Western Gas Partners LP
Form 10-Q
October 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

Or

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

For the transition period from to

Commission file number: 001-34046

WESTERN GAS PARTNERS, LP
(Exact name of registrant as specified in its charter)

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

(832) 636-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
	(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 o No þ

There were 119,070,104 common units outstanding as of October 27, 2014.

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DEFINITIONS

As generally used within the energy industry and in this quarterly report on Form 10-Q, the identified terms have the following meanings:
Barrel or Bbl: 42 U.S. gallons measured at 60 degrees Fahrenheit.
Btu: British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Condensate: A natural gas liquid with a low vapor pressure mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.
Cryogenic: The process in which liquefied gases, such as liquid nitrogen or liquid helium, are used to bring volumes to very low temperatures (below approximately -238 degrees Fahrenheit) to separate natural gas liquids from natural gas. Through cryogenic processing, more natural gas liquids are extracted than when traditional refrigeration methods are used.
Drip condensate: Heavier hydrocarbon liquids that fall out of the natural gas stream and are recovered in the gathering system without processing.
Fractionation: The process of applying various levels of higher pressure and lower temperature to separate a stream of natural gas liquids into ethane, propane, normal butane, isobutane and natural gasoline for end-use sale.
Imbalance: Imbalances result from (i) differences between gas volumes nominated by customers and gas volumes received from those customers and (ii) differences between gas volumes received from customers and gas volumes delivered to those customers.
MBbls/d: One thousand barrels per day.
MMBtu: One million British thermal units.
MMcf/d: One million cubic feet per day.
Natural gas liquid(s) or NGL(s): The combination of ethane, propane, normal butane, isobutane and natural gasolines that, when removed from natural gas, become liquid under various levels of higher pressure and lower temperature.
Residue: The natural gas remaining after being processed or treated.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

thousands except per-unit amounts	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013 [1]	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013 [1]
Revenues – affiliates				
Gathering, processing and transportation of natural gas and natural gas liquids	$104,258	$83,606	$288,392	$218,680
Natural gas, natural gas liquids and condensate sales	138,464	129,411	415,715	371,077
Other, net	2,778	108	4,349	1,253
Total revenues – affiliates	245,500	213,125	708,456	591,010
Revenues – third parties				
Gathering, processing and transportation of natural gas and natural gas liquids	64,098	47,175	182,663	124,791
Natural gas, natural gas liquids and condensate sales	11,630	11,915	37,471	31,539
Other, net	5,237	1,287	7,276	3,330
Total revenues – third parties	80,965	60,377	227,410	159,660
Total revenues	326,465	273,502	935,866	750,670
Equity income, net [2]	19,063	4,520	41,322	11,944
Operating expenses				
Cost of product [3]	108,393	93,516	318,428	270,059
Operation and maintenance [3]	53,657	42,757	145,064	121,165
General and administrative [3]	7,889	7,276	24,304	22,228
Property and other taxes	6,564	6,649	20,718	18,520
Depreciation, amortization and impairments	45,651	37,615	130,009	106,551
Total operating expenses	222,154	187,813	638,523	538,523
Operating income	123,374	90,209	338,665	224,091
Interest income, net – affiliates	4,225	4,225	12,675	12,675
Interest expense	(20,878)	(13,018)	(55,703)	(37,483)
Other income (expense), net	97	439	788	1,612
Income before income taxes	106,818	81,855	296,425	200,895
Income tax (benefit) expense	278	(27)	276	4,192
Net income	106,540	81,882	296,149	196,703
Net income attributable to noncontrolling interest	3,863	3,376	11,005	7,467
Net income attributable to Western Gas Partners, LP	$102,677	$78,506	$285,144	$189,236
Limited partners' interest in net income:				
Net income attributable to Western Gas Partners, LP	$102,677	$78,506	$285,144	$189,236
Pre-acquisition net (income) loss allocated to Anadarko	—	(106)	956	(4,616)
General partner interest in net (income) loss [4]	(31,058)	(18,693)	(83,939)	(47,733)
Limited partners' interest in net income [4]	71,619	59,707	202,161	136,887
Net income per common unit – basic and diluted	$0.60	$0.53	$1.71	$1.26
Weighted average common units outstanding – basic and diluted	119,068	112,143	118,326	108,540

(1) Financial information has been recast to include the financial position and results attributable to the TEFR Interests. See Note 1 and Note 2.

