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Casey Smith: ETE's annual filing includes details of billions in debt

By CASEY SMITH World Business Writer | Posted: Wednesday, March 2, 2016 12:00 am

Dallas-based Energy Transfer Equity also recently filed its annual 10-K report with the U.S. Securities and Exchange Commission.

Like the Williams' filing, the document contains plenty of information about potential risks related to the proposed merger that could arise for the numerous companies in the Energy Transfer family during the months to come.

The document also contains points on Energy Transfer's debt, such as the impact that leverage could have on company credit ratings and cash distributions. More details are included on those two points below and can be found in the complete filing.

In a phone interview Tuesday afternoon, Tulsa-based money manager Fred Russell also referenced ETE's debt.

"From the start, this deal has been unbelievably complicated," Russell said of the proposed merger between ETE and Williams Cos. that was announced Sept. 28.

"Whenever something is complicated, I always get suspicious. A complicated deal is often a byproduct of a deal made by a company with a lot of debt."

The CEO of Fredric E. Russell Investment Management Company said that he thinks some investors may be doubtful about the proposed deal between ETE and Williams because of the Dallas company's risky balance sheet.

ETE's indebtedness includes $1.187 billion of senior notes due in October 2020, Russell said, and another $1.148 billion of senior notes due in January 2024.

"I think these facts reflect the anxiety Williams' shareholders have that (the proposed merger) might not go through or that it's dangerous to Williams' shareholders if it does go through," Russell said.

Credit ratings and debt: ETE's 10-K points out that it has a lot of debt with plans to take on a lot more with the proposed Williams Cos. deal (an additional $6.05 billion to fund the cash consideration for the transaction in addition to assuming approximately $4.2 billion of debt outstanding under Williams' senior notes).

That debt could very well impact ETE's credit rating, and any potential downgrade could trickle over to other companies in the Energy Transfer family, including Williams Partners, which trades on the New York Stock Exchange under the ticker WPZ, according to the document.

"In light of the sustained commodity price environment and our current leverage and credit profile, there is a risk that the incurrence of such additional debt could adversely affect our credit ratings," the 10-K reads.

"Any downgrade in our credit ratings following the transaction could adversely affect the investment grade credit ratings of ETP, Sunoco Logistics and WPZ, and the credit ratings of Sunoco LP."

Distributions and debt: ETE's debt level and agreements may limit the ability to make distributions to its unit holders, may limit the company's future financial and operating flexibility and could potentially require asset sales.

As of Dec. 31, ETE had approximately $7 billion of debt on a stand-alone basis and approximately $36.97 billion of consolidated debt, excluding the debt of joint ventures, according to the filing. That's in addition to the expected $6.05 billion and $4.2 billion amounts expected to be incurred in connection with the Williams' acquisition.

Sunoco LP, another company in the family, is also expected to incur approximately $2 billion of additional debt this year. Williams Partners and its subsidiaries had $19.1 billion of debt outstanding under senior notes and credit facilities as of Dec. 31.

"As a result of these factors, we expect our consolidated debt level to increase $32.1 billion from our consolidated debt level at December 31, 2015," according to the document.