Cheniere Energy Partners, L.P.
Form 10-Q
November 03, 2016

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, 2016
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 (State or other jurisdiction of incorporation or organization)	001-33366 (Commission File Number)	20-5913059 (I.R.S. Employer Identification No.)
700 Milam Street, Suite 1900 Houston, Texas (Address of principal executive offices)		77002 (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 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 x
As of October 27, 2016, the issuer had 57,104,348 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	billion cubic feet
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 with which the United States does not have 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	an industrial facility comprised of a series of refrigerant compressor loops used to cool natural gas into LNG
TUA	terminal use agreement

Abbreviated Organizational Structure

The following diagram depicts our abbreviated organizational structure as of September 30, 2016, 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.

References to “Blackstone Group” refer to The Blackstone Group, L.P. References to “Blackstone CQP Holdco” refer to Blackstone CQP Holdco LP. References to “Blackstone” refer to Blackstone Group and Blackstone CQP Holdco.

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, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$12,469	$146,221
Restricted cash	568,549	274,557
Accounts and other receivables	51,006	741
Accounts receivable—affiliate	56,739	1,271
Advances to affiliate	42,925	39,836
Inventory	60,520	16,667
Other current assets	16,184	14,182
Total current assets	808,392	493,475
Non-current restricted cash	13,650	13,650
Property, plant and equipment, net	13,788,657	11,931,602
Debt issuance costs, net	103,728	132,091
Non-current derivative assets	11,247	30,304
Other non-current assets	216,919	232,031
Total assets	$14,942,593	$12,833,153
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable	$20,333	$16,407
Accrued liabilities	387,348	224,292
Current debt, net	1,762,704	1,673,379
Due to affiliates	101,556	115,123
Deferred revenue	26,709	26,669
Deferred revenue—affiliate	717	717
Derivative liabilities	12,707	6,430
Other current liabilities	263	—
Total current liabilities	2,312,337	2,063,017
Long-term debt, net	12,195,743	10,018,325
Non-current deferred revenue	6,500	9,500
Non-current derivative liabilities	16,501	2,884
Other non-current liabilities	167	175
Other non-current liabilities—affiliate	29,083	26,321
Partners' equity		
	149,958	305,747

Common unitholders’ interest (57.1 million units issued and outstanding at September 30, 2016 and December 31, 2015)		
Class B unitholders’ interest (145.3 million units issued and outstanding at September 30, 2016 and December 31, 2015)	(8,525)	(37,429)
Subordinated unitholders’ interest (135.4 million units issued and outstanding at September 30, 2016 and December 31, 2015)	230,864	428,035
General partner’s interest (2% interest with 6.9 million units issued and outstanding at September 30, 2016 and December 31, 2015)	9,965	16,578
Total partners’ equity	382,262	712,931
Total liabilities and partners’ equity	$14,942,593	$12,833,153

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

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,	
	2016	2015	2016	2015
Revenues				
Regasification revenues	$66,262	$66,596	$196,768	$199,804
Regasification revenues—affiliate	716	941	3,068	2,952
LNG revenues	248,195	—	333,555	—
LNG revenues—affiliate	16,236	—	16,236	—
Total revenues	331,409	67,537	549,627	202,756
Operating costs and expenses				
Cost (cost recovery) of sales (excluding depreciation and amortization expense shown separately below)	158,663	(31,774)	211,861	(30,990)
Cost of sales—affiliate	1,430	—	1,430	—
Operating and maintenance expense	37,613	8,992	79,556	48,830
Operating and maintenance expense—affiliate	13,756	8,081	35,901	20,355
Development expense	1	113	137	2,631
Development expense—affiliate	87	152	369	562
General and administrative expense	2,978	3,673	9,378	11,269
General and administrative expense—affiliate	24,454	25,692	67,865	80,761
Depreciation and amortization expense	44,529	16,687	92,101	47,557
Total operating costs and expenses	283,511	31,616	498,598	180,975
Income from operations	47,898	35,921	51,029	21,781
Other income (expense)				
Interest expense, net of capitalized interest	(113,227)	(49,360)	(228,678)	(142,353)
Loss on early extinguishment of debt	(25,765)	—	(53,526)	(96,273)
Derivative gain (loss), net	9,183	(10,872)	(26,417)	(46,541)
Other income	402	179	1,052	535
Total other expense	(129,407)	(60,053)	(307,569)	(284,632)
Net loss	$(81,509)	$(24,132)	$(256,540)	$(262,851)
Basic and diluted net income (loss) per common unit	$(0.27)	$0.18	$(0.56)	$(0.44)
Weighted average number of common units outstanding used for basic and diluted net income (loss) per common unit calculation	57,086	57,081	57,085	57,081

