

Buckeye GP Holdings L.P.
Form 10-Q
May 08, 2009
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009 or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 001-32963

BUCKEYE GP HOLDINGS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

Five TEK Park
9999 Hamilton Boulevard
Breinigsville, Pennsylvania
(Address of principal executive
offices)

11-3776228
(IRS Employer
Identification No.)

18031
(Zip Code)

610-904-4000

(Registrant's Telephone Number, Including Area Code)

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Not Applicable

(Former name, former address and former fiscal year, if changed since last report).

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 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

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

As of April 30, 2009, there were 27,769,647 Common Units and 530,353 Management Units outstanding.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

INDEX

	Page
<u>PART I- FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2009 and 2008</u> 1
	<u>Condensed Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008</u> 2
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008</u> 3
	<u>Condensed Consolidated Statement of Changes in Partners' Capital for the Three Months Ended March 31, 2009 and 2008</u> 4
	<u>Notes to Condensed Consolidated Financial Statements</u> 5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 23
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 36
<u>Item 4.</u>	<u>Controls and Procedures</u> 38
<u>PART II- OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 39
<u>Item 6.</u>	<u>Exhibits</u> 39

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements**BUCKEYE GP HOLDINGS L.P.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per unit amounts)****(Unaudited)**

	Three Months Ended March 31,	
	2009	2008
Revenues:		
Product sales	\$ 268,779	\$ 241,046
Transportation and other	148,061	139,229
Total revenue	416,840	380,275
Costs and expenses:		
Cost of product sales	250,676	236,611
Operating expenses	73,900	66,291
Depreciation and amortization	13,364	11,383
General and administrative	10,035	9,896
Total costs and expenses	347,975	324,181
Operating income	68,865	56,094
Other income (expense):		
Investment income	152	614
Interest and debt expense	(17,403)	(18,178)
Total other expense	(17,251)	(17,564)
Income before equity income	51,614	38,530
Equity income	2,082	2,055
Net income	53,696	40,585
Less: Net income attributable to noncontrolling interest	(43,547)	(34,736)
Amounts attributable to Buckeye GP Holdings L.P. unitholders	\$ 10,149	\$ 5,849
Net income per partnership unit:		
Basic	\$ 0.36	\$ 0.21
Diluted	\$ 0.36	\$ 0.21
Weighted average number of common units outstanding:		
Basic	28,300	28,300

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Diluted

28,300

28,300

See Notes to condensed consolidated financial statements.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2009	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 20,947	\$ 61,281
Trade receivables, net	81,981	79,969
Construction and pipeline relocation receivables	18,437	21,501
Inventories	82,125	84,229
Derivative assets	45,249	97,375
Prepaid and other current assets	69,986	75,406
Total current assets	318,725	419,761
Property, plant and equipment, net	2,248,705	2,241,612
Equity investments	91,957	90,110
Goodwill	433,892	433,892
Intangible assets, net	43,230	44,114
Other non-current assets	29,278	33,608
Total assets	\$ 3,165,787	\$ 3,263,097
Liabilities and partners' capital:		
Current liabilities:		
Line of credit	\$ 50,000	\$ 96,000
Current portion of long-term debt	6,264	6,294
Accounts payable	30,439	42,098
Derivative liabilities	25,109	48,623
Accrued and other current liabilities	95,932	116,464
Total current liabilities	207,744	309,479
Long-term debt	1,361,663	1,453,425
Other non-current liabilities	103,363	101,359
Total liabilities	1,672,770	1,864,263
Commitments and contingent liabilities		
Buckeye GP Holdings L.P. capital:		
General Partner - (2,830 common units outstanding as of March 31, 2009 and December 31, 2008)	7	7
Limited Partners (27,766,817 common units outstanding as of March 31, 2009 and December 31, 2008)	227,718	226,565
Management Units (530,353 units outstanding as of March 31, 2009 and December 31, 2008)	3,060	3,037
Equity gains on issuance of Buckeye Partners, L.P. limited partner units	2,544	2,451
Total Buckeye GP Holdings L.P. capital	233,329	232,060
Noncontrolling interest	1,259,688	1,166,774
Total partners' capital	1,493,017	1,398,834
Total liabilities and partners' capital	\$ 3,165,787	\$ 3,263,097

See Notes to condensed consolidated financial statements.

Table of Contents**BUCKEYE GP HOLDINGS L.P.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 53,696	\$ 40,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt discount and unit-based compensation	1,245	679
Value of ESOP shares released	183	817
Depreciation and amortization	13,364	11,383
Net changes in fair value of derivatives	4,103	
Deferred lease expense	1,125	
Earnings from equity investments of Buckeye Partners, L.P.	(2,082)	(2,055)
Distributions from equity investments of Buckeye Partners, L.P.	235	500
Change in assets and liabilities, net of amounts related to acquisitions:		
Trade receivables	(2,012)	58
Construction and pipeline relocation receivables	3,064	2,816
Inventories	26,101	5,041
Prepaid and other current assets	5,422	(5,104)
Accounts payable	(11,659)	1,397
Accrued and other current liabilities	(18,821)	1,619
Other non-current assets	2,466	2,774
Other non-current liabilities	2,343	(427)
Total adjustments from operating activities	25,077	19,498
Net cash provided by operations	78,773	60,083
Cash flows from investing activities:		
Capital expenditures	(20,976)	(14,792)
Acquisitions and equity investments, net of cash acquired		(600,309)
Net expenditures for disposal of property, plant and equipment	(42)	(33)
Net cash used in investing activities	(21,018)	(615,134)
Cash flows from financing activities:		
Net proceeds from issuance of Buckeye Partners, L.P. limited partner units	91,042	113,259
Proceeds from issuance of long-term debt and borrowings under credit facilities	30,000	576,050
Payment of debt, net	(167,854)	(142,724)
Debt issuance costs	(13)	(351)
Distributions to non-controlling partners of Buckeye Partners, L.P.	(41,925)	(37,267)
Settlement payment of interest rate swaps		(9,638)
Distributions to Limited Partners	(9,339)	(8,066)
Net cash (used in) provided by financing activities	(98,089)	491,263
Net decrease in cash and cash equivalents	(40,334)	(63,788)
Cash and cash equivalents Beginning of year	61,281	94,486
Cash and cash equivalents End of period	\$ 20,947	\$ 30,698
Supplemental cash flow information:		
Cash paid for interest (net of amount capitalized)	\$ 25,866	\$ 17,770

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Capitalized interest	\$	1,281	\$	336
Cash paid for income tax	\$	547	\$	180
<i>Non-cash changes in assets and liabilities:</i>				
Capital additions accrued in property, plant, and equipment	\$	(1,522)	\$	
Hedge accounting	\$	372	\$	1,043

See Notes to condensed consolidated financial statements.

Table of Contents**Buckeye GP Holdings L.P.****Condensed Consolidated Statement of Partners' Capital****(In thousands)****(Unaudited)**

	Buckeye GP Holdings L.P. unitholders					
	General Partner Common Units	Limited Partners Common Units	Management Units	Equity Gains on Issuance of Buckeye's LP Units	Noncontrolling Interest	Total
Partners' capital- January 1, 2008	\$ 7	\$ 232,928	\$ 3,156	\$ 2,239	\$ 1,066,143	\$ 1,304,473
Net income*		5,739	110		34,736	40,585
Distributions to Limited Partner - Common Units		(7,915)	(151)			(8,066)
Recognition of unit-based compensation charges		347	6			353
Equity gains on issuance of Buckeye's LP Units				212	(212)	
Net proceeds from issuance of 2.6 million of Buckeye's LP Units					113,259	113,259
Distributions to noncontrolling interest					(37,267)	(37,267)
Other					1,558	1,558
Partners' capital- March 31, 2008	\$ 7	\$ 231,099	\$ 3,121	\$ 2,451	\$ 1,178,217	\$ 1,414,895
Partners' capital-January 1, 2009	\$ 7	\$ 226,565	\$ 3,037	\$ 2,451	\$ 1,166,774	\$ 1,398,834
Net income*		9,959	190		43,547	53,696
Distributions to Limited Partner - Common Units		(9,164)	(175)			(9,339)
Recognition of unit-based compensation charges		358	8			366
Equity gains on issuance of Buckeye's LP Units				93	(93)	
Net proceeds from issuance of 2.6 million of Buckeye's LP Units					91,042	91,042
Distributions to noncontrolling interest					(41,925)	(41,925)
Other					343	343
Partners' capital-March 31, 2009	\$ 7	\$ 227,718	\$ 3,060	\$ 2,544	\$ 1,259,688	\$ 1,493,017

* Comprehensive income equals net income.

See Notes to condensed consolidated financial statements.

Table of Contents

BUCKEYE GP HOLDINGS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

Buckeye GP Holdings L.P. (BGH) is a publicly traded (NYSE: BGH) master limited partnership organized on June 15, 2006 under the laws of the state of Delaware. BGH owns 100% of Buckeye GP LLC (Buckeye GP), which is the general partner of Buckeye Partners, L.P. (Buckeye). Buckeye is also a publicly traded (NYSE: BPL) master limited partnership which was organized in 1986 under the laws of the state of Delaware. BGH's limited partner units are owned approximately 62% by BGH GP Holdings, LLC (BGH GP), approximately 1% by certain members of senior management and approximately 37% by the public. BGH GP is owned by affiliates of ArcLight Capital Partners, LLC (ArcLight), Kelso & Company (Kelso), and certain investment funds along with certain members of senior management of Buckeye GP. MainLine Management LLC, a Delaware limited liability company (MainLine Management), is the general partner of BGH, and is wholly owned by BGH GP.

BGH's only business is the ownership of Buckeye GP. Buckeye GP's only business is the management of Buckeye and its subsidiaries. At March 31, 2009, Buckeye GP owned an approximately 0.5% general partner interest in Buckeye.

Buckeye has one of the largest independent refined petroleum products pipeline systems in the United States in terms of volumes delivered, with approximately 5,400 miles of pipeline and 64 active products terminals that provide aggregate storage capacity of approximately 24.7 million barrels. In addition, Buckeye operates and maintains approximately 2,400 miles of other pipelines under agreements with major oil and chemical companies. Buckeye also owns and operates a major natural gas storage facility in northern California which provides approximately 33 billion cubic feet (Bcf) of gas storage capacity (including capacity provided pursuant to a nearly completed expansion project) and is a wholesale distributor of refined petroleum products in the northeastern and midwestern United States in areas also served by Buckeye's pipelines and terminals.

Buckeye conducts business in five reportable operating segments: Pipeline Operations; Terminalling and Storage; Natural Gas Storage; Energy Services; and Other Operations. See Note 15 for a more detailed discussion of Buckeye's operating segments.

Buckeye Pipe Line Services Company (Services Company) was formed in 1996 in connection with the establishment of the Buckeye Pipe Line Services Company Employee Stock Ownership Plan (the ESOP). At March 31, 2009, Services Company owned approximately 4.1% of the publicly traded limited partnership units of Buckeye (the LP Units). Services Company employs approximately 1,000 people who provide services to the operating subsidiaries through which Buckeye conducts its operations. Approximately 20 people are employed directly by Buckeye's operating subsidiary, Lodi Gas Storage, L.L.C. (Lodi Gas) and another approximately 20 people are employed by Buckeye's operating subsidiary, Buckeye Albany Terminal LLC. Pursuant to a services agreement entered into in December 2004 (the Services Agreement), the operating subsidiaries reimburse Services Company for the costs of the services it provides. Pursuant to the Services Agreement and an Executive Employment Agreement, through December 31, 2008 executive compensation costs and related benefits paid to Buckeye GP's four highest salaried officers were not reimbursed by Buckeye or its operating subsidiaries but were reimbursed to Services Company by BGH. Effective January 1, 2009, Buckeye and its operating subsidiaries agreed to pay for all executive compensation and benefits earned by Buckeye

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GP's four highest salaried officers in return for an annual fixed payment from BGH to Buckeye in the amount of \$3.6 million.

On January 1, 2009, BGH adopted Emerging Issues Task Force (EITF) Issue No. 07-4, Application of the Two-Class Method under Financial Accounting Standards Board (FASB) Statement No. 128, Earnings per Share, to Master Limited Partnerships (EITF 07-4). BGH's former practice was to calculate its portion of Buckeye's earnings based solely as if Buckeye's net income was entirely distributed. The effect of adopting EITF 07-4 is: (i) for periods when Buckeye's net income exceeds distributions, BGH's net income will be the same as under BGH's former accounting practice and (ii) for periods when Buckeye's distributions exceed net income, BGH's reported earnings will be higher than under BGH's former practice. These differences will be material for those periods where there are material differences between Buckeye's net income and the distributions it pays.

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Table of Contents

On January 1, 2009, BGH adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 (SFAS 160). SFAS 160 established accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. These accounting and reporting standards require for-profit entities that prepare consolidated financial statements to: (a) present noncontrolling interests as a component of equity, separate from the parent's equity; (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement; (c) consistently account for changes in a parent's ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions; (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated; and (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interests of noncontrolling owners. Accordingly, for periods presented in these condensed consolidated financial statements, BGH has reclassified its noncontrolling interest liability into partners' capital on the condensed consolidated balance sheets and has separately presented and allocated income attributable to noncontrolling interests on the condensed consolidated income statements.

On January 1, 2009, BGH adopted SFAS 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133, and has included the expanded disclosures required by this statement in Note 8 to these condensed consolidated financial statements.

In June 2005, the EITF issued EITF Consensus 04-05 which requires general partners of a limited partnership to consolidate the limited partnership if the general partner is deemed to control the limited partnership. Using criteria established in EITF Consensus 04-05, BGH has determined that consolidation of Buckeye into BGH's financial statements is appropriate.

BGH has determined that Services Company is a variable interest entity under the provisions of FASB Interpretation No. 46R Consolidation of Variable Interest Entities (FIN No. 46R). Using criteria established in FIN No. 46R, BGH has determined that Buckeye GP is the primary beneficiary of Services Company, although 100% of the equity interest of Services Company is owned by the ESOP. Accordingly, as required by FIN No. 46R, Services Company has been consolidated in the financial statements of BGH.