(2) Income earned from equity investments is classified as affiliate. See Note 1.

(3) Cost of product includes product purchases from Anadarko (as defined in Note 1) of $22.7 million and $74.6 million for the three and nine months ended September 30, 2014, respectively, and $33.8 million and $97.8 million for the three and nine months ended September 30, 2013, respectively. Operation and maintenance includes charges from Anadarko of $14.6 million and $42.5 million for the three and nine months ended September 30, 2014, respectively, and $13.5 million and $41.0 million for the three and nine months ended September 30, 2013, respectively. General and administrative includes charges from Anadarko of $6.6 million and $19.9 million for the three and nine months ended September 30, 2014, respectively, and $5.9 million and $17.3 million for the three and nine months ended September 30, 2013, respectively. See Note 5.

(4) Represents net income earned on and subsequent to the date of acquisition of the Partnership assets (as defined in Note 1). See Note 4.

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

thousands except number of units	September 30, 2014	December 31, 2013 (1)
ASSETS		
Current assets		
Cash and cash equivalents	$67,837	$100,728
Accounts receivable, net (2)	126,345	84,060
Other current assets (3)	6,773	10,022
Total current assets	200,955	194,810
Note receivable – Anadarko	260,000	260,000
Property, plant and equipment		
Cost	4,754,279	4,239,100
Less accumulated depreciation	986,692	855,845
Net property, plant and equipment	3,767,587	3,383,255
Goodwill	105,336	105,336
Other intangible assets	52,561	53,606
Equity investments	639,191	593,400
Other assets	28,910	27,401
Total assets	$5,054,540	$4,617,808
LIABILITIES, EQUITY AND PARTNERS' CAPITAL		
Current liabilities		
Accounts and natural gas imbalance payables (4)	$27,011	$39,589
Accrued ad valorem taxes	21,083	13,860
Income taxes payable	258	—
Accrued liabilities (5)	152,878	137,011
Total current liabilities	201,230	190,460
Long-term debt	2,082,914	1,418,169
Deferred income taxes	780	37,998
Asset retirement obligations and other	85,903	79,145
Total long-term liabilities	2,169,597	1,535,312
Total liabilities	2,370,827	1,725,772
Equity and partners' capital		
Common units (119,070,104 and 117,322,812 units issued and outstanding at September 30, 2014, and December 31, 2013, respectively)	2,524,313	2,431,193
General partner units (2,430,007 and 2,394,345 units issued and outstanding at September 30, 2014, and December 31, 2013, respectively)	89,150	78,157
Net investment by Anadarko	—	312,092
Total partners' capital	2,613,463	2,821,442
Noncontrolling interest	70,250	70,594
Total equity and partners' capital	2,683,713	2,892,036
Total liabilities, equity and partners' capital	$5,054,540	$4,617,808

(1) Financial information has been recast to include the financial position and results attributable to the TEFR Interests. See Note 1 and Note 2.

(2) Accounts receivable, net includes amounts receivable from affiliates (as defined in Note 1) of $87.3 million and $47.9 million as of September 30, 2014, and December 31, 2013, respectively.

(3)

Other current assets includes natural gas imbalance receivables from affiliates of $0.1 million as of September 30, 2014, and December 31, 2013.

(4) Accounts and natural gas imbalance payables includes amounts payable to affiliates of $0.1 million and $2.3 million as of September 30, 2014, and December 31, 2013, respectively.

(5) Accrued liabilities includes amounts payable to affiliates of zero and $0.1 million as of September 30, 2014, and December 31, 2013, respectively.

See accompanying Notes to Consolidated Financial Statements.