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

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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, 2015	57,084	$305,747	145,333	$(37,429)	135,384	$428,035	6,894	$16,578	$712,931
Net loss	—	(74,569)	—	—	—	(176,840)	—	(5,131)	(256,540)
Distributions	—	(72,783)	—	—	—	—	—	(1,485)	(74,268)
Issuance of common units as compensation to non-management directors	5	136	—	—	—	—	—	3	139
Amortization of beneficial conversion feature of Class B units	—	(8,573)	—	28,904	—	(20,331)	—	—	—
Balance at September 30, 2016	57,089	$149,958	145,333	$(8,525)	135,384	$230,864	6,894	$9,965	$382,262

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net loss	$(256,540)	$(262,851)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Non-cash LNG inventory write-downs	—	17,826
Depreciation and amortization expense	92,101	47,557
Amortization of debt issuance costs and discount	14,176	7,546
Loss on early extinguishment of debt	53,526	96,273
Total losses on derivatives, net	48,555	13,040
Net cash used for settlement of derivative instruments	(8,775)	(40,796)
Other	136	92
Changes in restricted cash for certain operating activities	54,551	167,083
Changes in operating assets and liabilities:		
Accounts and other receivables	(30,897)	238
Accounts receivable—affiliate	(36,274)	(48)
Advances to affiliate	(398)	(27,672)
Inventory	(26,175)	(24,080)
Accounts payable and accrued liabilities	107,047	558
Due to affiliates	9,217	(8,154)
Deferred revenue	(2,960)	(3,003)
Other, net	(4,865)	(6,754)
Other, net—affiliate	430	22,198
Net cash provided by (used in) operating activities	12,855	(947)
Cash flows from investing activities		
Property, plant and equipment, net	(1,884,238)	(2,130,959)
Use of restricted cash for the acquisition of property, plant and equipment	1,914,532	2,178,481
Other	(38,319)	(50,711)
Net cash used in investing activities	(8,025)	(3,189)
Cash flows from financing activities		
Proceeds from issuances of debt	5,418,500	2,250,000
Repayments of debt	(3,130,000)	—
Debt issuance and deferred financing costs	(89,433)	(177,001)
Investment in restricted cash	(2,263,075)	(2,072,999)
Distributions to owners	(74,268)	(74,261)
Other	(306)	—
Net cash used in financing activities	(138,582)	(74,261)
Net decrease in cash and cash equivalents	(133,752)	(78,397)
Cash and cash equivalents—beginning of period	146,221	248,830
Cash and cash equivalents—end of period	$12,469	$170,433

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, operating results or cash flows.

In 2016, we started production at our natural gas liquefaction facilities at the Sabine Pass LNG terminal located in Cameron Parish, Louisiana (the "Liquefaction Project"). As a result, we introduced a new line item entitled "cost of sales" and modified the components of activity included in "operating and maintenance expense" on our Consolidated Statements of Operations. To conform to the new presentation, reclassifications were made to the prior periods. Cost of sales includes costs incurred directly for the production and delivery of LNG from the Liquefaction Project such as natural gas feedstock, variable transportation and storage costs, derivative gains and losses associated with economic hedges to secure natural gas feedstock for the Liquefaction Project, and other related costs to convert natural gas into LNG, all to the extent not utilized for the commissioning process. These costs were reclassified from operating and maintenance expense. Operating and maintenance expense now includes costs associated with operating and maintaining the Liquefaction Project such as third-party service and maintenance contract costs, payroll and benefit costs of operations personnel, natural gas transportation and storage capacity demand charges, derivative gains and losses related to the sale and purchase of LNG associated with the regasification terminal, insurance and regulatory costs.

Additionally, we distinguished and reclassified our historical "revenues" line item into "regasification revenues" and "LNG revenues." Regasification revenues include LNG regasification capacity reservation fees that are received pursuant to our TUAs and tug services fees that are received by Sabine Pass Tug Services, LLC, a wholly owned subsidiary of SPLNG. Substantially all of our regasification revenues are received from our two long-term TUA customers. LNG revenues include fees that are received pursuant to our SPAs and related LNG marketing activities. During the three and nine months ended September 30, 2016, we received 70% and 77%, respectively, of our net LNG revenues from one SPA customer.

Results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the operating results that will be realized for the year ending December 31, 2016.

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, 2015.

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.

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

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 ("IDRs"), 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 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 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 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 CQP Holdco was 1.80 and 1.77, respectively, as of September 30, 2016. 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 June 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. As of September 30, 2016 and December 31, 2015, restricted cash consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Current restricted cash		
SPLNG debt service and interest payment	$ 115,490	$ 77,415
Liquefaction Project	325,630	189,260
CTPL construction and interest payment	—	7,882
CQP and cash held by guarantor subsidiaries	127,429	—
Total current restricted cash	$ 568,549	$ 274,557
Non-current restricted cash		
SPLNG debt service	$ 13,650	$ 13,650

Under the indentures governing the senior notes issued by SPLNG (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. During the nine months ended September 30, 2016 and 2015, SPLNG made distributions of $230.4 million and $267.9 million, respectively, after satisfying all the applicable conditions in the SPLNG Indentures.

In February 2016, we entered into a $2.8 billion credit facility (the “2016 CQP Credit Facilities”). We, and Cheniere Investments and CTPL as our guarantor subsidiaries, are subject to limitations on the use of cash under the terms of the 2016 CQP Credit Facilities and the related depositary agreement governing the extension of credit to us. Specifically, we, Cheniere Investments and CTPL may only withdraw funds from collateral accounts held at a designated depositary bank on a monthly basis and for specific purposes, including for the payment of operating expenses. In addition, distributions and capital expenditures may only be made quarterly and are subject to certain restrictions.

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

NOTE 4—ACCOUNTS AND OTHER RECEIVABLES

As of September 30, 2016 and December 31, 2015, accounts and other receivables consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
SPL trade receivable	$ 38,432	$ —
Interest receivable	93	23
Other accounts receivable	12,481	718
Total accounts and other receivables	$ 51,006	$ 741

Pursuant to the accounts agreement entered into with the collateral trustee for the benefit of SPL's debt holders, SPL is required to deposit all cash received into reserve accounts controlled by the collateral trustee. The usage or withdrawal of such cash is restricted to the payment of liabilities related to the Liquefaction Project and other restricted payments. As of September 30, 2016, the entire balance of the SPL trade receivable was from a single SPA customer.

NOTE 5—INVENTORY

As of September 30, 2016 and December 31, 2015, inventory consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Natural gas	$ 4,181	$ 5,724
LNG	25,778	3,690
Materials and other	30,561	7,253
Total inventory	$ 60,520	$ 16,667

NOTE 6—PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2016	December 31, 2015
LNG terminal costs		
LNG terminal	$7,976,532	$2,478,036
LNG terminal construction-in-process	6,303,397	9,859,836
LNG site and related costs, net	129	135
Accumulated depreciation	(497,097)	(411,907)
Total LNG terminal costs, net	13,782,961	11,926,100
Fixed assets		
Computer and office equipment	1,451	1,126
Furniture and fixtures	1,667	1,375
Computer software	4,498	4,238
Machinery and equipment	1,973	1,906
Vehicles	3,124	2,081

Other	99	93
Accumulated depreciation	(7,116)	(5,317)
Total fixed assets, net	5,696	5,502
Property, plant and equipment, net	$13,788,657	$11,931,602

During the three and nine months ended September 30, 2016, we realized offsets to LNG terminal costs of $58.7 million and $201.0 million, respectively, that were related to the sale of commissioning cargoes because these amounts were earned prior to the start of commercial operations, during the testing phase for the construction of Trains 1 and 2 of the Liquefaction Project.

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

NOTE 7—DERIVATIVE INSTRUMENTS

We have entered into the following derivative instruments that are reported at fair value:

- interest rate swaps to hedge the exposure to volatility in a portion of the floating-rate interest payments under certain of our credit facilities (“Interest Rate Derivatives”);
- commodity derivatives consisting of natural gas supply contracts for the commissioning and operation of the Liquefaction Project (“Physical Liquefaction Supply Derivatives”) and associated economic hedges (“Financial Liquefaction Supply Derivatives”, and collectively with the Physical Liquefaction Supply Derivatives, the “Liquefaction Supply Derivatives”); and
- commodity derivatives to hedge the exposure to price risk attributable to future: (1) sales of our LNG inventory and (2) purchases of natural gas to operate the Sabine Pass LNG terminal (“Natural Gas Derivatives”).

None of our derivative instruments are designated as cash flow hedging instruments, and changes in fair value are recorded within our Consolidated Statements of Operations.

SPLNG has elected to account for a portion of the Natural Gas Derivatives as normal purchase normal sale transactions, exempt from fair value accounting. Gains and losses for these physical hedges are not reflected on our Consolidated Statements of Operations until the period of delivery. SPLNG had not posted collateral for such forward contracts as of September 30, 2016 and December 31, 2015.

The following table (in thousands) shows the fair value of our derivative instruments that are required to be measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, which are classified as other current assets, non-current derivative assets, derivative liabilities or non-current derivative liabilities in our Consolidated Balance Sheets.

	Fair Value Measurements as of							
	September 30, 2016				December 31, 2015			
	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
SPL Interest Rate Derivatives liability	$—	$(15,948)	$—	$(15,948)	$—	$(8,740)	$—	$(8,740)
CQP Interest Rate Derivatives liability	—	(12,166)	—	(12,166)	—	—	—	—
Liquefaction Supply Derivatives asset (liability)	(105)	(275)	12,480	12,100	—	(25)	32,492	32,467
Natural Gas Derivatives asset	—	—	—	—	—	39	—	39

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. The estimated fair values of our Natural Gas Derivatives are the amounts at which the instruments could be exchanged currently between willing parties. We value these derivatives using observable commodity price curves and other relevant data.

The fair value of substantially all of our Physical Liquefaction Supply Derivatives is developed through the use of internal models which are impacted by inputs that are unobservable in the marketplace. As a result, the fair value of our Physical Liquefaction Supply Derivatives is designated as Level 3 within the valuation hierarchy. The curves used to generate the fair value of our Physical Liquefaction Supply Derivatives are based on basis adjustments applied to forward curves for a liquid trading point. In addition, there may be observable liquid market basis information in the near term, but terms of a particular Physical Liquefaction Supply Derivatives contract may exceed the period for which such information is available, resulting in a Level 3 classification. In these instances, the fair value of the contract incorporates extrapolation assumptions made in the determination of the market basis price for future delivery periods in which applicable commodity basis prices were either not observable or lacked corroborative market data. Internal fair value models include conditions precedent to the respective long-term natural gas supply contracts. As of September 30, 2016 and December 31, 2015, some of our Physical Liquefaction Supply Derivatives existed within markets for which the pipeline infrastructure is under development to accommodate marketable physical gas flow. Accordingly, our internal

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

fair value models are based on market prices that equate to our own contractual pricing due to: (1) the inactive and unobservable market and (2) conditions precedent and their impact on the uncertainty in the timing of our actual receipt of the physical volumes associated with each forward. The fair value of our Physical Liquefaction Supply Derivatives is predominantly driven by market commodity basis prices and our assessment of the associated conditions precedent, including evaluating whether the respective market is available as pipeline infrastructure is developed. Upon the completion and placement into service of relevant pipeline infrastructure to accommodate marketable physical gas flow, we recognize a gain or loss based on the fair value of the respective natural gas supply contracts as of the reporting date.

As all of our Physical Liquefaction Supply Derivatives are either purely index-priced or index-priced with a fixed basis, we do not believe that a significant change in market commodity prices would have a material impact on our Level 3 fair value measurements. The following table includes quantitative information for the unobservable inputs for our Level 3 Physical Liquefaction Supply Derivatives as of September 30, 2016:

	Net Fair Value Asset (in thousands)	Valuation Technique	Significant Unobservable Input	Significant Unobservable Inputs Range
Physical Liquefaction Supply Derivatives	$12,480	Income Approach	Basis Spread	$(0.35) - $(0.03)

The following table (in thousands) shows the changes in the fair value of our Level 3 Physical Liquefaction Supply Derivatives during the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	$22,434	$440	$32,492	$342
Realized and mark-to-market losses:				
Included in cost of sales (1)	(10,567)	32,177	(20,482)	32,204
Purchases and settlements:				
Purchases	968	—	968	—
Settlements (1)	(308)	(71)	(741)	—
Transfers out of Level 3 (2)	(47)	—	243	—
Balance, end of period	$12,480	$32,546	$12,480	$32,546
Change in unrealized gains relating to instruments still held at end of period	$(10,567)	$—	$(19,763)	$—

(1) Does not include the decrease in fair value of $0.7 million related to the realized gains capitalized during the nine months ended September 30, 2016.
(2) Transferred to Level 2 as a result of observable market for the underlying natural gas supply contracts.

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. 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 when our derivative instruments are in an asset position.

Interest Rate Derivatives

SPL Interest Rate Derivatives

SPL has entered into interest rate swaps (“SPL Interest Rate Derivatives”) to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the credit facilities it entered into in June 2015 (the “2015 SPL Credit Facilities”). The SPL Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2015 SPL Credit Facilities.

In March 2015, SPL settled a portion of the SPL Interest Rate Derivatives and recognized a derivative loss of $34.7 million within our Consolidated Statements of Operations in conjunction with the termination of approximately $1.8 billion of commitments under the previous credit facilities.

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CQP Interest Rate Derivatives

In March 2016, we entered into interest rate swaps ("CQP Interest Rate Derivatives") to protect against volatility of future cash flows and hedge a portion of the variable interest payments on the 2016 CQP Credit Facilities. The CQP Interest Rate Derivatives hedge a portion of the expected outstanding borrowings over the term of the 2016 CQP Credit Facilities.

As of September 30, 2016, we 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
SPL Interest Rate Derivatives	$20.0 million	$628.8 million	August 14, 2012	July 31, 2019	1.98%	One-month LIBOR
CQP Interest Rate Derivatives	$225.0 million	$1.3 billion	March 22, 2016	February 29, 2020	1.19%	One-month LIBOR

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

	September 30, 2016			December 31, 2015		
	SPL Interest Rate Derivatives	CQP Interest Rate Derivatives	Total	SPL Interest Rate Derivatives	CQP Interest Rate Derivatives	Total
Balance Sheet Location						
Derivative liabilities	$(6,376)	$(5,248)	$(11,624)	$(5,940)	$—	$(5,940)
Non-current derivative liabilities	(9,572)	(6,918)	(16,490)	(2,800)	—	(2,800)
Total derivative liabilities	$(15,948)	$(12,166)	$(28,114)	$(8,740)	$—	$(8,740)

The following table (in thousands) shows the changes in the fair value and settlements of our Interest Rate Derivatives recorded in derivative gain (loss), net on our Consolidated Statements of Operations during the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
SPL Interest Rate Derivatives gain (loss)	$2,557	$(10,872)	$(13,473)	$(46,541)
CQP Interest Rate Derivatives gain (loss)	6,626	—	(12,944)	—

Commodity Derivatives

Liquefaction Supply Derivatives

SPL has entered into index-based physical natural gas supply contracts and associated economic hedges to purchase natural gas for the commissioning and operation of the Liquefaction Project. The terms of the physical natural gas supply contracts primarily range from approximately one to seven years and commence upon the satisfaction of certain conditions precedent, including but not limited to the date of first commercial operation of specified Trains of the Liquefaction Project. We recognize our Physical Liquefaction Supply Derivatives as either assets or liabilities and measure those instruments at fair value. Changes in the fair value of our Physical Liquefaction Supply Derivatives are reported in earnings. As of September 30, 2016, SPL has secured up to approximately 1,982.0 million MMBtu of natural gas feedstock through natural gas supply contracts. The notional natural gas position of our Physical Liquefaction Supply Derivatives was approximately 1,069.0 million MMBtu as of September 30, 2016.

Our Financial Liquefaction Supply Derivatives 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 Financial Liquefaction Supply Derivatives activities.

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Natural Gas Derivatives

Our Natural Gas Derivatives were executed through over-the-counter contracts which were subject to nominal credit risk as these transactions settled on a daily margin basis with investment grade financial institutions. We were required by these financial institutions to use margin deposits as credit support for our Natural Gas Derivatives activities. As of September 30, 2016, we did not have any open Natural Gas Derivatives positions or margin deposits at financial institutions.

We recognize all commodity derivative instruments that qualify for derivative accounting treatment, including our Liquefaction Supply Derivatives and our Natural Gas Derivatives (collectively, "Commodity Derivatives"), as either assets or liabilities and measure those instruments at fair value. Changes in the fair value of our Commodity Derivatives are reported in earnings.

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

	September 30, 2016			December 31, 2015		
	Liquefaction Supply Derivatives (1)	Natural Gas Derivatives	Total	Liquefaction Supply Derivatives	Natural Gas Derivatives (2)	Total
Balance Sheet Location						
Other current assets	$1,947	$ —	$1,947	$2,737	$ 39	$2,776
Non-current derivative assets	11,247	—	11,247	30,304	—	30,304
Total derivative assets	13,194	—	13,194	33,041	39	33,080
Derivative liabilities	(1,083)	—	(1,083)	(490)	—	(490)
Non-current derivative liabilities	(11)	—	(11)	(84)	—	(84)
Total derivative liabilities	(1,094)	—	(1,094)	(574)	—	(574)
Derivative asset, net	$12,100	$ —	$12,100	$32,467	$ 39	$32,506

(1) Does not include collateral of $1.5 million deposited for such contracts, which is included in other current assets in our Consolidated Balance Sheet as of September 30, 2016.
(2) Does not include collateral of $0.4 million deposited for such contracts, which is included in other current assets in our Consolidated Balance Sheet as of December 31, 2015.

The following table (in thousands) shows the changes in the fair value, settlements and location of our Commodity Derivatives recorded on our Consolidated Statements of Operations during the three and nine months ended September 30, 2016 and 2015:

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Statement of Operations Location	2016	2015	2016	2015
Liquefaction Supply Derivatives gain	LNG revenues	$ 374	$ —	$ 368	$ —
Liquefaction Supply Derivatives gain (loss) (1)	Cost (cost recovery) of sales	(10,416)	32,103	(22,680)	32,184
Natural Gas Derivatives gain	Operating and maintenance expense	—	857	174	1,317

(1) Does not include the realized value associated with derivative instruments that settle through physical delivery.

The use of Commodity Derivatives exposes us to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments in instances when our Commodity Derivatives are in an asset position.

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Balance Sheet Presentation

Our derivative instruments are presented on a net basis on our Consolidated Balance Sheets as described above. The following table (in thousands) shows the fair value of our derivatives outstanding on a gross and net basis:

Offsetting Derivative Assets (Liabilities)	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets
As of September 30, 2016			
SPL Interest Rate Derivatives	$ (15,948)	$ —	$ (15,948)
CQP Interest Rate Derivatives	(12,166)	—	(12,166)
Liquefaction Supply Derivatives	13,740	(546)	13,194
Liquefaction Supply Derivatives	(2,803)	1,709	(1,094)
As of December 31, 2015			
SPL Interest Rate Derivatives	$ (8,740)	$ —	$ (8,740)
Liquefaction Supply Derivatives	33,636	(595)	33,041
Liquefaction Supply Derivatives	(574)	—	(574)
Natural Gas Derivatives	188	(149)	39

NOTE 8—OTHER NON-CURRENT ASSETS

As of September 30, 2016 and December 31, 2015, other non-current assets consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Advances made under EPC and non-EPC contracts	$ 13,678	$ 32,049
Advances made to municipalities for water system enhancements	95,551	89,953
Tax-related payments and receivables	27,718	27,615
Information technology service assets	28,740	30,371
Other	51,232	52,043
Total other non-current assets	$ 216,919	$ 232,031

NOTE 9—ACCRUED LIABILITIES

As of September 30, 2016 and December 31, 2015, accrued liabilities consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Interest costs and related debt fees	$ 194,583	$ 150,336
Liquefaction Project costs	186,399	67,006
LNG terminal costs	4,430	3,918
Other accrued liabilities	1,936	3,032
Total accrued liabilities	$ 387,348	$ 224,292

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NOTE 10—DEBT

As of September 30, 2016 and December 31, 2015, our debt consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Long-term debt:		
SPLNG		
6.50% Senior Secured Notes due 2020 (“2020 SPLNG Senior Notes”) (1)	$420,000	$420,000
SPL		
5.625% Senior Secured Notes due 2021 (“2021 SPL Senior Notes”), net of unamortized premium of $7,573 and $8,718	2,007,573	2,008,718
6.25% Senior Secured Notes due 2022 (“2022 SPL Senior Notes”)	1,000,000	1,000,000
5.625% Senior Secured Notes due 2023 (“2023 SPL Senior Notes”), net of unamortized premium of $5,844 and $6,392	1,505,844	1,506,392
5.75% Senior Secured Notes due 2024 (“2024 SPL Senior Notes”)	2,000,000	2,000,000
5.625% Senior Secured Notes due 2025 (“2025 SPL Senior Notes”)	2,000,000	2,000,000
5.875% Senior Secured Notes due 2026 (“2026 SPL Senior Notes”)	1,500,000	—
5.00% Senior Secured Notes due 2027 (“2027 SPL Senior Notes”)	1,500,000	—
2015 SPL Credit Facilities	—	845,000
CTPL		
$400.0 million Term Loan Facility (“CTPL Term Loan”), net of unamortized discount of zero and $1,429	—	398,571
Cheniere Partners		
2016 CQP Credit Facilities	450,000	—
Unamortized debt issuance costs (2)	(187,674)	(160,356)
Total long-term debt, net	12,195,743	10,018,325
Current debt:		
7.50% Senior Secured Notes due 2016 (“2016 SPLNG Senior Notes”), net of unamortized discount of $782 and $4,303 (3)	1,664,718	1,661,197
$1.2 billion SPL Working Capital Facility (“SPL Working Capital Facility”)	98,500	15,000
Unamortized debt issuance costs (2)	(514)	(2,818)
Total current debt, net	1,762,704	1,673,379
Total debt, net	$13,958,447	$11,691,704

(1) Must be redeemed or repaid concurrently with the 2016 SPLNG Senior Notes under the terms of the 2016 CQP Credit Facilities if the obligations under the 2016 SPLNG Senior Notes are satisfied with borrowings under the 2016 CQP Credit Facilities. See Note 15—Subsequent Events for additional details about the redemption of the 2020 SPLNG Senior Notes.

(2) Effective January 1, 2016, we adopted ASU 2015-03 and ASU 2015-15, which require debt issuance costs related to term notes to be presented in the balance sheet as a direct deduction from the debt liability, rather than as an asset, retrospectively for each reporting period presented. As a result, we reclassified $160.4 million and $2.8 million from debt issuance costs, net to long-term debt, net and current debt, net, respectively, as of December 31, 2015.

(3) Matures on November 30, 2016. We currently anticipate satisfying this obligation with borrowings under the 2016 CQP Credit Facilities. See Note 15—Subsequent Events for additional details about the intended repayment of the 2016 SPLNG Senior Notes.

2016 Debt Issuances and Redemptions

Senior Notes

In June and September 2016, SPL issued the 2026 SPL Senior Notes and the 2027 SPL Senior Notes, respectively, for aggregate principal amounts of $1.5 billion each. Net proceeds of the offerings of the 2026 SPL Senior Notes and 2027 SPL Senior Notes were approximately $1.3 billion and $1.4 billion, respectively, after deducting commissions, fees and expenses and

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incremental interest required under the respective senior notes during construction. The net proceeds were used to prepay a portion (for the 2026 SPL Senior Notes) or all (for the 2027 SPL Senior Notes) of the outstanding borrowings and terminate commitments under the 2015 SPL Credit Facilities, resulting in a write-off of debt issuance costs associated with the 2015 SPL Credit Facilities of $25.8 million and $51.8 million during the three and nine months ended September 30, 2016, respectively. The remaining proceeds from the 2027 SPL Senior Notes are being used to pay a portion of the capital costs in connection with the construction of Trains 1 through 5 of the Liquefaction Project in lieu of the terminated portion of the commitments under the 2015 SPL Credit Facilities. The 2026 SPL Senior Notes and 2027 SPL Senior Notes accrue interest at fixed rates of 5.875% and 5.00%, respectively, and interest is payable semi-annually in arrears. The terms of the 2026 SPL Senior Notes and 2027 SPL Senior Notes are governed by the same common indenture as the other senior notes of SPL, which contains customary terms and events of default, covenants and redemption terms.

In connection with the issuance of the 2026 SPL Senior Notes and the 2027 SPL Senior Notes, SPL entered into registration rights agreements (the “SPL Registration Rights Agreements”). Under the terms of the SPL Registration Rights Agreements, SPL has agreed, and any future guarantors will agree, to use commercially reasonable efforts to file with the SEC and cause to become effective registration statements relating to offers to exchange any and all of the 2026 SPL Senior Notes and 2027 SPL Senior Notes for like aggregate principal amounts of debt securities of SPL with terms identical in all material respects to the respective senior notes sought to be exchanged (other than with respect to restrictions on transfer or to any increase in annual interest rate), within 360 days after June 14, 2016 and September 23, 2016, respectively. Under specified circumstances, SPL has also agreed, and any future guarantors will also agree, to use commercially reasonable efforts to cause to become effective shelf registration statements relating to resales of the 2026 SPL Senior Notes and the 2027 SPL Senior Notes. SPL will be obligated to pay additional interest on these senior notes if it fails to comply with its obligation to register them within the specified time period.

2016 CQP Credit Facilities

In February 2016, we entered into the $2.8 billion 2016 CQP Credit Facilities, which consist of: (1) a $450.0 million CTPL tranche term loan that was used to prepay the $400.0 million CTPL Term Loan in February 2016, (2) an approximately $2.1 billion SPLNG tranche term loan that will be used to redeem or repay the approximately $2.1 billion of the 2016 SPLNG Senior Notes and the 2020 SPLNG Senior Notes (which must be redeemed or repaid concurrently under the terms of the 2016 CQP Credit Facilities), (3) a $125.0 million debt service reserve credit facility (the “DSR Facility”) that may be used to satisfy a six-month debt service reserve requirement and (4) a $115.0 million revolving credit facility that may be used for general business purposes.

The 2016 CQP Credit Facilities accrue interest at a variable rate per annum equal to LIBOR or the base rate (equal to the highest of the prime rate, the federal funds effective rate, as published by the Federal Reserve Bank of New York, plus 0.50% and adjusted one month LIBOR plus 1.0%), plus the applicable margin. The applicable margin for LIBOR loans is 2.25% per annum, and the applicable margin for base rate loans is 1.25% per annum, in each case with a 0.50% step-up beginning on February 25, 2019. Interest on LIBOR loans is due and payable at the end of each applicable LIBOR period (and at the end of every three month period within the LIBOR period, if any), and interest on base rate loans is due and payable at the end of each calendar quarter.

We incurred $48.7 million of debt issuance costs as of September 30, 2016, and will incur an additional $21.5 million of debt issuance costs when the SPLNG tranche is funded. The prepayment of the CTPL Term Loan resulted in a write-off of unamortized discount and debt issuance costs of $1.5 million during the nine months ended September 30, 2016. We pay a commitment fee equal to an annual rate of 40% of the margin for LIBOR loans multiplied by the average daily amount of the undrawn commitment, payable quarterly in arrears. The DSR Facility and the revolving credit facility are both available for the issuance of letters of credit, which incur a fee equal to an annual rate of 2.25% of the undrawn portion with a