BGH's condensed consolidated balance sheet includes a non-controlling interest liability that reflects the portion of Buckeye owned by its partners other than BGH and Services Company. Similarly, BGH's condensed consolidated income statements include non-controlling interest expense that reflects the portion of the earnings due to Buckeye's partners other than BGH and Services Company.

In the opinion of management, the condensed consolidated financial statements of BGH, which are unaudited except that the balance sheet as of December 31, 2008 is derived from audited financial statements, include all adjustments, consisting of normal recurring accruals, necessary to present fairly BGH's financial position as of March 31, 2009 along with the results of BGH's operations for the three months ended March 31, 2009 and 2008 and BGH's cash flows for the three months ended March 31, 2009 and 2008. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the condensed consolidated financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of BGH and the notes thereto for the year ended December 31, 2008 contained in BGH's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 16, 2009.

Table of Contents

2. CONTINGENCIES

Claims and Proceedings

Buckeye and its subsidiaries in the ordinary course of business are involved in various claims and legal proceedings, some of which are covered by insurance. Buckeye is generally unable to predict the timing or outcome of these claims and proceedings. Based upon its evaluation of existing claims and proceedings and the probability of losses relating to such contingencies, Buckeye has accrued certain amounts relating to such claims and proceedings, none of which are considered material.

In March 2007, Buckeye was named as a defendant in an action entitled *Madigan v. Buckeye Partners, L.P.* filed in the U.S. District Court for the Central District of Illinois. The action was brought by the State of Illinois Attorney General acting on behalf of the Illinois Environmental Protection Agency. The complaint alleges that Buckeye violated various Illinois state environmental laws in connection with a product release from Buckeye's terminal located in Harristown, Illinois on or about June 11, 2006 and various other product releases from Buckeye's terminals and pipelines in the State of Illinois during the period of 2001 through 2006. The complaint seeks to recover state oversight costs, damages, and civil penalties and seeks injunctive action requiring Buckeye to remediate the environmental contamination resulting from the product releases. Buckeye believes it has meritorious defenses to the allegations set forth in the complaint.

Environmental Contingencies

In accordance with its accounting policy, Buckeye recorded operating expenses of \$5.3 million and \$2.0 million for the three months ended March 31, 2009 and 2008, respectively, related to environmental contingencies unrelated to claims and proceedings.

Ammonia Contract Contingencies

On November 30, 2005, Buckeye Gulf Coast Pipe Lines, L.P. (BGC), an operating subsidiary of Buckeye, purchased an ammonia pipeline and other assets from El Paso Merchant Energy-Petroleum Company (EPME), a subsidiary of El Paso Corporation (El Paso). As part of the transaction, BGC assumed the obligations of EPME under several contracts involving monthly purchases and sales of ammonia. EPME and BGC agreed, however, that EPME would retain the economic risks and benefits associated with those contracts until their expiration at the end of 2012. To effectuate this agreement, BGC passes through to EPME both the cost of purchasing ammonia under a supply contract and the proceeds from selling ammonia under three sales contracts. For the vast majority of monthly periods since the closing of the pipeline acquisition, the pricing terms of the ammonia contracts have resulted in ammonia costs exceeding ammonia sales proceeds. The amount of the shortfall generally increases as the market price of ammonia increases.

EPME has informed BGC that, notwithstanding the parties' agreement, it will not continue to pay BGC for shortfalls created by the pass-through of ammonia costs in excess of ammonia revenues. EPME encouraged BGC to seek payment by invoking the \$40.0 million guaranty made by El Paso which guaranteed EPME's obligations to BGC. If EPME fails to reimburse BGC for these shortfalls for a significant period during the remainder of the term of the ammonia agreements, then such unreimbursed shortfalls could exceed the \$40.0 million cap on El Paso's guaranty.

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To the extent the unreimbursed shortfalls significantly exceed the \$40.0 million cap, the resulting costs incurred by BGC could adversely affect Buckeye's and BGH's financial position, results of operations, and cash flows. Given the uncertainty of future ammonia prices and EPME's future actions, Buckeye is unable to estimate the amount of any such losses. Accordingly, Buckeye has recorded no provision for losses in the accompanying condensed consolidated financial statements because it is unable to determine whether or not a loss has been incurred or, if a loss has been incurred, a reasonable estimate or range of estimates of the amount of such losses. Buckeye is currently assessing its options, including potential recourse against EPME and El Paso, with respect to this matter.

Table of Contents

3. PREPAIDS AND OTHER CURRENT ASSETS

Prepays and other current assets consist of the following:

	March 31, 2009	December 31, 2008
	(In thousands)	
Prepaid insurance	\$ 5,349	\$ 7,889
Insurance receivables		