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WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS' CAPITAL
(UNAUDITED)

thousands	Partners' Capital Net Investment by Anadarko	Common Units	General Partner Units	Noncontrolling Interest	Total
Balance at December 31, 2013 [1]	$312,092	$2,431,193	$78,157	$70,594	$2,892,036
Net income (loss)	(956)	202,161	83,939	11,005	296,149
Issuance of common and general partner units, net of offering expenses	—	99,274	2,467	—	101,741
Distributions to noncontrolling interest owner	—	—	—	(11,349)	(11,349)
Distributions to unitholders	—	(221,677)	(75,336)	—	(297,013)
Acquisitions from affiliates	(372,784)	16,534	—	—	(356,250)
Contributions of equity-based compensation from Anadarko	—	2,471	50	—	2,521
Net pre-acquisition contributions from Anadarko [2]	23,488	—	—	—	23,488
Net distributions to Anadarko of other assets	—	(6,271)	(127)	—	(6,398)
Elimination of net deferred tax liabilities	38,160	—	—	—	38,160
Other	—	628	—	—	628
Balance at September 30, 2014	$—	$2,524,313	$89,150	$70,250	$2,683,713

(1) Financial information has been recast to include the financial position and results attributable to the TEFR Interests. See Note 1 and Note 2.

(2) Includes deferred taxes on capitalized interest of $0.3 million associated with the acquisition of the TEFR Interests as of September 30, 2014.

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
thousands	2014	2013 [1]
Cash flows from operating activities		
Net income	$296,149	$196,703
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and impairments	130,009	106,551
Non-cash equity-based compensation expense	3,210	2,564
Deferred income taxes	642	29,216
Debt-related amortization and other items, net	2,045	1,756
Equity income, net [2]	(41,322)	(11,944)
Distributions from equity investment earnings [2]	43,061	15,563
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(41,408)	(27,387)
Increase (decrease) in accounts and natural gas imbalance payables and accrued liabilities, net	9,736	6,818
Change in other items, net	1,645	(2,523)
Net cash provided by operating activities	403,767	317,317
Cash flows from investing activities		
Capital expenditures	(492,287)	(469,678)
Contributions in aid of construction costs from affiliates	183	—
Acquisitions from affiliates	(372,393)	(469,884)
Acquisitions from third parties	—	(240,274)
Investments in equity affiliates	(63,267)	(252,308)
Distributions from equity investments in excess of cumulative earnings [2]	14,387	—
Proceeds from the sale of assets to affiliates	—	82
Proceeds from the sale of assets to third parties	5	14
Net cash used in investing activities	(913,372)	(1,432,048)
Cash flows from financing activities		
Borrowings, net of debt issuance costs	1,136,878	842,566
Repayments of debt	(480,000)	(495,000)
Increase (decrease) in outstanding checks	2,908	(3,335)
Proceeds from the issuance of common and general partner units, net of offering expenses	101,502	427,848
Distributions to unitholders	(297,013)	(215,115)
Contributions from noncontrolling interest owner	—	2,247
Distributions to noncontrolling interest owner	(11,349)	(8,001)
Net contributions from Anadarko	23,788	181,904
Net cash provided by financing activities	476,714	733,114
Net increase (decrease) in cash and cash equivalents	(32,891)	(381,617)
Cash and cash equivalents at beginning of period	100,728	419,981
Cash and cash equivalents at end of period	$67,837	$38,364
Supplemental disclosures		
Net distributions to Anadarko of other assets	$6,398	$4,080
Interest paid, net of capitalized interest	43,504	34,974
Taxes paid (reimbursements received)	(340)	—
Capital lease asset transfer [3]	4,833	—

(1) Financial information has been recast to include the financial position and results attributable to the TEFR Interests. See Note 1 and Note 2.
(2) Income earned on, distributions from and contributions to equity investments are classified as affiliate. See Note 1.
(3) For the nine months ended September 30, 2014, represents transfers of $0.2 million and $4.6 million from other current assets and other long-term assets, respectively, associated with the capital lease components of a processing agreement. See Note 6.

