Western Gas Partners LP
Form 10-Q
November 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2009

Or

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

For the transition period from __________ to __________

Commission file number: 001-34046

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

Delaware	**26-1075808**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1201 Lake Robbins Drive The Woodlands, Texas	**77380**
(Address of principal executive offices)	*(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 o 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 o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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 29,474,925 common units outstanding as of October 31, 2009.

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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.
Bcf/d*:* One billion cubic feet per day.
Btu*:* British thermal unit.
CO_2*:* Carbon dioxide.
Condensate*:* A natural gas liquid with a low vapor pressure mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.
Drip condensate: Heavier hydrocarbon liquids that fall out of the natural gas stream and are recovered in the gathering system without processing.
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.
Long ton*:* A British unit of weight equivalent to 2,240 pounds.
LTD*:* One long ton per day.
MMBtu*:* One million British thermal units.
MMBtu/d: One million British thermal units per day.
MMcf/d: One million cubic feet per day.
Natural gas*:* Hydrocarbon gas found in the earth composed of methane, ethane, butane, propane and other gases.
Natural gas liquids or NGLs*:* The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.
Residue gas*:* The natural gas remaining after being processed or treated.
Sour gas*:* Natural gas containing more than four parts per million of hydrogen sulfide.
Tcf*:* One trillion cubic feet of natural gas.
Wellhead*:* The equipment at the surface of a well used to control the well s pressure; the point at which the hydrocarbons and water exit the ground.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Western Gas Partners, LP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in thousands, except per-unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008(1)**	**2009(1)**	**2008(1)**
Revenues affiliates				
Gathering, processing and transportation of natural gas	$ 33,438	$ 29,878	$ 101,314	$ 88,217
Natural gas, natural gas liquids and condensate sales	19,026	50,247	55,963	150,771
Equity income and other	2,254	2,227	6,624	7,895
Total revenues affiliates	54,718	82,352	163,901	246,883
Revenues third parties				
Gathering, processing and transportation of natural gas	4,514	5,254	12,985	12,811
Natural gas, natural gas liquids and condensate sales	1,565	3,181	4,969	14,063
Other, net	199	3,795	806	5,323
Total revenues third parties	6,278	12,230	18,760	32,197
Total revenues	60,996	94,582	182,661	279,080
Operating expenses (2)				
Cost of product	12,888	40,912	37,479	124,204
Operation and maintenance	11,741	14,001	34,841	39,512
General and administrative	5,980	4,332	15,067	9,564
Property and other taxes	1,876	1,630	5,984	5,510
Depreciation and amortization	10,216	9,380	29,642	26,890
Impairment		9,354		9,354
Total operating expenses	42,701	79,609	123,013	215,034
Operating income	18,295	14,973	59,648	64,046
Interest income, net affiliates	1,098	4,661	5,977	4,932
Other income, net	13	126	29	159
Income before income taxes	19,406	19,760	65,654	69,137
Income tax expense (benefit)	171	(1,463)	(152)	11,289
Net income	19,235	21,223	65,806	57,848
Net income attributable to noncontrolling interests	2,187	3,274	7,741	6,177
Net income attributable to Western Gas Partners, LP	$ 17,048	$ 17,949	$ 58,065	$ 51,671

Limited partner interest in net income:				
Net income attributable to Western Gas Partners, LP [3]	$ 17,048	$ 17,949	$ 58,065	$ 51,671
Less pre-acquisition income allocated to Parent		553	5,935	26,026
Less general partner interest in net income	341	348	1,043	513
Limited partner interest in net income	$ 16,707	$ 17,048	$ 51,087	$ 25,132
Net income per common unit basic and diluted	$ 0.30	$ 0.32	$ 0.92	$ 0.48
Net income per subordinated unit basic and diluted	$ 0.30	$ 0.32	$ 0.91	$ 0.47

(1) Financial information for 2008 and the first six months of 2009 has been revised to include results attributable to the Powder River assets and Chipeta assets. See *Note 1 Description of Business and Basis of Presentation Powder River acquisition and Chipeta acquisition*.

(2) Operating expenses include amounts charged by Anadarko to the Partnership (Anadarko and Partnership are as defined in *Note 1 Description of Business and Basis of Presentation)* for services as well as reimbursement of amounts paid by Anadarko to third parties on behalf of the Partnership. Cost of product expenses include product purchases from Anadarko of $1.3 million and $7.5 million for the

three months ended September 30, 2009 and 2008, respectively, and $4.8 million and $22.2 million for the nine months ended September 30, 2009 and 2008, respectively. Operation and maintenance expenses include charges from Anadarko of $5.2 million and $5.6 million for the three months ended September 30, 2009 and 2008, respectively, and $14.6 million and $15.3 million for the nine months ended September 30, 2009 and 2008, respectively. General and administrative expenses include charges from Anadarko of $3.6 million and $3.5 million for the three months ended September 30, 2009 and 2008, respectively, and $10.5 million and $8.4 million for the nine months ended September 30, 2009 and 2008, respectively. See *Note 6 Transactions with Affiliates.*

(3) General and limited partner interest in net income represents net income for periods including

and subsequent to the Partnership s acquisition of the Partnership Assets (as defined in *Note 1 Description of Business and Basis of Presentation Presentation of Partnership Acquisitions*). See also *Note 5 Net Income per Limited Partner Unit.*

See accompanying notes to unaudited consolidated financial statements.

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Western Gas Partners, LP
CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except number of units)

	September 30, 2009	December 31, 2008[(1)]
ASSETS		
Current assets		
Cash and cash equivalents	$ 56,023	$ 36,074
Accounts receivable, net third parties	2,690	5,878
Accounts receivable affiliates	1,145	2,012
Natural gas imbalance receivables third parties	22	389
Natural gas imbalance receivables affiliates	280	1,422
Other current assets	2,175	1,380
Total current assets	62,335	47,155
Note receivable Anadarko	260,000	260,000
Property, plant and equipment		
Cost	901,340	861,780
Less accumulated depreciation	204,683	175,427
Net property, plant and equipment	696,657	686,353
Goodwill	20,836	20,836
Equity investment	19,651	18,183
Other assets	410	628
Total assets	$ 1,059,889	$ 1,033,155
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities		
Accounts payable third parties	$ 5,336	$ 5,459
Accounts payable affiliates		21,103
Natural gas imbalance payable third parties	549	244
Natural gas imbalance payable affiliates	736	1,198
Accrued ad valorem taxes	6,149	1,330
Income taxes payable	330	146
Accrued liabilities third parties	8,040	12,802
Accrued liabilities affiliates	398	153
Total current liabilities	21,538	42,435
Long-term liabilities		
Notes payable Anadarko	276,451	175,000
Deferred income taxes	605	1,148
Asset retirement obligations and other	10,568	9,947
Total long-term liabilities	287,624	186,095
Total liabilities	309,162	228,530

Commitments and contingencies (Note 12)		
Equity and Partners capital		
Common units (29,474,925 and 29,093,197 units issued and outstanding at September 30, 2009 and December 31, 2008, respectively)	377,032	368,049
Subordinated units (26,536,306 units issued and outstanding at September 30, 2009 and December 31, 2008)	276,019	275,917
General partner units (1,143,086 and 1,135,296 units issued and outstanding at September 30, 2009 and December 31, 2008, respectively)	11,221	10,988
Parent net investment		83,655
Noncontrolling interests	86,455	66,016
Equity and Partners capital	750,727	804,625
Total liabilities, equity and Partners capital	$ 1,059,889	$ 1,033,155

(1) Financial information for 2008 has been revised to include balances attributable to the Chipeta assets. See *Note 1 Description of Business and Basis of Presentation Chipeta acquisition*.

