deferred financing costs	(228,882)	(5,530)
Repayment of 2012 Liquefaction Credit Facility	(100,000)	—
Distributions to owners	(41,879)	(27,040)
Net cash provided by financing activities	283,062	150,925
Net increase (decrease) in cash and cash equivalents	(63,988)	89,536

Cash and cash equivalents—beginning of period	419,292	81,415
Cash and cash equivalents—end of period	$355,304	$170,951

(1) Retrospectively adjusted as discussed in Note 2.

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1—ORGANIZATION AND NATURE OF OPERATIONS

Cheniere Energy Partners, L.P. ("Cheniere Partners") is a publicly-traded Delaware limited partnership formed on November 21, 2006 by Cheniere Energy, Inc. ("Cheniere"). Unless the context requires otherwise, references to "Cheniere Partners", "we", "us" and "our" refer to Cheniere Partners and its subsidiaries.

We were formed to own and operate the Sabine Pass liquefied natural gas ("LNG") terminal located on the Sabine Pass deep water shipping channel less than four miles from the Gulf Coast. The Sabine Pass LNG terminal has regasification facilities owned by our wholly owned subsidiary, Sabine Pass LNG, L.P. ("Sabine Pass LNG"), that includes existing infrastructure of five LNG storage tanks with capacity of approximately 16.9 Bcfe, two docks that can accommodate vessels of up to 265,000 cubic meters and vaporizers with regasification capacity of approximately 4.0 Bcf/d. Approximately one-half of the receiving capacity at the Sabine Pass LNG terminal is contracted to two multinational energy companies.

We are developing natural gas liquefaction facilities (the "Liquefaction Project") at the Sabine Pass LNG terminal adjacent to the existing regasification facilities through a wholly owned subsidiary, Sabine Pass Liquefaction, LLC ("Sabine Pass Liquefaction"). We plan to construct up to six Trains (each in sequence, "Train 1", "Train 2", "Train 3", "Train 4", "Train 5" and "Train 6"), which are in various stages of development. Each Train is expected to have nominal production capacity of approximately 4.5 million tonnes per annum ("mtpa").

In May 2013, we acquired Cheniere's ownership interests in Cheniere Creole Trail Pipeline, L.P. ("CTPL") and Cheniere Pipeline GP Interests, LLC (collectively, "the Creole Trail Pipeline Business"), thereby providing us with ownership of a 94-mile pipeline interconnecting the Sabine Pass LNG terminal with a number of large interstate pipelines (the "Creole Trail Pipeline"). We acquired the Creole Trail Pipeline Business for $480.0 million and reimbursed Cheniere $13.9 million for certain expenditures incurred prior to the closing date. Concurrent with the Creole Trail Pipeline Business acquisition closing, we issued 12.0 million Class B units to Cheniere at a price of $15.00 per Class B unit for aggregate consideration of $180.0 million pursuant to a unit purchase agreement with Cheniere Class B Units Holdings, LLC, a wholly owned subsidiary of Cheniere. As a result of the two transactions, we paid Cheniere net cash of $313.9 million. See Note 2—"Basis of Presentation".

NOTE 2—BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements of Cheniere Energy Partners, L.P. have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included.

These consolidated financial statements include our accounts and the assets, liabilities and operations of the Creole Trail Pipeline Business. The effect on reported equity of including the prior results of the Creole Trail Pipeline Business is reported as Creole Trail Pipeline Business equity in our Consolidated Balance Sheets and Consolidated Statements of Partners' and Owners' Equity. This purchase has been accounted for as a transfer of net assets between entities under common control. We recognize transfers of net assets between entities under common control at Cheniere's historical basis in the net assets sold. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retroactively adjusted to furnish comparative information. The difference between the purchase price and Cheniere's basis in the net assets sold, if any, is recognized as an adjustment to partners' equity. Subsequent to the acquisition, we had the ability to control CTPL's operating and financial decisions and policies and have consolidated CTPL in our financial statements.

Our consolidated financial statements and all other financial information included in this report have been retrospectively adjusted to assume that our acquisition of the Creole Trail Pipeline Business from Cheniere had occurred at the date when the Creole Trail Pipeline Business met the accounting requirements for entities under common control (the date of our inception since both we and the Creole Trail Pipeline Business were formed by Cheniere).

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

Results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2013.

We are not subject to either federal or state income tax, as the partners are taxed individually on their allocable share of taxable income.

For further information, refer to the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012, as amended by Amendment No. 1 on Form 10-K/A.