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

General. Western Gas Partners, LP is a growth-oriented Delaware master limited partnership formed by Anadarko Petroleum Corporation in 2007 to own, operate, acquire and develop midstream energy assets.
For purposes of these consolidated financial statements, the "Partnership" refers to Western Gas Partners, LP and its subsidiaries. The Partnership's general partner, Western Gas Holdings, LLC (the "general partner" or "GP"), is owned by Western Gas Equity Partners, LP ("WGP"), a Delaware master limited partnership formed by Anadarko Petroleum Corporation in September 2012 to own the Partnership's general partner, as well as a significant limited partner interest in the Partnership (see Western Gas Equity Partners, LP below). Western Gas Equity Holdings, LLC is WGP's general partner and is a wholly owned subsidiary of Anadarko Petroleum Corporation. "Anadarko" refers to Anadarko Petroleum Corporation and its subsidiaries, excluding the Partnership and the general partner, and "affiliates" refers to subsidiaries of Anadarko, excluding the Partnership, and includes equity interests in Fort Union Gas Gathering, LLC ("Fort Union"), White Cliffs Pipeline, LLC ("White Cliffs"), Rendezvous Gas Services, LLC ("Rendezvous"), Enterprise EF78, LLC (the "Mont Belvieu JV"), Texas Express Pipeline LLC ("TEP"), Texas Express Gathering LLC ("TEG") and Front Range Pipeline LLC ("FRP") (see Note 2). The interests in TEP, TEG and FRP are referred to collectively as the "TEFR Interests." All income earned on, distributions from and contributions to the Partnership's equity investments are considered to be affiliate transactions. "Equity investment throughput" refers to the Partnership's 14.81% share of average Fort Union throughput and 22% share of average Rendezvous throughput, but excludes throughput measured in barrels, consisting of the Partnership's 10% share of average White Cliffs throughput, 25% share of average Mont Belvieu JV throughput, 20% share of average TEP and TEG throughput and 33.33% share of average FRP throughput. The "DJ Basin complex" refers to the Platte Valley system, Wattenberg system, and Lancaster plant, all of which were combined into a single complex in the first quarter of 2014.
The Partnership is engaged in the business of gathering, processing, compressing, treating and transporting natural gas, condensate, NGLs and crude oil for Anadarko, as well as for third-party producers and customers. As of September 30, 2014, the Partnership's assets and investments accounted for under the equity method consisted of the following:

	Owned and Operated	Operated Interests	Non-Operated Interests	Equity Interests
Natural gas gathering systems	13	1	5	2
NGL gathering systems	—	—	—	2
Natural gas treating facilities	8	—	—	1
Natural gas processing facilities	9	3	—	2
NGL pipelines	3	—	—	2
Natural gas pipelines	3	—	—	—
Oil pipeline	—	—	—	1

These assets and investments are located in the Rocky Mountains (Colorado, Utah and Wyoming), the Mid-Continent (Kansas and Oklahoma), north-central Pennsylvania and Texas. The Partnership completed construction of Train I at the Lancaster processing plant (located in the DJ Basin complex) in Northeast Colorado in April 2014, and is constructing Train II at the same plant with operations expected to commence in the second quarter of 2015.

Western Gas Equity Partners, LP. WGP owns the following types of interests in the Partnership: (i) the 2.0% general partner interest and all of the incentive distribution rights ("IDRs") in the Partnership, both owned through WGP's 100% ownership of the Partnership's general partner and (ii) a significant limited partner interest (see Holdings of Partnership equity in Note 4). WGP has no independent operations or material assets other than its partnership interests in the Partnership.

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WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

Basis of presentation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The consolidated financial statements include the accounts of the Partnership and entities in which it holds a controlling financial interest. All significant intercompany transactions have been eliminated. Investments in non-controlled entities over which the Partnership exercises significant influence are accounted for under the equity method. The Partnership proportionately consolidates its 33.75% share of the assets, liabilities, revenues and expenses attributable to the Non-Operated Marcellus Interest and Anadarko-Operated Marcellus Interest (see Note 2) and its 50% share of the assets, liabilities, revenues and expenses attributable to the Newcastle system in the accompanying consolidated financial statements. The 25% membership interest in Chipeta Processing LLC (“Chipeta”) held by a third-party member is reflected within noncontrolling interest in the consolidated financial statements for all periods presented.