See accompanying notes to unaudited consolidated financial statements.

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Western Gas Partners, LP
CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS CAPITAL
(Unaudited, in thousands)

	Parent Net Investment	Partners Capital: Limited Partners Common	Subordinated	General Partner	Noncontrolling Interests	Total
Balance at December 31, 2008 [1]	$ 83,655	$ 368,049	$ 275,917	$ 10,988	$ 66,016	$ 804,625
Net pre-acquisition distributions to Anadarko	844					844
Contribution of Chipeta assets	(112,744)	11,068		225		(101,451)
Contributions from noncontrolling interest owners and Parent	25,236				15,509	40,745
Non-cash equity-based compensation		291				291
Net income	5,935	26,838	24,249	1,043	7,741	65,806
Distributions to unitholders		(26,595)	(24,147)	(1,035)		(51,777)
Distributions to noncontrolling interest owners and Parent	(2,926)				(2,811)	(5,737)
Other		(2,619)				(2,619)
Balance at September 30, 2009	$	$ 377,032	$ 276,019	$ 11,221	$ 86,455	$ 750,727

(1) Financial information for 2008 and the first six months of 2009 has been revised to include balances attributable to the Chipeta assets. See *Note 1 Description of Business and Basis of Presentation Chipeta acquisition*.

See accompanying notes to unaudited consolidated financial statements.

Western Gas Partners, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30, 2009[1]	Nine Months Ended September 30, 2008[1]
Cash flows from operating activities		
Net income	$ 65,806	$ 57,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,642	26,890
Impairment		9,354
Deferred income taxes	(336)	2,433
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,434	(10,948)
(Increase) decrease in natural gas imbalance receivable	1,510	(1,066)
Increase (decrease) in accounts payable, accrued liabilities and natural gas imbalance payable	(17,007)	21,683
Change in other items, net	(1,398)	(1,479)
Net cash provided by operating activities	79,651	104,715
Cash flows from investing activities		
Chipeta acquisition	(101,451)	
Capital expenditures	(41,500)	(68,930)
Loan to Anadarko		(260,000)
Investment in equity affiliate	(264)	(8,095)
Net cash used in investing activities	(143,215)	(337,025)
Cash flows from financing activities		
Proceeds from issuance of common units		315,161
Reimbursement to Parent from offering proceeds		(45,161)
Issuance of Note Payable to Anadarko	101,451	
Contributions from noncontrolling interest owners and Parent	40,745	148,356
Distributions to unitholders	(51,777)	(8,567)
Distributions to noncontrolling interest owners and Parent	(5,737)	(19,734)
Net pre-acquisition distributions from Anadarko	(1,169)	(106,355)
Net cash provided by financing activities	83,513	283,700
Net increase in cash and cash equivalents	19,949	51,390
Cash and cash equivalents at beginning of period	36,074	
Cash and cash equivalents at end of period	$ 56,023	$ 51,390
Supplemental disclosures		
Contribution of net assets from Parent	$ 112,744	$ 321,609
Net carrying value of Chipeta assets in excess of consideration paid	$ 11,293	$
Elimination of deferred tax liabilities	$	$ 1,829

Interest paid	$	5,026	$	
Interest received	$	12,675	$	3,662

(1) Financial information for 2008 and the first six months of 2009 has been revised to include activity attributable to the Powder River assets and Chipeta assets. See *Note 1 Description of Business and Basis of Presentation Powder River acquisition and Chipeta acquisition*.

See accompanying notes to unaudited consolidated financial statements.

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Notes to unaudited consolidated financial statements of Western Gas Partners, LP

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Basis of presentation

Western Gas Partners, LP (the Partnership) is a Delaware limited partnership formed in August 2007. The Partnership s assets consist of nine gathering systems, six natural gas treating facilities, three gas processing facilities and one interstate pipeline. The Partnership s assets are located in East and West Texas, the Rocky Mountains (Utah and Wyoming) and the Mid-Continent (Kansas and Oklahoma). The Partnership is engaged in the business of gathering, compressing, processing, treating and transporting natural gas for Anadarko Petroleum Corporation and its consolidated subsidiaries and third-party producers and customers. For purposes of these financial statements, the Partnership refers to Western Gas Partners, LP and its subsidiaries; Anadarko refers to Anadarko Petroleum Corporation and its consolidated subsidiaries, excluding the Partnership; Parent refers to Anadarko prior to our acquisition of assets from Anadarko; and affiliates refers to wholly owned and partially owned subsidiaries of Anadarko, excluding the Partnership. The Partnership s general partner is Western Gas Holdings, LLC, a wholly owned subsidiary of Anadarko.

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 information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of financial position as of September 30, 2009 and December 31, 2008, results of operations for the three and nine months ended September 30, 2009 and 2008, statement of equity and partners capital for the nine months ended September 30, 2009 and statements of cash flows for the nine months ended September 30, 2009 and 2008. The Partnership s financial results for the nine months ended September 30, 2009 are not necessarily indicative of the results for the full year ending December 31, 2009.

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). To conform to these accounting principles, management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes thereto. These estimates are evaluated on an ongoing basis, utilizing historical experience and other methods considered reasonable under the particular circumstances. Although these estimates are based on management s best available knowledge at the time, changes in facts and circumstances or discovery of new facts or circumstances may result in revised estimates and actual results may differ from these estimates. Effects on the Partnership s business, financial position and results of operations resulting from revisions to estimates are recognized when the facts that give rise to the revision become known.

The accompanying consolidated financial statements and notes should be read in conjunction with the Partnership s annual report on Form 10-K, as filed with the Securities and Exchange Commission (the SEC) on March 13, 2009.

Initial public offering

On May 14, 2008, the Partnership closed its initial public offering of 18,750,000 common units at a price of $16.50 per unit. On June 11, 2008, the Partnership issued an additional 2,060,875 common units to the public pursuant to the partial exercise of the underwriters over-allotment option. The May 14 and June 11 issuances are referred to collectively as the initial public offering. The common units are listed on the New York Stock Exchange under the symbol WES.

Concurrent with the closing of the initial public offering, Anadarko contributed the assets and liabilities of Anadarko Gathering Company LLC (AGC), Pinnacle Gas Treating LLC (PGT) and MIGC LLC (MIGC) to the Partnership in exchange for 1,083,115 general partner units, representing a 2.0% general partner interest in the Partnership, 100% of the incentive distribution rights (IDRs), 5,725,431 common units and 26,536,306 subordinated units. AGC, PGT and MIGC are referred to collectively as the initial assets. The common units issued to Anadarko include 751,625 common units issued following the expiration of the underwriters over-allotment option and represent the portion of the common units for which the underwriters did not exercise their over-allotment option. See *Note 4 Partnership Equity and Distributions* in Item 8 of the Partnership s annual report on Form 10-K for information related to the distribution rights of the common and subordinated unitholders and to the IDRs held by the general partner.

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Notes to unaudited consolidated financial statements of Western Gas Partners, LP

Powder River acquisition

In December 2008, the Partnership acquired certain midstream assets from Anadarko for consideration consisting of (i) $175.0 million in cash, which was financed by borrowing $175.0 million from Anadarko pursuant to the terms of a five-year term loan agreement, and (ii) the issuance of 2,556,891 common units and 52,181 general partner units. The acquisition consisted of (i) a 100% ownership interest in the Hilight system, (ii) a 50% interest in the Newcastle system and (iii) a 14.81% limited liability company membership interest in Fort Union Gas Gathering, L.L.C. (Fort Union). These assets are referred to collectively as the Powder River assets and the acquisition is referred to as the Powder River acquisition.

Chipeta acquisition

In July 2009, the Partnership acquired certain midstream assets from Anadarko for (i) approximately $101.5 million in cash, which was financed by borrowing $101.5 million from Anadarko pursuant to the terms of a 7.0% fixed-rate, three-year term loan agreement, and the (ii) issuance of 351,424 common units and 7,172 general partner units. These assets provide processing and transportation services in the Greater Natural Buttes area in Uintah County, Utah. The acquisition consisted of a 51% membership interest in Chipeta Processing LLC (Chipeta) and associated midstream assets. Chipeta owns a natural gas processing plant complex, which includes two recently completed processing trains: a refrigeration unit completed in November 2007 with a design capacity of 240 MMcf/d and a 250 MMcf/d capacity cryogenic unit which was commissioned in April 2009. The 51% membership interest in Chipeta and associated midstream assets are referred to collectively as the Chipeta assets and the acquisition is referred to as the Chipeta acquisition.

Presentation of Partnership acquisitions

The initial assets, Powder River assets and Chipeta assets are referred to collectively as the Partnership Assets. References to periods prior to the Partnership s acquisition of the Partnership Assets and similar phrases refer to periods prior to May 14, 2008, with respect to the initial assets, periods prior to December 19, 2008, with respect to the Powder River assets and periods prior to July 1, 2009 with respect to the Chipeta assets. Reference to periods including and subsequent to the Partnership s acquisition of the Partnership Assets and similar phrases refer to periods including and subsequent to May 14, 2008, with respect to the initial assets, periods including and subsequent to December 19, 2008, with respect to the Powder River assets, and periods including and subsequent to July 1, 2009, with respect to the Chipeta assets.

Anadarko acquired MIGC and the Powder River assets in connection with its August 23, 2006 acquisition of Western Gas Resources, Inc. (Western) and Anadarko acquired Chipeta in connection with its August 10, 2006 acquisition of Kerr-McGee Corporation (Kerr-McGee). The acquisitions of the Partnership Assets were considered transfers of net assets between entities under common control. Accordingly, the Partnership is required to revise its financial statements to include the activities of the Partnership Assets as of the date of common control. The Partnership s historical financial statements for the three and nine months ended September 30, 2008 and the first six months of 2009 have been recast to reflect the results attributable to the Powder River assets and the Chipeta assets as if the Partnership owned the Powder River assets, a 51% interest in Chipeta and associated midstream assets for all periods presented. Net income attributable to the Partnership Assets for periods prior to the Partnership s acquisition of such assets is not allocated to the limited partners for purposes of calculating net income per limited partner unit. In addition to recasting the Partnership s financial statements for the Powder River assets and the Chipeta assets, certain amounts in prior periods have been reclassified to conform to the current presentation.

The consolidated financial statements for periods prior to the Partnership s acquisition of the Partnership Assets 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 assets and operated as a separate entity during the periods reported.

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Notes to unaudited consolidated financial statements of Western Gas Partners, LP

Anadarko Holdings of Partnership Equity

As of September 30, 2009, Anadarko held 1,143,086 general partner units representing a 2.0% general partner interest in the Partnership, 100% of the Partnership IDRs, 8,633,746 common units and 26,536,306 subordinated units. Anadarko s common and subordinated unitholders owned an aggregate 61.5% limited partner interest in the Partnership. The public held 20,841,179 common units, representing a 36.5% limited partner interest in the Partnership.

2. NEW ACCOUNTING STANDARDS

The Partnership adopted new Financial Accounting Standards Board (FASB) staff guidance on fair-value measurement, effective January 1, 2009. This guidance applies fair value measurement in accounting for business combinations, which expands financial disclosures, defines an acquirer and modifies the accounting for some business combination items. Under the guidance an acquirer is required to record 100% of assets and liabilities, including goodwill, contingent assets and contingent liabilities, at fair value. In addition, contingent consideration must be recognized at fair value at the acquisition date, acquisition-related costs must be expensed rather than treated as an addition to the assets acquired, and restructuring costs are required to be recognized separately from the business combination. The Partnership will apply these provisions to acquisitions of businesses from third parties that close after January 1, 2009. The guidance did not change the accounting for transfers of assets between entities under common control and, therefore, does not impact the Partnership s accounting for asset acquisitions from Anadarko.

The Partnership adopted new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of subsidiaries, effective January 1, 2009. Specifically, these standards require the recognition of noncontrolling interests (formerly referred to as minority interests) as a component of total equity. These standards establish a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation. Dispositions of subsidiary equity are now required to be accounted for as equity transactions. Noncontrolling interests, representing the interest in Chipeta held by Anadarko and a third party, are presented within equity for all periods presented. Finally, consolidated net income is presented to include the amounts attributable to the parent, general and limited partners and the noncontrolling interests.