NOTE 3—RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consists of cash and cash equivalents that are contractually restricted as to usage or withdrawal, as follows:

Sabine Pass LNG Senior Notes Debt Service Reserve

Sabine Pass LNG has consummated private offerings of an aggregate principal amount of $1,665.5 million, before discount, of Senior Secured Notes due 2016 (the "2016 Notes") and $420.0 million of Senior Secured Notes due 2020 (the "2020 Notes"). See Note 7—"Long-Term Debt". Collectively, the 2016 Notes and the 2020 Notes are referred to as the "Sabine Pass LNG Senior Notes." Under the indentures governing the Sabine Pass LNG Senior Notes (the "Sabine Pass LNG Indentures"), except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied, including that there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass LNG Indentures.

As of June 30, 2013 and December 31, 2012, we classified $15.0 million and $17.4 million, respectively, as current restricted cash and cash equivalents for the payment of interest due within twelve months. As of June 30, 2013 and December 31, 2012, we classified the permanent debt service reserve fund of $76.1 million as non-current restricted cash and cash equivalents. These cash accounts are controlled by a collateral trustee, and, therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets.

Liquefaction Reserve

In July 2012, Sabine Pass Liquefaction closed on a $3.6 billion senior secured credit facility (the "2012 Liquefaction Credit Facility"). In February and April 2013, Sabine Pass Liquefaction entered into $2.0 billion, before premium, of Senior Secured Notes due in 2021 (the "2021 Sabine Pass Liquefaction Senior Notes") and $1.0 billion of Senior Secured Notes due in 2023 (the "2023 Sabine Pass Liquefaction Senior Notes" and collectively with the 2021 Sabine Pass Liquefaction Senior Notes, the "Sabine Pass Liquefaction Senior Notes"). In May 2013, Sabine Pass Liquefaction closed four credit facilities aggregating $5.9 billion (collectively the "2013 Liquefaction Credit Facilities"), which amended and restated the 2012 Liquefaction Credit Facility. See Note 7—"Long-Term Debt". Under the terms and conditions of the 2012 Liquefaction Credit Facility and the 2013 Liquefaction Credit Facilities, Sabine Pass Liquefaction is required to deposit all cash received into collateral accounts controlled by a collateral trustee. Therefore, all of Sabine Pass Liquefaction's cash and cash equivalents are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets. As of June 30, 2013 and December 31, 2012, we classified $498.7 million and $75.1 million, respectively, as current restricted cash and cash equivalents held by Sabine Pass Liquefaction and $1,591.1 million and $196.3 million, respectively, as non-current restricted cash and cash equivalents held by Sabine Pass Liquefaction.

CTPL Reserve

As of June 30, 2013, we classified $19.4 million and 110.5 million as current and non-current restricted cash and cash equivalents, respectively, held by CTPL as such funds are to be used to pay for modifications to the Creole Trail Pipeline in order to enable bi-directional natural gas flow and interest during the construction.

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

NOTE 4—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of LNG terminal costs and fixed assets, as follows (in thousands):

	June 30, 2013	December 31, 2012
LNG terminal costs		
LNG terminal	$2,224,392	$2,224,230
LNG terminal construction-in-process	2,868,812	1,228,647
LNG site and related costs, net	152	156
Accumulated depreciation	(262,925)	(234,349)
Total LNG terminal costs, net	4,830,431	3,218,684
Fixed assets		
Computer and office equipment	424	368
Vehicles	884	704
Machinery and equipment	1,471	1,473
Other	750	760
Accumulated depreciation	(2,609)	(2,397)
Total fixed assets, net	920	908
Property, plant and equipment, net	$4,831,351	$3,219,592

Depreciation expense related to the Sabine Pass LNG terminal totaled $14.2 million for each of the three months ended June 30, 2013 and 2012. Depreciation expense related to the Sabine Pass LNG terminal totaled $28.4 million for each of the six months ended June 30, 2013 and 2012.

In June 2012, we satisfied the criteria for capitalizing costs associated with Trains 1 and 2 of the Liquefaction Project, and in May 2013, we satisfied the criteria for capitalizing costs associated with Trains 3 and 4 of the Liquefaction Project. For the three and six months ended June 30, 2013, we capitalized $59.4 million and $94.7 million of interest expense related to the construction of the Liquefaction Project, respectively.

NOTE 5—FINANCIAL INSTRUMENTS

Derivative Instruments

We have entered into certain instruments to hedge the exposure to variability in expected future cash flows attributable to the future sale of our LNG inventory ("LNG Inventory Derivatives"), to hedge the exposure to price risk attributable to future purchases of natural gas to be utilized as fuel to operate the Sabine Pass LNG terminal ("Fuel Derivatives"), and interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under the 2013 Liquefaction Credit Facilities ("Interest Rate Derivatives").

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

The following table (in thousands) shows the fair value of our derivative assets and liabilities that are required to be measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012, which are classified as other current assets, other current liabilities and other non-current liabilities in our Consolidated Balance Sheets.