In preparing financial statements in accordance with GAAP, management makes informed judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Management evaluates its estimates and related assumptions regularly, using historical experience and other methods considered reasonable under the particular circumstances. Changes in facts and circumstances or additional information may result in revised estimates and actual results may differ from these estimates. Effects on the business, financial condition and results of operations resulting from revisions to estimates are recognized when the facts that give rise to the revisions become known. The information furnished herein reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the consolidated financial statements, and certain prior-period amounts have been reclassified to conform to the current-year presentation.

Certain information and note disclosures commonly included in annual financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, the accompanying consolidated financial statements and notes should be read in conjunction with the Partnership’s 2013 Form 10-K, as filed with the SEC on February 28, 2014, certain sections of which were recast to reflect the results of the TEFR Interests in the Partnership’s Current Report on Form 8-K, as filed with the SEC on August 27, 2014. Management believes that the disclosures made are adequate to make the information not misleading.

Presentation of Partnership assets. The “Partnership assets” refer collectively to the assets owned and interests accounted for under the equity method by the Partnership as of September 30, 2014. Because Anadarko controls the Partnership through its ownership and control of WGP, which owns the Partnership’s general partner, each acquisition of Partnership assets from Anadarko has been considered a transfer of net assets between entities under common control. As such, the Partnership assets acquired from Anadarko were initially recorded at Anadarko’s historic carrying value, which did not correlate to the total acquisition price paid by the Partnership. Further, after an acquisition of Partnership assets from Anadarko, the Partnership may be required to recast its financial statements to include the activities of the Partnership assets as of the date of common control. See Note 2.

For those periods requiring recast, the consolidated financial statements for periods prior to the Partnership’s acquisition of the Partnership assets from Anadarko have been prepared from Anadarko’s historical cost-basis accounts and may not necessarily be indicative of the actual results of operations that would have occurred if the Partnership had owned the Partnership assets during the periods reported. Net income attributable to the Partnership assets acquired from Anadarko for periods prior to the Partnership’s acquisition of the Partnership assets is not allocated to the limited partners for purposes of calculating net income per common unit.

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WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

Equity investments. The following table presents the activity in the Partnership's equity investments for the nine months ended September 30, 2014:

	Equity Investments							
thousands	Fort Union	White Cliffs	Rendezvous	Mont Belvieu JV	TEG	TEP	FRP	Total
Balance at December 31, 2013	$25,172	$35,039	$60,928	$122,480	$16,649	$197,731	$135,401	$593,400
Investment earnings (loss), net of amortization	4,811	8,385	1,180	22,872	466	3,488	120	41,322
Contributions	—	10,456	—	3,956	352	6,263	40,033	61,060
Capitalized interest	—	—	—	—	—	—	857	857
Distributions	(4,619)	(7,949)	(2,636)	(24,423)	(373)	(2,938)	(123)	(43,061)
Distributions in excess of cumulative earnings [(1)]	—	(891)	(1,993)	—	(338)	(5,321)	(5,844)	(14,387)
Balance at September 30, 2014	$25,364	$45,040	$57,479	$124,885	$16,756	$199,223	$170,444	$639,191

(1) Distributions in excess of cumulative earnings, classified as investing cash flows in the consolidated statements of cash flows, is calculated on an individual investment basis.

Recently issued accounting standards. Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and industry-specific guidance in Subtopic 932-605, Extractive Activities—Oil and Gas—Revenue Recognition, and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning in 2017 and is required to be adopted using one of two retrospective application methods, with no early adoption permitted. The Partnership is currently evaluating the impact of the adoption of this ASU on its consolidated financial statements.

ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, changes the criteria for reporting discontinued operations and requires additional disclosures, both for discontinued operations and for individually significant dispositions and assets classified as held for sale not qualifying as discontinued operations. This ASU is effective for annual and interim periods beginning in 2015, with early adoption permitted for disposals or for assets classified as held for sale that have not been reported in previously issued financial statements. The Partnership early adopted this ASU on a prospective basis beginning with the first quarter of 2014. The adoption did not have a material impact on the Partnership's consolidated financial statements.

ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset, except in certain circumstances. This ASU is effective for annual and interim periods beginning in 2014. The Partnership adopted this ASU on a prospective basis beginning with the first quarter of 2014. The adoption did not have a material impact on the Partnership's consolidated financial statements.

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WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. ACQUISITIONS

The following table presents the acquisitions completed by the Partnership during 2014 and 2013, and identifies the funding sources for such acquisitions:

thousands except unit and percent amounts	Acquisition Date	Percentage Acquired		Borrowings	Cash On Hand	Common Units Issued
Non-Operated Marcellus Interest [1]	03/01/2013	33.75	%	$250,000	$215,500	449,129
Anadarko-Operated Marcellus Interest [2]	03/08/2013	33.75	%	133,500	—	—
Mont Belvieu JV [3]	06/05/2013	25	%	—	78,129	—
OTTCO [4]	09/03/2013	100	%	27,500	—	—
TEFR Interests [5]	03/03/2014	Various [5]		350,000	6,250	308,490

(1) The Partnership acquired Anadarko's 33.75% interest (non-operated) in the Liberty and Rome gas gathering systems, serving production from the Marcellus shale in north-central Pennsylvania. The interest acquired is referred to as the "Non-Operated Marcellus Interest." In connection with the issuance of the common units, the Partnership's general partner purchased 9,166 general partner units for consideration of $0.5 million to maintain its 2.0% general partner interest in the Partnership.

(2) The Partnership acquired a 33.75% interest in each of the Larry's Creek, Seely and Warrensville gas gathering systems, which are operated by Anadarko and serve production from the Marcellus shale in north-central Pennsylvania, from a third party. The interest acquired is referred to as the "Anadarko-Operated Marcellus Interest." During the third quarter of 2013, the Partnership recorded a $1.1 million decrease in the assets acquired and liabilities assumed in the acquisition, representing the final purchase price allocation.

(3) The Partnership acquired a 25% interest in the Mont Belvieu JV, an entity formed to design, construct, and own two fractionation trains located in Mont Belvieu, Texas, from a third party. The interest acquired is accounted for under the equity method of accounting.

(4) The Partnership acquired Overland Trail Transmission, LLC ("OTTCO"), a Delaware limited liability company, from a third party. OTTCO owns and operates an intrastate pipeline that connects the Partnership's Red Desert and Granger complexes in southwestern Wyoming.

(5) The Partnership acquired a 20% interest in each of TEG and TEP and a 33.33% interest in FRP from Anadarko. These assets gather and transport NGLs primarily from the Anadarko and Denver-Julesburg Basins. The interests in these entities are accounted for under the equity method of accounting. In connection with the issuance of the common units, the Partnership's general partner purchased 6,296 general partner units for consideration of $0.4 million to maintain its 2.0% general partner interest in the Partnership.

TEFR Interests acquisition. Because the acquisition of the TEFR Interests was a transfer of net assets between entities under common control, the Partnership's historical financial statements previously filed with the SEC have been recast in this Form 10-Q to include the results attributable to the TEFR Interests for all periods presented. The consolidated financial statements for periods prior to the Partnership's acquisition of the TEFR Interests have been prepared from Anadarko's historical cost-basis accounts and may not necessarily be indicative of the actual results of operations that would have occurred if the Partnership had owned the TEFR Interests during the periods reported.

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WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. ACQUISITIONS (CONTINUED)

The following table presents the impact of the TEFR Interests on revenues, equity income (loss), net and net income (loss) as presented in the Partnership's historical consolidated statements of income:

	Three Months Ended September 30, 2013		
thousands	Partnership Historical	TEFR Interests	Combined
Revenues	$273,502	$—	$273,502
Equity income (loss), net	4,499	21	4,520
Net income (loss)	81,776	106	81,882
	Nine Months Ended September 30, 2013		
thousands	Partnership Historical	TEFR Interests	Combined
Revenues	$750,670	$—	$750,670
Equity income (loss), net	12,204	(260)	11,944
Net income (loss)	196,724	(21)	196,703

3. PARTNERSHIP DISTRIBUTIONS

The partnership agreement of Western Gas Partners, LP requires the Partnership to distribute all of its available cash (as defined in the partnership agreement) to unitholders of record on the applicable record date within 45 days of the end of each quarter. The board of directors of the general partner declared the following cash distributions to the Partnership's unitholders for the periods presented:

thousands except per-unit amounts Quarters Ended	Total Quarterly Distribution per Unit	Total Quarterly Cash Distribution	Date of Distribution
2013			
March 31	$0.540	$70,143	May 2013
June 30	0.560	79,315	August 2013
September 30	0.580	83,986	November 2013
2014			
March 31	$0.625	$98,749	May 2014
June 30	0.650	105,655	August 2014
September 30 [(1)]	0.675	111,609	November 2014

(1) On October 20, 2014, the board of directors of the Partnership's general partner declared a cash distribution to the Partnership's unitholders of $0.675 per unit, or $111.6 million in aggregate, including incentive distributions. The cash distribution is payable on November 13, 2014, to unitholders of record at the close of business on October 31, 2014.

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4. EQUITY AND PARTNERS’ CAPITAL

Equity offerings. The Partnership completed the following public offerings of its common units during 2014 and 2013:

thousands except unit and per-unit amounts	Common Units Issued	GP Units Issued (1)	Price Per Unit	Underwriting Discount and Other Offering Expenses	Net Proceeds
May 2013 equity offering (2)	7,015,000	143,163	$61.18	$13,203	$424,733
December 2013 equity offering (3)	4,800,000	97,959	61.51	9,447	291,827
Continuous Offering Program - 2013 (4)	685,735	13,996	60.84	965	41,603
Continuous Offering Program - 2014 (5)	1,133,384	23,132	73.48	1,726	83,257

(1) Represents general partner units issued to the general partner in exchange for the general partner’s proportionate capital contribution to maintain its 2.0% general partner interest in the Partnership.

(2) Includes the issuance of 915,000 common units pursuant to the full exercise of the underwriters’ over-allotment option granted in connection with the May 2013 equity offering.

(3) Includes the issuance of 300,000 common units on January 3, 2014, pursuant to the partial exercise of the underwriters’ over-allotment option granted in connection with the December 2013 equity offering. Net proceeds from this partial exercise (including the general partner’s proportionate capital contribution) were $18.1 million.

(4) Represents common and general partner units issued during the year ended December 31, 2013, pursuant to the Partnership’s registration statement filed with the SEC in August 2012 authorizing the issuance of up to an aggregate of $125.0 million of common units (the “Continuous Offering Program”). Gross proceeds generated (including the general partner’s proportionate capital contributions) during the year ended December 31, 2013, were $42.6 million. The price per unit in the table above represents an average price for all issuances under the Continuous Offering Program during 2013.

(5) Represents common and general partner units issued during the nine months ended September 30, 2014, under the Continuous Offering Program. Gross proceeds generated (including the general partner’s proportionate capital contributions) were $85.0 million. The price per unit in the table above represents an average price for all issuances under the Continuous Offering Program during the nine months ended September 30, 2014. As of September 30, 2014, the Partnership had used all the capacity to issue common units under this registration statement.

Common and general partner units. The Partnership’s common units are listed on the New York Stock Exchange under the symbol “WES.”
The following table summarizes common and general partner units issued during the nine months ended September 30, 2014:

	Common Units	General Partner Units	Total
Balance at December 31, 2013	117,322,812	2,394,345	119,717,157
December 2013 equity offering	300,000	6,122	306,122
Long-Term Incentive Plan awards	5,418	112	5,530
TEFR Interests acquisition	308,490	6,296	314,786
Continuous Offering Program	1,133,384	23,132	1,156,516
Balance at September 30, 2014	119,070,104	2,430,007	121,500,111

Holdings of Partnership equity. As of September 30, 2014, WGP held 49,296,205 common units, representing a 40.6% limited partner interest in the Partnership, and, through its ownership of the general partner, WGP indirectly held 2,430,007 general partner units, representing a 2.0% general partner interest in the Partnership, and 100% of the Partnership's IDRs. As of September 30, 2014, other subsidiaries of Anadarko held 757,619 common units, representing a 0.6% limited partner interest in the Partnership. As of September 30, 2014, the public held 69,016,280 common units, representing a 56.8% limited partner interest in the Partnership.

4. EQUITY AND PARTNERS' CAPITAL (CONTINUED)

The Partnership's net income earned on and subsequent to the date of the acquisition of the Partnership assets (as defined in Note 1) is allocated to the general partner and the limited partners consistent with actual cash distributions, including incentive distributions allocable to the general partner. Undistributed earnings (net income in excess of distributions) or undistributed losses (available cash in excess of net income) are then allocated to the general partner and the limited partners in accordance with their respective ownership percentages.
Basic and diluted net income per common unit are calculated by dividing the limited partners' interest in net income by the weighted average number of common units outstanding during the period. The common units issued in connection with acquisitions and equity offerings are included on a weighted-average basis for periods during which they were outstanding.

5. TRANSACTIONS WITH AFFILIATES

Affiliate transactions. Revenues from affiliates include amounts earned by the Partnership from services provided to Anadarko as well as from the sale of residue, condensate and NGLs to Anadarko. In addition, the Partnership purchases natural gas from an affiliate of Anadarko pursuant to gas purchase agreements. Operating and maintenance expense includes amounts accrued for or paid to affiliates for the operation of the Partnership assets, whether in providing services to affiliates or to third parties, including field labor, measurement and analysis, and other disbursements. A portion of the Partnership's general and administrative expenses is paid by Anadarko, which results in affiliate transactions pursuant to the reimbursement provisions of the Partnership's omnibus agreement. Affiliate expenses do not bear a direct relationship to affiliate revenues, and third-party expenses do not bear a direct relationship to third-party revenues. See Note 1 for further information related to contributions of assets to the Partnership by Anadarko.

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

Note receivable from Anadarko. Concurrently with the closing of the Partnership's May 2008 initial public offering, the Partnership loaned $260.0 million to Anadarko in exchange for a 30-year note bearing interest at a fixed annual rate of 6.50%, payable quarterly. The fair value of the note receivable from Anadarko was $322.3 million and $296.7 million at September 30, 2014, and December 31, 2013, respectively. The fair value of the note reflects consideration of credit risk and any premium or discount for the differential between the stated interest rate and quarter-end market interest rate, based on quoted market prices of similar debt instruments. Accordingly, the fair value of the note receivable from Anadarko is measured using Level 2 inputs.

Commodity price swap agreements. The Partnership has commodity price swap agreements with Anadarko to mitigate exposure to commodity price volatility that would otherwise be present as a result of the purchase and sale of natural gas, condensate or NGLs. Notional volumes for each of the commodity price swap agreements are not specifically defined; instead, the commodity price swap agreements apply to the actual volume of natural gas, condensate and NGLs purchased and sold at the Granger, Hilight, Hugoton, Newcastle and MGR assets, as well as the DJ Basin complex, with various expiration dates through December 2016. In December 2013, the Partnership extended the commodity price swap agreements for the Hilight and Newcastle assets through December 2014. The commodity price swap agreements do not satisfy the definition of a derivative financial instrument and, therefore, are not required to be measured at fair value.

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5. TRANSACTIONS WITH AFFILIATES (CONTINUED)

Below is a summary of the fixed price ranges on the Partnership's outstanding commodity price swap agreements as of September 30, 2014:

per barrel except natural gas	2014		2015		2016
Ethane	$18.36	– $30.53	$18.41	– $23.41	$23.11
Propane	40.38	– 53.78	47.08	– 52.99	52.90
Isobutane	61.24	– 75.13	62.09	– 74.02	73.89
Normal butane	53.89	– 66.83	54.62	– 65.04	64.93
Natural gasoline					