Cheniere Energy Partners, L.P.
Form 10-Q
October 30, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 September 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Cheniere Energy Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	001-33366	20-5913059
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

700 Milam Street, Suite 1900 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 (§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 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 x	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 x
As of October 20, 2015, the issuer had 57,101,348 common units, 145,333,334 Class B units and 135,383,831 subordinated units outstanding.

CHENIERE ENERGY PARTNERS, L.P.
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DEFINITIONS

As commonly used in the liquefied natural gas industry, to the extent applicable, and as used in this quarterly report, the terms listed below have the following meanings:

Common Industry and Other Terms

Bcf/d	billion cubic feet per day
Bcf/yr	billion cubic feet per year
Bcfe	billion cubic feet equivalent
DOE	U.S. Department of Energy
EPC	engineering, procurement and construction
FERC	Federal Energy Regulatory Commission
FTA countries	countries with which the United States has a free trade agreement providing for national treatment for trade in natural gas
GAAP	generally accepted accounting principles in the United States
Henry Hub	the final settlement price (in USD per MMBtu) for the New York Mercantile Exchange's Henry Hub natural gas futures contract for the month in which a relevant cargo's delivery window is scheduled to begin
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas, a product of natural gas consisting primarily of methane (CH_4) that is in liquid form at near atmospheric pressure
MMBtu	million British thermal units, an energy unit
mtpa	million tonnes per annum
non-FTA countries	countries without a free trade agreement providing for national treatment for trade in natural gas and with which trade is permitted
SEC	Securities and Exchange Commission
SPA	LNG sale and purchase agreement
Train	a refrigerant compressor train used in the industrial process to convert natural gas into LNG
TUA	terminal use agreement

Abbreviated Organizational Structure

The following diagram depicts our abbreviated organizational structure as of September 30, 2015, including our ownership of certain subsidiaries, and the references to these entities used in this quarterly report:

Unless the context requires otherwise, references to "Cheniere Partners," "the Partnership," "we," "us" and "our" refer to Cheniere Energy Partners, L.P. (NYSE MKT: CQP) and its consolidated subsidiaries, including SPLNG, SPL and CTPL.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$170,433	$248,830
Restricted cash	391,495	195,702
Accounts and interest receivable	95	333
Accounts receivable—affiliate	2,566	3,651
Advances to affiliate	54,995	27,323
LNG inventory	7,145	4,293
Other current assets	16,055	6,388
Total current assets	642,784	486,520
Non-current restricted cash	76,107	544,465
Property, plant and equipment, net	11,299,725	8,978,356
Debt issuance costs, net	307,099	241,909
Non-current derivative assets	30,657	11,744
Other non-current assets	190,960	124,521
Total assets	$12,547,332	$10,387,515
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable	$7,096	$8,598
Accrued liabilities	352,457	136,578
Due to affiliates	32,851	18,952
Deferred revenue	26,653	26,655
Deferred revenue—affiliate	708	708
Derivative liabilities	7,388	23,247
Other current liabilities	267	18
Total current liabilities	427,420	214,756
Long-term debt, net	11,244,002	8,991,333
Non-current deferred revenue	10,500	13,500
Non-current derivative liabilities	8,832	267
Other non-current liabilities	1,177	2,185
Other non-current liabilities—affiliate	61,691	34,745
Partners' equity		
Common unitholders' interest (57.1 million units issued and outstanding at September 30, 2015 and December 31, 2014)	346,443	495,597
	(37,981)	(38,216)

Class B unitholders' interest (145.3 million units issued and outstanding at September 30, 2015 and December 31, 2014)		
Subordinated unitholders' interest (135.4 million units issued and outstanding at September 30, 2015 and December 31, 2014)	467,054	648,414
General partner's interest (2% interest with 6.9 million units issued and outstanding at September 30, 2015 and December 31, 2014)	18,194	24,934
Total partners' equity	793,710	1,130,729
Total liabilities and partners' equity	$12,547,332	$10,387,515