	Fair Value Measurements as of							
	June 30, 2013				December 31, 2012			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
LNG Inventory Derivatives asset	$—	$ 764	$ —	$764	$—	$ 232	$ —	$232
Fuel Derivatives (liability)	—	(200)	—	(200)	—	(98)	—	(98)
Interest Rate Derivatives asset (liability)	—	78,207	—	78,207	—	(26,424)	—	(26,424)

The estimated fair values of our LNG Inventory Derivatives and Fuel Derivatives are the amount at which the instruments could be exchanged currently between willing parties. We value these derivatives using observable commodity price curves and other relevant data. We value our Interest Rate Derivatives using valuations based on the initial trade prices. Using an income-based approach, subsequent valuations are based on observable inputs to the valuation model including interest rate curves, risk adjusted discount rates, credit spreads and other relevant data. Derivative assets and liabilities arising from our derivative contracts with the same counterparty are reported on a net basis, as all counterparty derivative contracts provide for net settlement.

Commodity Derivatives

We recognize all derivative instruments that qualify for derivative accounting treatment as either assets or liabilities and measure those instruments at fair value unless they qualify for, and we elect, the normal purchase normal sale exemption. For transactions in which we have elected the normal purchase normal sale exemption, gains and losses are not reflected on our Consolidated Statements of Operations until the period of delivery. For those instruments accounted for as derivatives, including our LNG Inventory Derivatives and certain of our Fuel Derivatives, changes in fair value are reported in earnings.

The use of derivative instruments exposes us to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments in instances where our Fuel Derivatives or our LNG Inventory Derivatives are in an asset position. Except for the fuel hedges with our affiliate described below, our commodity derivative transactions are executed through over-the-counter contracts which are subject to nominal credit risk as these transactions are settled on a daily margin basis with investment grade financial institutions. We are required by these financial institutions to use margin deposits as credit support for our commodity derivative activities. Collateral of $0.2 million and $0.9 million deposited for such contracts, which has not been reflected in the derivative fair value tables, is included in the other current assets balance as of June 30, 2013, and December 31, 2012, respectively.

During the second quarter of 2013, Sabine Pass LNG began to enter into forward contracts under its master service agreement with Cheniere Marketing, LLC ("Cheniere Marketing"), a wholly owned subsidiary of Cheniere, to hedge the exposure to price risk attributable to future purchases of natural gas to be utilized as fuel to operate the Sabine Pass LNG terminal. Sabine Pass LNG elected to account for these physical hedges of future fuel purchases as normal purchase normal sale transactions, exempt from fair value accounting. Sabine Pass LNG had not posted collateral with Cheniere Marketing for such forward contracts as of June 30, 2013.

The following table (in thousands) shows the fair value and location of our LNG Inventory Derivatives and Fuel Derivatives on our Consolidated Balance Sheets:

		Fair Value Measurements as of	
	Balance Sheet Location	June 30, 2013	December 31, 2012
LNG Inventory Derivatives asset	Prepaid expenses and other	$764	$232
Fuel Derivatives (liability)	Other current liabilities	(200)	(98)

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CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

The following table (in thousands) shows the changes in the fair value and settlements of our LNG Inventory Derivatives recorded in marketing and trading revenues (losses) on our Consolidated Statements of Operations during the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
LNG Inventory Derivatives gain (loss)	$884	$(246)	334	$925

The following table (in thousands) shows the changes in the fair value and settlements of our Fuel Derivatives recorded in derivative gain (loss), net on our Consolidated Statements of Operations during the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fuel Derivatives gain (loss) (1)	$(464)	$261	$52	$(575)

(1)Excludes settlements of hedges of the exposure to price risk attributable to future purchases of natural gas to be utilized
as fuel to operate the Sabine Pass LNG terminal for which Sabine Pass LNG has elected the normal purchase normal sale exemption from derivative accounting.

Interest Rate Derivatives

In August 2012 and June 2013, Sabine Pass Liquefaction entered into Interest Rate Derivatives to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the 2012 Liquefaction Credit Facility and the 2013 Liquefaction Credit Facilities, respectively. The Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2013 Liquefaction Credit Facilities.

Sabine Pass Liquefaction had elected to designate the Interest Rate Derivatives entered into in August 2012 as hedging instruments which was required in order to qualify for cash flow hedge accounting. As a result of this cash flow hedge designation, we recognized the Interest Rate Derivatives entered into in August 2012 as an asset or liability at fair value, and reflected changes in fair value through other comprehensive income in our Consolidated Statements of Comprehensive Loss. Any hedge ineffectiveness associated with the Interest Rate Derivatives entered into in August 2012 was recorded immediately as derivative gain (loss) in our Consolidated Statements of Operations. The realized gain (loss) on the Interest Rate Derivatives entered into in August 2012 was recorded as an (increase) decrease in interest expense on our Consolidated Statements of Operations to the extent not capitalized as part of the Liquefaction Project. The effective portion of the gains or losses on our Interest Rate Derivatives entered into in August 2012 recorded in other comprehensive income would be reclassified to earnings as interest payments on the 2012 Liquefaction Credit Facility impact earnings. In addition, amounts recorded in other comprehensive income are also reclassified into earnings if it becomes probable that the hedged forecasted transaction will not occur.