The Partnership also adopted new guidance which addresses the application of the two-class method in determining net income per unit for master limited partnerships having multiple classes of securities including limited partnership units, general partnership units and, when applicable, IDRs of the general partner. The guidance clarifies that the two-class method would apply, and provides the methodology for and circumstances under which undistributed earnings are allocated to the general partner, limited partners and IDR holders. In addition, the Partnership adopted guidance addressing whether instruments granted in equity-based payment transactions are participating securities prior to vesting and therefore required to be accounted for in calculating earnings per unit under the two-class method. The guidance requires companies to treat unvested equity-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per unit. The Partnership adopted these standards effective January 1, 2009 and has applied these provisions to all periods in which earnings per unit is presented. These standards did not impact earnings per unit for the periods presented herein.

The Partnership also adopted new guidance addressing subsequent events. The guidance does not change the Partnership s accounting policy for subsequent events, but instead incorporates existing accounting and disclosure requirements related to subsequent events from auditing standards into GAAP. This standard defines subsequent events as either recognized subsequent events (events that provide additional evidence about conditions at the balance sheet date) or nonrecognized subsequent events (events that provide evidence about conditions that arose after the balance sheet date). Recognized subsequent events are recorded in the financial statements for the current period presented, while nonrecognized subsequent events are not. Both types of subsequent events require disclosure in the consolidated financial statements if those financial statements would otherwise be misleading. The Partnership is also required to disclose the date through which subsequent events have been evaluated. The adoption of this standard had no impact on the Partnership s financial statements. The Partnership has evaluated subsequent events through November 12, 2009.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

The FASB also issued new accounting standards that require the Partnership to disclose the fair value of financial instruments quarterly. The Partnership has disclosed the fair value of its note receivable from Anadarko and its long-term debt in *Note 6 Transactions with Affiliates* and *Note 10 Debt*, respectively.

3. NONCONTROLLING INTERESTS

In July 2009, the Partnership acquired a 51% interest in Chipeta. Chipeta is a Delaware limited liability company formed in April 2008 to construct and operate a natural gas processing facility. As of September 30, 2009, Chipeta is owned 51% by the Partnership, 24% by Anadarko and 25% by a third-party member. The interests in Chipeta held by Anadarko and the third-party member are reflected as noncontrolling interests in the consolidated financial statements.

In connection with the Partnership s acquisition of its 51% membership interest in Chipeta, the Partnership became party to Chipeta s limited liability company agreement, as amended and restated as of July 23, 2009 (the Chipeta LLC Agreement), together with Anadarko and the third-party member. The Chipeta LLC Agreement provides that:

- Chipeta s members will be required from time to time to make capital contributions to Chipeta to the extent approved by the members in connection with Chipeta s annual budget;
- to the extent available, Chipeta will distribute cash to its members quarterly in accordance with those members membership interests; and
- Chipeta s membership interests are subject to significant restrictions on transfer.

Upon acquisition of its interest in Chipeta, the Partnership became the managing member of Chipeta. As managing member, the Partnership manages the day-to-day operations of Chipeta and receives a management fee from the other members which is intended to compensate the managing member for the performance of its duties. The Partnership may only be removed as the managing member if it is grossly negligent or fraudulent, breaches its primary duties or fails to respond in a commercially reasonable manner to written business proposals from the other members and such behavior, breach or failure has a material adverse effect to Chipeta.

4. PARTNERSHIP DISTRIBUTIONS

The partnership agreement requires that, within 45 days subsequent to the end of each quarter, beginning with the quarter ended June 30, 2008, the Partnership distribute all of its available cash (as defined in the partnership agreement) to unitholders of record on the applicable record date. During the nine months ended September 30, 2009, the Partnership paid cash distributions to its unitholders of approximately $51.8 million, representing the $0.31 per unit distribution for the quarter ended June 30, 2009 and $0.30 per unit distributions for each of the quarters ended March 31, 2009 and December 31, 2008. During the nine months ended September 30, 2008, the Partnership paid cash distributions to its unitholders of approximately $8.6 million, representing the $0.1582 per unit distribution for the quarter ended June 30, 2008. See also *Note 14 Subsequent Events* concerning distributions approved in October 2009.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

5. NET INCOME PER LIMITED PARTNER UNIT

The Partnership s net income attributable to the Partnership Assets for periods including and subsequent to the Partnership s acquisitions of the Partnership Assets is allocated to the general partner and the limited partners, including any subordinated unitholders, in accordance with their respective ownership percentages, and when applicable, giving effect to unvested units granted under the Western Gas Partners, LP 2008 Long-Term Incentive Plan (LTIP) and incentive distributions allocable to the general partner. The allocation of undistributed earnings, or net income in excess of distributions, to the incentive distribution rights is limited to available cash (as defined by the partnership agreement) for the period. The Partnership s net income allocable to the limited partners is allocated between the common and subordinated unitholders by applying the provisions of the partnership agreement that govern actual cash distributions as if all earnings for the period had been distributed. Accordingly, if current net income allocable to the limited partners is less than the minimum quarterly distribution, or if cumulative net income allocable to the limited partners since May 14, 2008 is less than the cumulative minimum quarterly distributions, more income is allocated to the common unitholders than the subordinated unitholders for that quarterly period. Basic and diluted net income per limited partner unit is calculated by dividing limited partners interest in net income by the weighted average number of limited partner units outstanding during the period.

The following table illustrates the Partnership s calculation of net income per unit for common and subordinated limited partner units (in thousands, except per-unit information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008[(1)]	2009[(1)]	2008[(1)]
Net income attributable to Western Gas Partners, LP	$ 17,048	$ 17,949	$ 58,065	$ 51,671
Less pre-acquisition income allocated to Parent		553	5,935	26,026
Less general partner interest in net income	341	348	1,043	513
Limited partner interest in net income	$ 16,707	$ 17,048	$ 51,087	$ 25,132
Net income allocable to common units	$ 8,818	$ 8,524	$ 26,838	$ 12,722
Net income allocable to subordinated units	7,889	8,524	24,249	12,410
Limited partner interest in net income	$ 16,707	$ 17,048	$ 51,087	$ 25,132
Net income per limited partner unit basic and diluted				
Common units	$ 0.30	$ 0.32	$ 0.92	$ 0.48
Subordinated units	$ 0.30	$ 0.32	$ 0.91	$ 0.47
Total	$ 0.30	$ 0.32	$ 0.92	$ 0.47
Weighted average limited partner units outstanding basic and diluted				
Common units	29,395	26,536	29,200	26,536
Subordinated units	26,536	26,536	26,536	26,536
Total	55,931	53,072	55,736	53,072

(1) Financial information for 2008 and the first six months of 2009 has been revised to include results attributable to the Chipeta assets. See *Note 1 Description of Business and Basis of Presentation Chipeta acquisition*.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

6. TRANSACTIONS WITH AFFILIATES

Affiliate transactions

The Partnership provides natural gas gathering, compression, processing, treating and transportation services to Anadarko and a portion of the Partnership s expenditures are paid by or to Anadarko, which results in affiliate transactions. Except for volumes taken in-kind by certain producers, an affiliate of Anadarko sells the natural gas and extracted NGLs attributable to the Partnership s processing activities, which also result in affiliate transactions. In addition, affiliate-based transactions also result from contributions to and distributions from Fort Union and Chipeta which are paid or received by Anadarko.

Cash management

Anadarko operates a cash management system whereby excess cash from most of its subsidiaries, held in separate bank accounts, is generally swept to centralized accounts. Prior to May 14, 2008, with respect to the initial assets, and prior to December 19, 2008, with respect to the Powder River assets, sales and purchases related to third-party transactions were received or paid in cash by Anadarko within its centralized cash management system. Anadarko charged the Partnership interest at a variable rate on outstanding affiliate balances attributable to such assets for the periods these balances remained outstanding. The outstanding affiliate balances were entirely settled through an adjustment to parent net equity in connection with the initial public offering and the Powder River acquisition. Subsequent to May 14, 2008, with respect to the initial assets, and subsequent to December 19, 2008, with respect to the Powder River assets, the Partnership cash-settles transactions directly with third parties and with Anadarko affiliates and affiliate-based interest expense on current intercompany balances is not charged.

Prior to June 1, 2008, with respect to Chipeta (the date on which Anadarko initially contributed assets to Chipeta), sales and purchases related to third-party transactions were received or paid in cash by Anadarko within its centralized cash management system and were settled with Chipeta through an adjustment to parent net equity. Subsequent to June 1, 2008, Chipeta cash settled transactions directly with third parties and with Anadarko.

Note receivable from Anadarko

Concurrent with the closing of the 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%. Interest on the note is payable quarterly. The fair value of the note receivable from Anadarko was approximately $275.7 million and $198.1 million at September 30, 2009 and December 31, 2008, respectively. The fair value of the note reflects any premium or discount for the differential between the stated interest rate and quarter-end market rate, based on quoted market prices of similar debt instruments.

Notes payable to Anadarko

Concurrent with the closing of the Powder River acquisition in December 2008, the Partnership entered into a five-year, $175.0 million term loan agreement with Anadarko under which the Partnership pays Anadarko interest at a fixed rate of 4.00% for the first two years and a floating rate of interest at three-month LIBOR plus 150 basis points for the final three years. In July 2009, concurrent with the closing of the Chipeta acquisition, the Partnership entered into a three-year, $101.5 million term loan agreement with Anadarko under which the Partnership paid Anadarko interest at a fixed rate of 7.00%. See *Note 10 Debt*. See also *Note 14 Subsequent Events* regarding refinancing of the three-year term loan in October 2009.

Commodity price swap agreements

The Partnership entered into commodity price swap agreements with Anadarko in December 2008 to mitigate exposure to commodity price volatility that would otherwise be present as a result of the Partnership s acquisition of the Hilight and Newcastle systems. Beginning on January 1, 2009, the commodity price swap agreements fix the margin the Partnership will realize on its share of revenues under percent-of-proceeds contracts applicable to natural gas processing activities at the Hilight and Newcastle systems. In this regard, the Partnership s notional volumes for each of the swap agreements are not specifically defined; instead, the commodity price swap agreements apply to volumes equal in amount to the Partnership s share of actual volumes processed at the Hilight and Newcastle systems. Because the notional volumes are not fixed, the commodity price swap agreements do not satisfy the definition of a derivative financial instrument and are therefore not

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Notes to unaudited consolidated financial statements of Western Gas Partners, LP

required to be measured at fair value. The Partnership reports its realized gains and losses on the commodity price swap agreements in natural gas, natural gas liquids and condensate sales affiliates in its consolidated statements of income in the period in which the associated revenues are recognized. During the three and nine months ended September 30, 2009, the Partnership recorded realized gains of $1.5 million and $5.6 million, respectively, attributable to the commodity price swap agreements.

Below is a summary of the fixed prices on the Partnership s commodity price swap agreements outstanding as of September 30, 2009. The commodity price swap arrangements expire in December 2010 and the Partnership may annually, at its option, extend the agreements through December 2013.

	Year Ended December 31,	
	2009	**2010**
	(per barrel)	
Natural Gasoline	$ 55.60	$ 63.20
Condensate	$ 62.27	$ 70.72
Propane	$ 35.56	$ 40.63
Butane	$ 42.24	$ 48.15
	(per MMBtu)	
Natural Gas	$ 4.85	$ 5.61

Credit facilities

In March 2008, Anadarko entered into a five-year $1.3 billion credit facility under which the Partnership may borrow up to $100.0 million. Concurrent with the closing of the initial public offering, the Partnership entered into a two-year $30.0 million working capital facility with Anadarko as the lender. See *Note 10 Debt* for more information on these credit facilities and *Note 14 Subsequent Events* concerning the revolving Credit Facility the Partnership entered into in October 2009.

Omnibus agreement

Concurrent with the closing of the initial public offering, the Partnership entered into an omnibus agreement with the general partner and Anadarko that addresses the following:

- Anadarko s obligation to indemnify the Partnership for certain liabilities and the Partnership s obligation to indemnify Anadarko for certain liabilities with respect to the initial assets;

- the Partnership s obligation to reimburse Anadarko for all expenses incurred or payments made on the Partnership s behalf in conjunction with Anadarko s provision of general and administrative services to the Partnership, including salary and benefits of the general partner s executive management and other Anadarko personnel and general and administrative expenses which are attributable to the Partnership s status as a separate publicly traded entity;

- the Partnership s obligation to reimburse Anadarko for all insurance coverage expenses it incurs or payments it makes with respect to the Partnership Assets; and

- the Partnership s obligation to reimburse Anadarko for the Partnership s allocable portion of commitment fees that Anadarko incurs under its $1.3 billion credit facility.

Pursuant to the omnibus agreement, Anadarko performs centralized corporate functions for the Partnership, such as legal, accounting, treasury, cash management, investor relations, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, internal audit, tax, marketing and midstream administration. As of September 30, 2009, the Partnership s reimbursement to Anadarko for certain general and administrative expenses allocated to the Partnership was capped at $6.9 million annually through December 31, 2009, subject to adjustment to reflect expansions of the Partnership s operations through the acquisition or construction of new assets or businesses and with the concurrence of the special committee of the Partnership s general partner s board of directors. The cap contained in the omnibus agreement does not apply to incremental general and administrative expenses allocated to or incurred by the Partnership as a result of being a publicly traded partnership. The consolidated financial statements of the Partnership include costs allocated by Anadarko pursuant to the omnibus agreement for periods including and subsequent to May 14, 2008.

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Services and secondment agreement

Concurrent with the closing of the initial public offering, the general partner and Anadarko entered into a services and secondment agreement pursuant to which specified employees of Anadarko are seconded to the general partner to provide operating, routine maintenance and other services with respect to the assets owned and operated by the Partnership under the direction, supervision and control of the general partner. Pursuant to the services and secondment agreement, the Partnership reimburses Anadarko for services provided by the seconded employees. The initial term of the services and secondment agreement is 10 years and the term will automatically extend for additional twelve-month periods unless either party provides 180 days written notice otherwise before the applicable twelve-month period expires. The consolidated financial statements of the Partnership include costs allocated by Anadarko pursuant to the services and secondment agreement for periods including and subsequent to the Partnership s acquisition of the Partnership Assets.

Chipeta gas processing agreement

Chipeta is party to a gas processing agreement with a subsidiary of Anadarko dated September 6, 2008, pursuant to which Chipeta processes natural gas delivered by that subsidiary and the subsidiary takes allocated residue and NGLs in-kind. That agreement, pursuant to which the Chipeta plant receives a large majority of its throughput, has a primary term that extends through 2023.

Tax sharing agreement

Concurrent with the closing of the initial public offering, the Partnership and Anadarko entered into a tax sharing agreement pursuant to which the Partnership reimburses Anadarko for the Partnership s share of Texas margin tax borne by Anadarko as a result of the Partnership s results being included in a combined or consolidated tax return filed by Anadarko with respect to periods subsequent to the Partnership s acquisition of the Partnership Assets. Anadarko may use its tax attributes to cause its combined or consolidated group, of which the Partnership may be a member for this purpose, to owe no tax. However, the Partnership is nevertheless required to reimburse Anadarko for the tax the Partnership would have owed had the attributes not been available or used for the Partnership s benefit, regardless of whether Anadarko pays taxes for the period.

Allocation of costs

Prior to the Partnership s acquisition of the Partnership Assets, the consolidated financial statements of the Partnership include costs allocated by Anadarko in the form of a management services fee, which approximated the general and administrative costs attributable to the Partnership Assets. This management services fee was allocated to the Partnership based on its proportionate share of Anadarko s assets and revenues or other contractual arrangements. Management believes these allocation methodologies are reasonable.

The employees supporting the Partnership s operations are employees of Anadarko. Anadarko charges the Partnership its allocated share of personnel costs, including costs associated with Anadarko s equity-based compensation plans, non-contributory defined pension and postretirement plans and defined contribution savings plan, through the management services fee or pursuant to the omnibus agreement and services and secondment agreement described above.

Equity-based compensation

Grants made under equity-based compensation plans result in equity-based compensation expense which is determined by reference to the fair value of equity compensation as of the date of the relevant equity grant.

Long-term incentive plan

The general partner awarded phantom units primarily to the general partner s independent directors under the LTIP in May 2008 and May 2009. The phantom units awarded to the independent directors vest one year from the grant date. The following table summarizes information regarding phantom units under the LTIP for the nine months ended September 30, 2009:

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

	Value per Unit	Units
Units outstanding at beginning of period	$ 16.50	30,304
Vested	$ 16.50	(30,304)
Granted	$ 15.02	21,970
Units outstanding at end of period	$ 15.02	21,970

Compensation expense attributable to the phantom units granted under the LTIP is recognized entirely by the Partnership over the vesting period and was approximately $75,000 and $0.3 million during the three and nine months ended September 30, 2009, respectively, and was approximately $0.1 million and $0.2 million during the three and nine months ended September 30, 2008, respectively.

Equity incentive plan and Anadarko incentive plans

The Partnership s general and administrative expenses include equity-based compensation costs allocated by Anadarko to the Partnership for grants made pursuant to the Western Gas Holdings, LLC Amended and Restated Equity Incentive Plan (the Incentive Plan), as well as the Anadarko Petroleum Corporation 1999 Stock Incentive Plan and the Anadarko Petroleum Corporation 2008 Omnibus Incentive Compensation Plan (Anadarko s plans are referred to collectively as the Anadarko Incentive Plans). Under the Incentive Plan, participants are granted Unit Value Rights (UVRs), Unit Appreciation Rights (UARs) and Dividend Equivalent Rights (DERs). The following table summarizes information regarding UVRs, UARs and DERs issued under the Incentive Plan for the nine months ended September 30, 2009:

	Units
Units outstanding at beginning of period	50,000
Granted	10,000
Vested	(16,667)
Forfeited	(6,666)
Units outstanding at end of period	36,667
Weighted average grant date fair value per UVR	$ 50.00

The Partnership s general and administrative expense for the three and nine months ended September 30, 2009 included approximately $0.9 million and $2.7 million, respectively, of equity-based compensation expense for grants made pursuant to the Incentive Plan and Anadarko Incentive Plans. The Partnership s general and administrative expense for the three and nine months ended September 30, 2008 included approximately $0.5 million and $0.8 million, respectively, of equity-based compensation expense for grants made pursuant to the Incentive Plan and Anadarko Incentive Plans. A portion of these expenses are allocated to the Partnership by Anadarko as a component of compensation expense for the executive officers of the Partnership s general partner and other employees pursuant to the omnibus agreement and employees who provide services to the Partnership pursuant to the services and secondment agreement. These amounts exclude compensation expense associated with the LTIP.

Summary of affiliate transactions

Operating expenses include all amounts accrued or paid to affiliates for the operation of the Partnership s systems, whether in providing services to affiliates or to third parties, including field labor, measurement and analysis, and other disbursements. Affiliate expenses do not bear a direct relationship to affiliate revenues and third-party expenses do not bear a direct

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relationship to third-party revenues. For example, the Partnership s affiliate expenses are not necessarily those expenses attributable to generating affiliate revenues. The following table summarizes affiliate transactions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands)			
Revenues affiliates	$54,718	$82,352	$163,901	$246,883
Operating expenses affiliates	10,034	16,687	29,951	45,828
Interest income affiliates	4,225	4,697	12,675	6,478
Interest expense, net affiliates	3,127	36	6,698	1,546
Distributions to unitholders affiliates	11,257	5,275	32,829	5,275
Contributions from noncontrolling interest owners affiliate and Parent	13,163	14,455	32,419	14,455
Distributions to noncontrolling interest owners affiliate and Parent			4,303	19,734

7. INCOME TAXES

The following table summarizes the Partnership s effective tax rate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands, except effective tax rate)			
Income before income taxes	$19,406	$19,760	$65,654	$69,137
Income tax expense (benefit)	$ 171	$ (1,463)	$ (152)	$11,289
Effective tax rate	1%	(7)%	(0)%	16%

Income earned by the Partnership, a non-taxable entity for U.S. federal income tax purposes, for the three and nine months ended September 30, 2009 was subject only to Texas margin tax while income earned by the Partnership and attributable to the initial assets prior to May 14, 2008 and to the Powder River assets for the three and nine months ended September 30, 2008, was subject to federal and state income tax. Income attributable to the Chipeta assets was subject to federal and state income tax for periods prior to June 1, 2008, at which time substantially all of the Chipeta assets were contributed to a non-taxable entity for U.S. federal income tax purposes. For 2008 and 2009, the Partnership s variance from the federal statutory rate is primarily attributable to the Partnership s status as a non-taxable entity beginning on May 14, 2008, partially offset by state income tax expense.

The increase in income tax expense for the three months ended September 30, 2009 is primarily due to a net income tax benefit resulting from the impairment loss recorded on an asset at the Hilight system during the three months ended September 30, 2008, partially offset by Texas margin tax expense attributable to the initial assets and federal income tax attributable to the Newcastle system. For the nine months ended September 30, 2009, income tax expense decreased primarily due to a change in the applicability of U.S. federal income tax to the Partnership s income that occurred in connection with its initial public offering. In addition, for the nine months ended September 30, 2009, the Partnership s estimated income attributed to Texas relative to the Partnership s total income decreased as compared to the prior year, which resulted in a $0.5 million reduction of previously recognized deferred taxes.

Notes to unaudited consolidated financial statements of Western Gas Partners, LP

8. CONCENTRATION OF CREDIT RISK

Anadarko was the only customer from whom revenues exceeded 10% of the Partnership s consolidated revenues for the three and nine months ended September 30, 2009 and 2008. The percentage of revenues from Anadarko and the Partnership s other customers are as follows:

Customer	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Anadarko	87%	85%	87%	87%
Other	13%	15%	13%	13%
Total	100%	100%	100%	100%

9. PROPERTY, PLANT AND EQUIPMENT

A summary of the historical cost of the Partnership s property, plant and equipment is as follows:

	Estimated useful life	September 30, 2009	December 31, 2008
		(dollars in thousands)	
Land	n/a	$ 354	$ 354
Gathering systems	15 to 25 years	804,952	697,908
Pipeline and equipment	30 to 34.5 years	86,520	85,598
Assets under construction	n/a	7,827	76,275
Other	3 to 25 years	1,687	1,645
Total property, plant and equipment		901,340	861,780
Accumulated depreciation		204,683	175,427
Total net property, plant and equipment		$ 696,657	$ 686,353

The cost of property classified as Assets under construction is excluded from capitalized costs being depreciated. This amount represents property that is not yet suitable to be placed into productive service as of the balance sheet date.

Impairment

Prior to the Partnership s acquisition of the Powder River assets, during the three and nine months ended September 30, 2008, a $9.4 million impairment was recognized related to the shut-in of a unit that produced iso-butane from NGLs at the Hilight system. Anadarko s management determined the fair value of the asset based on estimates of significant unobservable inputs (level three in the GAAP fair value hierarchy), including current market values of similar equipment components.

10. DEBT

The following table presents the Partnership s outstanding debt as of September 30, 2009 and December 31, 2008.

	September 30, 2009			December 31, 2008		
	Principal	Carrying Value	Interest Rate	Principal	Carrying Value	Interest Rate
	(in thousands, except percentages)					

Note payable to Anadarko due 2012	$ 101,451	$ 101,451	7.00%	$	$	
Note payable to Anadarko due 2013	175,000	175,000	4.00%	175,000	175,000	4.00%
Total debt	$ 276,451	$ 276,451	5.10%	$ 175,000	$ 175,000	4.00%

In March 2008, Anadarko entered into a five-year $1.3 billion credit facility under which the Partnership may utilize up to $100.0 million to the extent that sufficient amounts remain available to Anadarko. As of September 30, 2009, the full $100.0 million was available for borrowing by the Partnership. Interest on borrowings under the credit facility is calculated based on the election by the borrower of either: (i) a floating rate equal to the federal funds effective rate plus 0.50% or (ii) a periodic fixed rate equal to LIBOR plus an applicable margin. The applicable margin, which was 0.44% at

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September 30, 2009, and the commitment fees on the facility are based on Anadarko s senior unsecured long-term debt rating. Pursuant to the omnibus agreement, as a co-borrower under Anadarko s credit facility, the Partnership is required to reimburse Anadarko for its allocable portion of commitment fees (as of September 30, 2009, 0.11% of the Partnership s committed and available borrowing capacity, including the Partnership s outstanding balances, if any) that Anadarko incurs under its credit facility, or up to $0.1 million annually. Under Anadarko s credit facilities, the Partnership and Anadarko are required to comply with certain covenants, including a financial covenant that requires Anadarko to maintain a debt-to-capitalization ratio of 60% or less. As of September 30, 2009, Anadarko and the Partnership were in compliance with all covenants. Should the Partnership or Anadarko fail to comply with any covenant in Anadarko s credit facilities, the Partnership may not be permitted to borrow under the credit facility. Anadarko is a guarantor of the Partnership s borrowings, if any, under the credit facility. The Partnership is not a guarantor of Anadarko s borrowings under the credit facility. The $1.3 billion credit facility expires in March 2013.

In May 2008, the Partnership entered into a two-year $30.0 million working capital facility with Anadarko as the lender. At September 30, 2009, no borrowings were outstanding under the working capital facility. The facility is available exclusively to fund working capital needs. Borrowings under the facility will bear interest at the same rate that would apply to borrowings under the Anadarko credit facility described above. Pursuant to the omnibus agreement, the Partnership pays a commitment fee of 0.11% annually to Anadarko on the unused portion of the working capital facility, or up to $33,000 annually. The Partnership is required to reduce all borrowings under the working capital facility to zero for a period of at least 15 consecutive days at least once during each of the twelve-month periods prior to the maturity date of the facility.

In December 2008, the Partnership entered into a five-year $175.0 million term loan agreement with Anadarko in order to finance the cash portion of the consideration paid for the Powder River acquisition. The interest rate is fixed at 4.00% for the first two years and is a floating rate equal to three-month LIBOR plus 150 basis points for the final three years. The Partnership has the option to repay the outstanding principal amount in whole or in part commencing upon the second anniversary of the five-year term loan agreement.

In July 2009, the Partnership entered into a $101.5 million, 7.00% fixed-rate, three-year term loan agreement with Anadarko in order to finance the cash portion of the consideration paid for the Chipeta acquisition. The Partnership had the option to repay the outstanding principal amount in whole or in part upon five business days written notice. See also *Note 14 Subsequent Events* regarding the Partnership s $350.0 million revolving Credit Facility and refinancing of the three-year term loan in October 2009.

The provisions of the five-year and three-year term loan agreements discussed above are non-recourse to the Partnership s general partner and limited partners and contain customary events of default, including (i) nonpayment of principal when due or nonpayment of interest or other amounts within three business days of when due; (ii) certain events of bankruptcy or insolvency with respect to the Partnership; or (iii) a change of control. At September 30, 2009, the Partnership was in compliance with all covenants under the five-year term loan agreement and three-year term loan agreement. The fair value of the Partnership s debt under both the five-year and three-year term loan agreements approximate the carrying value of those instruments at September 30, 2009 and December 31, 2008. The fair value of debt reflects any premium or discount for the difference between the stated interest rate and quarter-end market rate.

11. SEGMENT INFORMATION

The Partnership s operations are organized into a single business segment, the assets of which consist of natural gas gathering and processing systems, treating facilities, pipelines and related plants and equipment. To assess the operating results of the Partnership s segment, management uses Adjusted EBITDA, which it defines as net income (loss) attributable to Western Gas Partners, LP, plus distributions from equity investee, non-cash equity-based compensation expense, interest expense, income tax expense, depreciation and amortization, less income from equity investee, interest income, income tax benefit and other income (expense). The Partnership changed its definition of Adjusted EBITDA from the definition used in the prior year. Adjusted EBITDA has been calculated using the revised definition for all periods presented.

Adjusted EBITDA is a supplemental financial measure that management and external users of the Partnership s consolidated financial statements, such as industry analysts, investors, commercial banks and rating agencies, use to assess, among other measures:

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the Partnership s operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to financing methods, capital structure or historical cost basis;

the ability of the Partnership s assets to generate cash flow to make distributions; and

the viability of acquisitions and capital expenditure projects and the returns on investment of various investment opportunities.

Management believes that the presentation of Adjusted EBITDA provides information useful in assessing the Partnership s financial condition and results of operations and that Adjusted EBITDA is a widely accepted financial indicator of a company s ability to incur and service debt, fund capital expenditures and make distributions. Adjusted EBITDA, as defined by the Partnership, may not be comparable to similarly titled measures used by other companies. Therefore, the Partnership s consolidated Adjusted EBITDA should be considered in conjunction with net income and other performance measures, such as operating income or cash flow from operating activities.

Below is a reconciliation of Adjusted EBITDA to net income attributable to Western Gas Partners, LP.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands)			
Reconciliation of adjusted EBITDA to net income attributable to Western Gas Partners, LP				
Adjusted EBITDA	$ 26,404	$ 30,488	$ 81,542	$ 93,633
Less:				
Distributions from equity investee	1,555	1,422	4,125	3,673
Non-cash equity-based compensation expense	948	524	2,736	785
Interest expense, net affiliates	3,127	36	6,698	1,546
Income tax expense	171			11,289
Depreciation and amortization (1)	9,586	9,012	28,101	25,775
Impairment		9,354		9,354
Add:				
Equity income, net	1,794	1,539	5,329	3,840
Interest income from note affiliate	4,225	4,697	12,675	6,478
Other income, net (1)	12	110	27	142
Income tax benefit		1,463	152	
Net income attributable to Western Gas Partners, LP	$ 17,048	$ 17,949	$ 58,065	$ 51,671

(1) Depreciation and amortization expense and other income, net for purposes of reconciling Adjusted EBITDA to net

income attributable to Western Gas Partners, LP, includes 51% of the respective amounts attributable to Chipeta Processing LLC.

12. COMMITMENTS AND CONTINGENCIES

Environmental

The Partnership is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Management believes there are no such matters that could have a material adverse effect on the Partnership s results of operations, cash flows or financial position.

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Litigation and legal proceedings

From time to time, the Partnership is involved in legal, tax, regulatory and other proceedings in various forums regarding performance, contracts and other matters that arise in the ordinary course of business. Management is not aware of any such proceeding for which a final disposition could have a material adverse effect on the Partnership s results of operations, cash flows or financial position.

Plant purchase commitment

In November 2008, Chipeta entered into a Purchase and Sale Agreement (the Purchase Agreement) with a third party to purchase a compressor station and processing plant (the Natural Buttes plant) located in Uintah County, Utah for $9.0 million, subject to customary closing adjustments. One of the noncontrolling interest owners contributed $2.2 million to Chipeta during the three months ended September 30, 2009 to fund its proportionate share of the Natural Buttes plant acquisition. The Natural Buttes plant is expected to provide up to 150 MMcf/d of incremental refrigeration processing capacity and 5.2 miles of 20-inch pipeline. If the transaction does not close by December 31, 2009, Chipeta, at its sole discretion, may terminate the Purchase Agreement.

Lease commitments

Anadarko, on behalf of the Partnership, formerly leased compression equipment used exclusively by the Partnership. As a result of lease modifications in October 2008, Anadarko became the owner of the compression equipment and contributed the equipment to the Partnership, effectively terminating the lease. Rent expense associated with the compression equipment was approximately $0.3 million and $0.9 million for the three and nine months ended September 30, 2008, respectively. As of September 30, 2009, the Partnership does not have significant non-cancelable lease commitments.

13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Partnership filed a shelf registration statement on Form S-3 with the SEC, which became effective in August 2009, under which the Partnership may issue and sell up to $1.25 billion of debt and equity securities. Debt securities issued under the shelf may be guaranteed by one or more existing or future subsidiaries of the Partnership (the Guarantor Subsidiaries), each of which is a wholly owned subsidiary of the Partnership. The guarantees, if issued, would be full, unconditional, joint and several. The following condensed consolidating financial information reflects the Partnership s stand-alone accounts, the combined accounts of the Guarantor Subsidiaries, the accounts of the Non-Guarantor Subsidiary, consolidating adjustments and eliminations, and the Partnership s consolidated accounts for the three and nine months ended September 30, 2009, for the three and nine months ended September 30, 2008 and as of September 30, 2009 and December 31, 2008. The condensed consolidating financial information should be read in conjunction with the Partnership s accompanying unaudited consolidated financial statements and related notes.

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Western Gas Partners, LP s and the Guarantor Subsidiaries investment in and equity income from their consolidated subsidiaries is presented in accordance with the equity method of accounting in which the equity income from consolidated subsidiaries includes the results of operations of the Partnership Assets for periods including and subsequent to the Partnership s acquisition of the Partnership Assets.

	Three Months Ended September 30, 2009				
Statement of Income	**Western Gas Partners, LP**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiary**	**Eliminations**	**Consolidated**
			(in thousands)		
Revenues	$ 1,538	$ 48,830	$ 10,628	$	$ 60,996
Operating expenses	5,557	30,978	6,166		42,701
Operating income (loss)	$ (4,019)	$ 17,852	$ 4,462	$	$ 18,295
Interest income, net affiliates	1,093	5			1,098
Other income, net	10		3		13
Equity income from consolidated subsidiaries	19,963	2,276		(22,239)	
Income before income taxes	$ 17,047	$ 20,133	$ 4,465	$ (22,239)	$ 19,406
Income tax expense		171			171
Net income	$ 17,047	$ 19,962	$ 4,465	$ (22,239)	$ 19,235
Net income attributable to noncontrolling interests		2,187			2,187