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Revenues	$66,596	$66,890	$199,804	$199,933
Revenues—affiliate	941	700	2,952	2,206
Total revenues	67,537	67,590	202,756	202,139
Operating costs and expenses				
Operating and maintenance expense (income)	(22,782)	21,041	17,840	54,750
Operating and maintenance expense—affiliate	8,081	5,016	20,355	14,307
Depreciation expense	16,687	14,781	47,557	43,821
Development expense	113	1,383	2,631	8,671
Development expense—affiliate	152	329	562	723
General and administrative expense	3,673	2,448	11,269	10,048
General and administrative expense—affiliate	25,692	24,454	80,761	74,579
Total operating costs and expenses	31,616	69,452	180,975	206,899
Income (loss) from operations	35,921	(1,862)	21,781	(4,760)
Other income (expense)				
Interest expense, net of amounts capitalized	(49,360)	(46,884)	(142,353)	(130,943)
Loss on early extinguishment of debt	—	—	(96,273)	(114,335)
Derivative gain (loss), net	(10,872)	5,379	(46,541)	(89,222)
Other income	179	127	535	63
Total other expense	(60,053)	(41,378)	(284,632)	(334,437)
Net loss	$(24,132)	$(43,240)	$(262,851)	$(339,197)
Basic and diluted net income (loss) per common unit	$0.18	$0.08	$(0.44)	$(0.83)
Weighted average number of common units outstanding used for basic and diluted net income (loss) per common unit calculation	57,081	57,079	57,081	57,079

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

CHENIERE ENERGY PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY
(in thousands)
(unaudited)

	Common Unitholders' Interest		Class B Unitholders' Interest		Subordinated Unitholder's Interest		General Partner's Interest		Total Partners' Equity
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	
Balance at December 31, 2014	57,080	$495,597	145,333	$(38,216)	135,384	$648,414	6,894	$24,934	$1,130,729
Net loss	—	(76,399)	—	—	—	(181,195)	—	(5,257)	(262,851)
Distributions	—	(72,776)	—	—	—	—	—	(1,485)	(74,261)
Issuance of common units as compensation to non-management directors	3	91	—	—	—	—	—	2	93
Amortization of beneficial conversion feature of Class B units	—	(70)	—	235	—	(165)	—	—	—
Balance at September 30, 2015	57,083	$346,443	145,333	$(37,981)	135,384	$467,054	6,894	$18,194	$793,710

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 CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows from operating activities		
Net loss	$(262,851)	$(339,197)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash LNG inventory write-downs	17,826	23,505
Depreciation expense	47,557	43,821
Amortization of debt issuance costs and discount (premium)	9,282	10,971
Loss on early extinguishment of debt	96,273	114,335
Total losses on derivatives, net	13,040	89,286
Net cash used for settlement of derivative instruments	(40,796)	(19,834)
Other	92	(6)
Changes in restricted cash for certain operating activities	167,083	59,942
Changes in operating assets and liabilities:		
Accounts and interest receivable	238	(19,653)
Accounts receivable—affiliate	(48)	810
Advances to affiliate	(27,672)	656
LNG inventory	(20,678)	(26,315)
Accounts payable and accrued liabilities	(1,178)	46,693
Due to affiliates	(8,154)	(813)
Deferred revenue	(3,003)	(2,955)
Other, net	(10,156)	(3,721)
Other, net—affiliate	22,198	(147)
Net cash used in operating activities	(947)	(22,622)
Cash flows from investing activities		
Property, plant and equipment, net	(2,130,959)	(1,968,249)
Use of restricted cash for the acquisition of property, plant and equipment	2,178,481	1,978,891
Other	(50,711)	(12,188)
Net cash used in investing activities	(3,189)	(1,546)
Cash flows from financing activities		
Proceeds from issuances of long-term debt	2,250,000	2,584,500
Repayments of long-term debt	—	(177,000)
Debt issuance and deferred financing costs	(177,001)	(94,270)
Investment in restricted cash	(2,072,999)	(2,312,160)
Distributions to owners	(74,261)	(74,236)
Other	—	(1,050)
Net cash used in financing activities	(74,261)	(74,216)
Net decrease in cash and cash equivalents	(78,397)	(98,384)
Cash and cash equivalents—beginning of period	248,830	351,032
Cash and cash equivalents—end of period	$170,433	$252,648

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—BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements of Cheniere Partners have been prepared in accordance with 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. Certain reclassifications have been made to conform prior period information to the current presentation. The reclassifications had no effect on our overall consolidated financial position, results of operations or cash flows.

Results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2015.

We are not subject to either federal or state income tax, as our partners are taxed individually on their allocable share of our 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, 2014.

NOTE 2—UNITHOLDERS' EQUITY

The common units, Class B units and subordinated units represent limited partner interests in us. The holders of the units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited partners under our partnership agreement. Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement). Generally, our available cash is our cash on hand at the end of a quarter less the amount of any reserves established by our general partner. All distributions paid to date have been made from operating surplus as defined in the partnership agreement.

The holders of common units have the right to receive initial quarterly distributions of $0.425 per common unit, plus any arrearages thereon, before any distribution is made to the holders of the subordinated units. The holders of subordinated units will receive distributions only to the extent we have available cash above the initial quarterly distribution requirement for our common unitholders and general partner and certain reserves. Subordinated units will convert into common units on a one-for-one basis when we meet financial tests specified in the partnership agreement. Although common and subordinated unitholders are not obligated to fund losses of the Partnership, their capital accounts, which would be considered in allocating the net assets of the Partnership were it to be liquidated, continue to share in losses.

The general partner interest is entitled to at least 2% of all distributions made by us. In addition, the general partner holds incentive distribution rights, which allow the general partner to receive a higher percentage of quarterly distributions of available cash from operating surplus after the initial quarterly distributions have been achieved and as additional target levels are met. The higher percentages range from 15% to 50%.

During 2012, Blackstone CQP Holdco LP ("Blackstone") and Cheniere completed their purchases of a new class of equity interests representing limited partner interests in us ("Class B units") for total consideration of $1.5 billion and

$500.0 million, respectively. Proceeds from the financings were used to fund a portion of the costs of developing, constructing and placing into service the first two Trains of the natural gas liquefaction facilities at the Sabine Pass LNG terminal adjacent to the existing regasification facilities (the "Liquefaction Project"). In May 2013, Cheniere purchased an additional 12.0 million Class B units for consideration of $180.0 million in connection with our acquisition of CTPL and Cheniere Pipeline GP Interests, LLC. In 2013, Cheniere formed Cheniere Holdings to hold its limited partner interests in us. The Class B units are subject to conversion, mandatorily or at the option of the Class B unitholders under specified circumstances, into a number of common units based on the then-applicable conversion value of the Class B units. The Class B units are not entitled to cash distributions except in the event of our liquidation or a merger, consolidation or other combination of us with another person or the sale of all or substantially all of our assets. On a quarterly basis beginning on the date of the initial purchase of the Class B units and ending on the conversion date of the Class B units, the conversion value of the Class B units increases at a compounded rate of 3.5% per quarter, subject to additional upward adjustment for certain equity and debt financings. The accreted conversion ratio of the Class B units owned by Cheniere Holdings and Blackstone was 1.57 and 1.54, respectively, as of September 30, 2015. We expect the Class B units to mandatorily convert into common units within 90 days of the substantial completion date of Train 3 of the Liquefaction Project, which we currently expect to occur before April 30, 2017. If the Class B units are not mandatorily converted by July 2019, the holders of the Class B units have the option to convert the Class B units into common units at that time.

NOTE 3—RESTRICTED CASH

Restricted cash consists of funds that are contractually restricted as to usage or withdrawal and have been presented separately from cash and cash equivalents on our Consolidated Balance Sheets. Restricted cash includes the following:

SPLNG Senior Notes Debt Service Reserve

SPLNG, our wholly owned subsidiary, has consummated private offerings of an aggregate principal amount of $1,665.5 million, before discount, of 7.50% Senior Secured Notes due 2016 (the “2016 SPLNG Senior Notes”) and $420.0 million of 6.50% Senior Secured Notes due 2020 (the “2020 SPLNG Senior Notes” and collectively with the 2016 SPLNG Senior Notes, the “SPLNG Senior Notes”). Under the indentures governing the SPLNG Senior Notes (the “SPLNG Indentures”), except for permitted tax distributions, SPLNG may not make distributions until certain conditions are satisfied, including: (1) 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 (2) 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 SPLNG Indentures.

As of September 30, 2015 and December 31, 2014, we classified $53.0 million and $15.0 million, respectively, as current restricted cash for the payment of current interest due. As of both September 30, 2015 and December 31, 2014, we classified the permanent debt service reserve fund of $76.1 million as non-current restricted cash. These cash accounts are controlled by a collateral trustee; therefore, these amounts are shown as restricted cash on our Consolidated Balance Sheets.

SPL Reserve

During 2013, SPL entered into four credit facilities aggregating $5.9 billion (collectively, the “2013 SPL Credit Facilities”). In June 2015, SPL entered into four credit facilities aggregating $4.6 billion (collectively, the “2015 SPL Credit Facilities”), which replaced the 2013 SPL Credit Facilities. Under the terms and conditions of the 2015 SPL Credit Facilities (and previously the 2013 SPL Credit Facilities), SPL is required to deposit all cash received into reserve accounts controlled by a collateral trustee. The usage or withdrawal of such cash is restricted to the payment of liabilities related to the Liquefaction Project; therefore, these amounts are shown as restricted cash on our Consolidated Balance Sheets.

During 2013, SPL issued an aggregate principal amount of $2.0 billion, before premium, of 5.625% Senior Secured Notes due 2021 (the “2021 SPL Senior Notes”), $1.0 billion of 6.25% Senior Secured Notes due 2022 (the “2022 SPL Senior Notes”) and $1.0 billion of 5.625% Senior Secured Notes due 2023 (the “Initial 2023 SPL Senior Notes”). During 2014, SPL issued an aggregate principal amount of $2.0 billion of 5.75% Senior Secured Notes due 2024 (the “2024 SPL Senior Notes”) and additional 5.625% Senior Secured Notes due 2023 in an aggregate principal amount of $0.5 billion, before premium (the “Additional 2023 SPL Senior Notes” and collectively with the Initial 2023 SPL Senior

Notes, the “2023 SPL Senior Notes”). In March 2015, SPL issued an aggregate principal amount of $2.0 billion of 5.625% Senior Secured Notes due 2025 (the “2025 SPL Senior Notes” and collectively with the 2021 SPL Senior Notes, the 2022 SPL Senior Notes, the 2023 SPL Senior Notes and the 2024 SPL Senior Notes, the “SPL Senior Notes”). The use of cash proceeds from the SPL Senior Notes is restricted to the payment of liabilities related to the Liquefaction Project; therefore, these amounts are shown as restricted cash on our Consolidated Balance Sheets. See Note 7—Long-Term Debt for additional details about our long-term debt.

As of September 30, 2015 and December 31, 2014, we classified $327.2 million and $155.8 million, respectively, as current restricted cash held by SPL for the payment of current liabilities, including interest payments, related to the Liquefaction Project and zero and $457.1 million, respectively, as non-current restricted cash held by SPL for future Liquefaction Project construction costs.

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

CTPL Reserve

In May 2013, CTPL entered into a $400.0 million term loan facility (the “CTPL Term Loan”). As of September 30, 2015 and December 31, 2014, we classified $11.3 million and $24.9 million, respectively, as current restricted cash held by CTPL for the payment of current liabilities and zero and $11.3 million, respectively, as non-current restricted cash held by CTPL, because the usage and withdrawal of such funds is primarily restricted to the payment of liabilities related to modifications of the 94-mile pipeline which interconnects the Sabine Pass LNG terminal with a number of large interstate pipelines (the “Creole Trail Pipeline”) in order to enable bi-directional natural gas flow, and for the payment of interest during construction of such modifications. The restricted cash reserved to pay interest during construction is controlled by a collateral agent and can only be released by the collateral agent upon satisfaction of certain terms and conditions. CTPL is required to pay annual fees to the administrative and collateral agents.

NOTE 4—PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2015	December 31, 2014
LNG terminal costs		
LNG terminal	$2,446,927	$2,240,233
LNG terminal construction-in-process	9,240,976	7,082,732
LNG site and related costs, net	136	141
Accumulated depreciation	(395,426)	(348,907)
Total LNG terminal costs, net	11,292,613	8,974,199
Fixed assets		
Computer and office equipment	1,126	1,105
Furniture and fixtures	1,375	1,375
Vehicles	2,033	1,507
Machinery and equipment	2,014	1,508
Other	5,592	