Sabine Pass Liquefaction did not elect to designate the Interest Rate Derivatives entered into in June 2013 as cash flow hedging instruments, and changes in fair value are recorded as derivative gain (loss) within the Consolidated Statements of Operations.

During the first quarter of 2013, we determined that it was no longer probable that the forecasted variable interest payments on the 2012 Liquefaction Credit Facility would occur in the time period originally specified based on the continued development of our financing strategy for the Liquefaction Project, and, in particular, the Sabine Pass Liquefaction Senior Notes described in Note 8—"Long-Term Debt". As a result, all of the Interest Rate Derivatives entered into in August 2012 were no longer effective hedges, and the remaining portion of hedge relationships that were designated cash flow hedges as of December 31, 2012, were de-designated as of February 1, 2013. For de-designated cash flow hedges, changes in fair value prior to their de-designation date are recorded as other comprehensive income (loss) within the Consolidated Balance Sheets, and changes in fair value subsequent to their de-designation date are recorded as derivative gain (loss) within the Consolidated Statements of Operations.

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In June 2013, we concluded that the hedged forecasted transactions associated with the Interest Rate Derivatives entered into in connection with the 2012 Liquefaction Credit Facility had become probable of not occurring based on the issuances of the Sabine Pass Liquefaction Senior Notes, the closing of the 2013 Liquefaction Credit Facilities, the additional Interest Rate Derivatives executed in June 2013, and our intention to continue to issue fixed rate debt to refinance drawn portions of the 2013 Liquefaction Credit Facilities. As a result, the amount remaining in accumulated other comprehensive income ("AOCI") pertaining to the previously designated Interest Rate Derivatives was reclassified out of AOCI and into income. We have presented the reclassification of unrealized losses from AOCI into income and the changes in fair value and settlements subsequent to the reclassification date separate from interest expense as derivative gain (loss), net in our Consolidated Statements of Operations.

At June 30, 2013, Sabine Pass Liquefaction had the following Interest Rate Derivatives outstanding:

	Initial Notional Amount	Maximum Notional Amount		Effective Date	Maturity Date	Weighted Average Fixed Interest Rate Paid	Variable Interest Rate Received
Interest Rate Derivatives - Not Designated	$20.0 million	$2.9	billion	August 14, 2012	July 31, 2019	1.98%	One-month LIBOR
Interest Rate Derivatives - Not Designated	—	$671.0	million	June 5, 2013	May 31, 2020	2.05%	One-month LIBOR

The following table (in thousands) shows the fair value of our Interest Rate Derivatives:

		Fair Value Measurements as of	
	Balance Sheet Location	June 30, 2013	December 31, 2012
Interest Rate Derivatives - Not Designated	Non-current derivative assets	$81,762	$—
Interest Rate Derivatives - Designated	Non-current derivative liabilities	—	21,290
Interest Rate Derivatives - Not Designated	Other current liabilities	3,555	—
Interest Rate Derivatives - Not Designated	Non-current derivative liabilities	—	5,134

The following table (in thousands) details the effect of our Interest Rate Derivatives included in OCI and AOCI for the three months ended June 30, 2013 and 2012:

	Gain (Loss) in Other Comprehensive Income		Gain (Loss) Reclassified from AOCI into Interest Expense (Effective Portion)		Losses Reclassified into Earnings as a Result of Discontinuance of Cash Flow Hedge Accounting	
	2013	2012	2013	2012	2013	2012
Interest Rate Derivatives - Designated	$—	$—	$—	$—	$(5,806)	$—
Interest Rate Derivatives - Settlements	—	—	—	—	(167)	—

The following table (in thousands) details the effect of our Interest Rate Derivatives included in OCI and AOCI for the six months ended June 30, 2013 and 2012:

	Gain (Loss) in Other Comprehensive Income		Gain (Loss) Reclassified from AOCI into Interest Expense (Effective Portion)		Losses Reclassified into Earnings as a Result of Discontinuance of Cash Flow Hedge Accounting	
	2013	2012	2013	2012	2013	2012
Interest Rate Derivatives - Designated	$21,297	$—	$—	$—	$(5,806)	$—
Interest Rate Derivatives - Settlements	(30)	—	—	—	(167)	—

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The following table (in thousands) shows the changes in the fair value of our Interest Rate Derivatives - Not Designated recorded in derivative gain (loss), net on our Consolidated Statements of Operations during the three and six months ended June 30, 2013 and 2012: