

Edgar Filing: Summit Midstream Partners, LP - Form 10-Q

Summit Midstream Partners, LP
Form 10-Q
November 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission file number: 001-35666

Summit Midstream Partners, LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-5200503

(I.R.S. Employer
Identification No.)

1790 Hughes Landing Blvd, Suite 500

The Woodlands, TX

(Address of principal executive offices)

77380

(Zip Code)

(832) 413-4770

(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 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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

As of October 31, 2015

Common Units

42,062,644 units

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Subordinated Units	24,409,850 units
General Partner Units	1,354,700 units

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FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as in periodic press releases and certain oral statements made by our officials during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will,” “will continue,” “will likely result,” and similar expressions, or future conditional verbs such as “may,” “will,” “should,” “would” and “could.” In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our affiliates, are also forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this report specifically include statements and the discussion of the evaluation of strategic options in the section entitled "Trends and Outlook—Acquisitions from Summit Investments and Third Parties" included in Management's Discussion and Analysis of Financial Condition and Results of Operations herein. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described in the section entitled "Risk Factors" included in this report.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements in this paragraph. These risks and uncertainties include, among others:

- fluctuations in natural gas, natural gas liquids ("NGLs") and crude oil prices;
- the extent and success of drilling efforts, as well as the extent and quality of natural gas and crude oil volumes produced within proximity of our assets;
- failure or delays by our customers in achieving expected production in their natural gas, crude oil and produced water projects;
- competitive conditions in our industry and their impact on our ability to connect hydrocarbon supplies to our gathering and processing assets or systems;
- actions or inactions taken or non-performance by third parties, including suppliers, contractors, operators, processors, transporters and customers, including the inability or failure of our shipper customers to meet their financial obligations under our gathering agreements;
- our ability to acquire any assets owned by Summit Midstream Partners, LLC ("Summit Investments"), which is subject to a number of factors, including Summit Investments deciding, in its sole discretion, to offer us the right to acquire such assets, the ability to reach agreement on acceptable terms, the approval of the conflicts committee of our general partner's board of directors (if appropriate), prevailing conditions and outlook in the natural gas, NGL and crude oil industries and markets, and our ability to obtain financing on acceptable terms from the credit and/or capital markets or other sources;
- our ability to consummate acquisitions, successfully integrate the acquired businesses, realize any cost savings and other synergies from any acquisition;
- the ability to attract and retain key management personnel;
- commercial bank and capital market conditions and the potential impact of changes or disruptions in the credit and/or capital markets;
- changes in the availability and cost of capital, and the results of our financing efforts, including availability of funds in the credit and/or capital markets;
- restrictions placed on us by the agreements governing our debt instruments;
- the availability, terms and cost of downstream transportation and processing services;
- natural disasters, accidents, weather-related delays, casualty losses and other matters beyond our control;
- operational risks and hazards inherent in the gathering, treating and/or processing of natural gas, crude oil and produced water;
- weather conditions and seasonal trends;

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timely receipt of necessary government approvals and permits, our ability to control the costs of construction, including costs of materials, labor and rights-of-way and other factors that may impact our ability to complete projects within budget and on schedule;

the effects of existing and future laws and governmental regulations, including environmental, safety and climate change requirements;

the effects of litigation;

changes in general economic conditions; and

certain factors discussed elsewhere in this report.

Further, we are subject to the risks and uncertainties of any strategic option, including whether any strategic options will be identified and, if identified, whether it will be pursued and consummated. Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common units and senior notes.

The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this document may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015	December 31, 2014
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$5,459	\$26,504
Accounts receivable	45,902	89,201
Other current assets	3,773	3,517
Total current assets	55,134	119,222
Property, plant and equipment, net	1,448,548	1,414,350
Intangible assets, net	448,293	477,734
Goodwill	265,062	265,062
Other noncurrent assets	15,145	17,353
Total assets	\$2,232,182	\$2,293,721
Liabilities and Partners' Capital		
Current liabilities:		
Trade accounts payable	\$15,560	\$24,855
Due to affiliate	625	2,711
Deferred revenue	677	2,377
Ad valorem taxes payable	7,318	9,118
Accrued interest	7,733	18,858
Other current liabilities	12,014	13,550
Total current liabilities	43,927	71,469
Long-term debt	904,642	808,000
Deferred revenue	32,333	55,239
Other noncurrent liabilities	6,597	7,292
Total liabilities	987,499	942,000
Commitments and contingencies		
Common limited partner capital (42,063 units issued and outstanding at September 30, 2015 and 34,427 units issued and outstanding at December 31, 2014)	906,107	649,060
Subordinated limited partner capital (24,410 units issued and outstanding at September 30, 2015 and December 31, 2014)	307,719	293,153
General partner interests (1,355 units issued and outstanding at September 30, 2015 and 1,201 units issued and outstanding at December 31, 2014)	30,857	24,676
Summit Investments' equity in contributed subsidiaries	—	384,832
Total partners' capital	1,244,683	1,351,721
Total liabilities and partners' capital	\$2,232,182	\$2,293,721

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
(In thousands, except per-unit amounts)				
Revenues:				
Gathering services and related fees	\$90,685	\$56,598	\$212,822	\$162,359
Natural gas, NGLs and condensate sales	8,710	23,970	33,290	76,977
Other revenues	3,854	4,216	11,572	10,813
Total revenues	103,249	84,784	257,684	250,149
Costs and expenses:				
Cost of natural gas and NGLs	3,652	12,842	13,941	42,315
Operation and maintenance	23,045	21,840	65,718	66,468
General and administrative	8,714	9,414	27,746	28,127
Transaction costs	119	62	714	675
Depreciation and amortization	24,112	22,204	71,845	64,018
(Gain) loss on asset sales, net	—	—	(214	) 6
Long-lived asset impairment	7,696	—	7,696	—
Total costs and expenses	67,338	66,362	187,446	201,609
Other income	1	1	2	3
Interest expense	(12,132	) (10,558	) (36,333	) (28,504
Income before income taxes	23,780	7,865	33,907	20,039
Income tax expense	(176	) (28	) (248	) (655
Net income	\$23,604	\$7,837	\$33,659	\$19,384
Less net income attributable to Summit Investments	—	1,724	5,403	5,690
Net income attributable to SMLP	23,604	6,113	28,256	13,694
Less net income attributable to general partner, including IDRs	2,408	1,204	5,866	2,436
Net income attributable to limited partners	\$21,196	\$4,909	\$22,390	\$11,258
Earnings per limited partner unit:				
Common unit – basic	\$0.32	\$0.08	\$0.33	\$0.22
Common unit – diluted	\$0.32	\$0.08	\$0.33	\$0.22
Subordinated unit – basic and diluted	\$0.32	\$0.08	\$0.40	\$0.17
Weighted-average limited partner units outstanding:				
Common units – basic	41,974	34,424	38,258	32,936
Common units – diluted	42,147	34,658	38,387	33,144
Subordinated units – basic and diluted	24,410	24,410	24,410	24,410

Cash distributions declared and paid per common unit \$0.570 \$0.520 \$1.695 \$1.500

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

Table of ContentsSUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Partners' capital			Summit Investments' equity in contributed subsidiaries	Total
	Limited partners		General		
	Common	Subordinated	partner		
	(In thousands)				
Partners' capital, January 1, 2014	\$566,532	\$379,287	\$23,324	\$523,944	\$1,493,087
Net income	6,506	4,752	2,436	5,690	19,384
Distributions to unitholders	(49,069)	(36,615)	(3,018)	—	(88,702)
Unit-based compensation	3,499	—	—	—	3,499
Tax withholdings on vested SMLP LTIP awards	(656)	—	—	—	(656)
Issuance of common units, net of offering costs	197,879	—	—	—	197,879
Contribution from general partner	—	—	4,235	—	4,235
Purchase of Red Rock Gathering	—	—	—	(305,000)	(305,000)
Excess of consideration paid over acquired carrying value of Red Rock Gathering	(36,228)	(25,691)	(1,264)	63,183	—
Assets contributed to Red Rock Gathering from Summit Investments	2,426	1,722	85	—	4,233
Cash advance from Summit Investments to contributed subsidiaries, net	—	—	—	44,116	44,116
Expenses paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	8,858	8,858
Capitalized interest allocated from Summit Investments to contributed subsidiaries	—	—	—	529	529
Capital expenditures paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	387	387
Class B membership interest unit-based compensation	—	—	—	255	255
Repurchase of SMLP LTIP units	(228)	—	—	—	(228)
Partners' capital, September 30, 2014	\$690,661	\$323,455	\$25,798	\$341,962	\$1,381,876

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
 (continued)

	Partners' capital			Summit Investments' equity in contributed subsidiaries	Total
	Limited partners		General partner		
	Common	Subordinated			
	(In thousands)				
Partners' capital, January 1, 2015	\$649,060	\$293,153	\$24,676	\$384,832	\$1,351,721
Net income	14,129	8,261	5,866	5,403	33,659
Distributions to unitholders	(62,694)	(41,376)	(7,029)	—	(111,099)
Unit-based compensation	4,954	—	—	—	4,954
Tax withholdings on vested SMLP LTIP awards	(1,435)	—	—	—	(1,435)
Issuance of common units, net of offering costs	222,014	—	—	—	222,014
Contribution from general partner	—	—	4,737	—	4,737
Purchase of Polar and Divide	—	—	—	(285,677)	(285,677)
Excess of acquired carrying value over consideration paid for Polar and Divide	80,079	47,681	2,607	(130,367)	—
Cash advance from Summit Investments to contributed subsidiaries, net	—	—	—	21,719	21,719
Expenses paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	3,084	3,084
Capitalized interest allocated from Summit Investments to contributed subsidiaries	—	—	—	921	921
Class B membership interest unit-based compensation	—	—	—	85	85
Partners' capital, September 30, 2015	\$906,107	\$307,719	\$30,857	\$—	\$1,244,683

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	\$33,659	\$19,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,493	64,711
Amortization of deferred loan costs	2,412	1,970
Unit-based compensation	5,039	3,754
(Gain) loss on asset sales, net	(214	) 6
Long-lived asset impairment	7,696	—
Changes in operating assets and liabilities:		
Accounts receivable	43,299	17,894
Trade accounts payable	(3,537	) (2,259)
Due to affiliate	853	(228)
Change in deferred revenue	(24,606	) 12,505
Ad valorem taxes payable	(1,800	) (1,435)
Accrued interest	(11,125	) (3,036)
Other, net	(2,280	) 1,787
Net cash provided by operating activities	121,889	115,053
Cash flows from investing activities:		
Capital expenditures	(89,290	) (154,705)
Proceeds from asset sales	238	24
Acquisition of gathering systems	—	(10,872)
Acquisitions of gathering systems from affiliate	(288,618) (305,000)
Net cash used in investing activities	(377,670) (470,553)

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (continued)

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Cash flows from financing activities:		
Distributions to unitholders	(111,099)	(88,702)
Borrowings under revolving credit facility	147,000	204,295
Repayments under revolving credit facility	(51,000)	(315,295)
Deferred loan costs	(154)	(5,226)
Proceeds from issuance of common units, net	222,014	197,879
Contribution from general partner	4,737	4,235
Cash advance from Summit Investments to contributed subsidiaries, net	21,719	44,116
Expenses paid by Summit Investments on behalf of contributed subsidiaries	3,084	8,858
Issuance of senior notes	—	300,000
Other, net	(1,565)	(884)
Net cash provided by financing activities	234,736	349,276
Net change in cash and cash equivalents	(21,045)	(6,224)
Cash and cash equivalents, beginning of period	26,504	20,357
Cash and cash equivalents, end of period	\$5,459	\$14,133
Supplemental cash flow disclosures:		
Cash interest paid	\$46,434	\$29,779
Less capitalized interest	2,307	3,014
Interest paid (net of capitalized interest)	\$44,127	\$26,765
Noncash investing and financing activities:		
Capital expenditures in trade accounts payable (period-end accruals)	\$12,319	\$30,886
Capital leases	1,021	—
Excess of acquired carrying value over consideration paid for Polar and Divide	130,367	—
Capitalized interest allocated to contributed subsidiaries from Summit Investments	921	529
Capital expenditures paid by Summit Investments on behalf of contributed subsidiaries	—	387
Excess of consideration paid over acquired carrying value of Red Rock Gathering	—	(63,183)
Assets contributed to Red Rock Gathering from Summit Investments	—	4,233
The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.		

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, BUSINESS OPERATIONS AND PRESENTATION AND CONSOLIDATION

Organization. Summit Midstream Partners, LP ("SMLP" or the "Partnership"), a Delaware limited partnership, is a growth-oriented limited partnership focused on developing, owning and operating midstream energy infrastructure assets that are strategically located in the core producing areas of unconventional resource basins, primarily shale formations, in North America.

SMLP and its subsidiaries are managed and operated by the board of directors and executive officers of Summit Midstream GP, LLC (the "general partner"). Summit Investments, as the ultimate owner of our general partner, controls us and has the right to appoint the entire board of directors of our general partner, including our independent directors. Our operations are conducted through, and our operating assets are owned by, various wholly-owned operating subsidiaries. Neither SMLP nor its subsidiaries have any employees. All of the personnel that conduct our business are employed by Summit Investments, but these individuals are sometimes referred to as our employees. As of September 30, 2015, Summit Midstream Partners Holdings, LLC ("SMP Holdings"), a wholly owned subsidiary of Summit Investments, held 5,293,571 SMLP common units, all of our subordinated units and all of our general partner units and incentive distribution rights ("IDRs").

On May 18, 2015, the Partnership acquired certain crude oil and produced water gathering systems and crude oil transmission pipelines (under development) held by Polar Midstream, LLC ("Polar Midstream") and Epping Transmission Company, LLC ("Epping") located in the Williston Basin (collectively "Polar and Divide") from SMP Holdings (the "Polar and Divide Drop Down"). Because the Polar and Divide system was acquired from SMP Holdings, it was deemed a transaction among entities under common control. Common control began in (i) February 2013 for Polar Midstream and (ii) April 2014 for Epping.

Business Operations. We provide natural gas gathering, treating and processing services as well as crude oil and produced water gathering services pursuant to primarily long-term and fee-based agreements with our customers. Our results are driven primarily by the volumes of natural gas that we gather, treat, compress and process as well as by the volumes of crude oil and produced water that we gather. Our gathering systems and the unconventional resource basins in which they operate are as follows:

- the Mountaineer Midstream system ("Mountaineer Midstream"), a natural gas gathering system located in the Appalachian Basin, which includes the Marcellus Shale formation in northern West Virginia;
- Bison Midstream, LLC ("Bison Midstream"), an associated natural gas gathering system located in the Williston Basin, which includes the Bakken and Three Forks shale formations in northwestern North Dakota;
- Polar and Divide, a crude oil and produced water gathering system and transmission pipelines (under development) located in the Williston Basin, which includes the Bakken and Three Forks shale formations in northwestern North Dakota;
- DFW Midstream Services LLC ("DFW Midstream"), a natural gas gathering system located in the Fort Worth Basin, which includes the Barnett Shale formation in north-central Texas; and
- Grand River Gathering, LLC ("Grand River Gathering"), a natural gas gathering and processing system located in the Piceance Basin, which includes the Mesaverde formation and the Mancos and Niobrara shale formations in western Colorado and eastern Utah.

Our operating subsidiaries, which are wholly owned by our wholly owned subsidiary, Summit Midstream Holdings, LLC ("Summit Holdings"), are: DFW Midstream (which includes Mountaineer Midstream); Bison Midstream (and its wholly owned subsidiaries Polar Midstream and Epping); and Grand River Gathering (and its wholly owned subsidiary Red Rock Gathering Company, LLC ("Red Rock Gathering")). All of our operating subsidiaries are focused on the development, construction and operation of natural gas gathering and processing systems and crude oil and produced water gathering systems.

Presentation and Consolidation. We prepare our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These principles are established by the Financial Accounting Standards Board (the "FASB"). The unaudited condensed consolidated financial statements include the assets, liabilities, and results of operations of SMLP and its subsidiaries. All

intercompany transactions among the consolidated entities have been eliminated in consolidation.

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We make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet dates, including fair value measurements, the reported amounts of revenue and expense, and the disclosure of contingencies. Although management believes these estimates are reasonable, actual results could differ from its estimates.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and the regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. We believe that the disclosures made are adequate to make the information not misleading. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, including normal recurring accruals, which are necessary to fairly present the unaudited condensed consolidated balance sheet as of September 30, 2015, the unaudited condensed consolidated statements of operations for the three- and nine-month periods ended September 30, 2015 and 2014, and the unaudited condensed consolidated statements of partners' capital and cash flows for the nine-month periods ended September 30, 2015 and 2014. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our annual report on Form 10-K for the year ended December 31, 2014 as filed with the SEC on March 2, 2015, and as updated and superseded by our current report on Form 8-K dated September 11, 2015 (the "2014 Annual Report"). The results of operations for an interim period are not necessarily indicative of results expected for a full year.

SMLP recognized its acquisitions of (i) Polar Midstream and Epping and (ii) Red Rock Gathering (the "Red Rock Drop Down") at Summit Investments' historical cost because the acquisitions were executed by entities under common control. The excess of Summit Investments' net investment in Polar Midstream and Epping was recognized as an addition to partners' capital. The excess of the purchase price paid by SMLP over Summit Investments' net investment in Red Rock Gathering was recognized as a reduction to partners' capital. Due to the common control aspect, the Polar and Divide Drop Down and the Red Rock Drop Down were accounted for by the Partnership on an "as-if pooled" basis for the periods during which common control existed. For the purposes of these unaudited condensed consolidated financial statements, SMLP's results of operations reflect the results of operations of Polar Midstream, Epping and Red Rock Gathering for all periods presented.

Reclassifications. Certain reclassifications have been made to prior-year amounts to conform to current-year presentation. In the third quarter of 2015, we combined the balances associated with the unfavorable gas gathering contract with other noncurrent liabilities. These balance sheet changes had no impact on (i) total liabilities or (ii) total liabilities and partners' capital.

In the second quarter of 2015, we evaluated our classification of revenues and concluded that creating an "other revenues" category would provide reporting that was more reflective of our results of operations and how we manage our business. As such, certain revenue transactions that represented the "and other" portions of (i) gathering services and (ii) natural gas, NGLs and condensate sales have been reclassified to other revenues. Other revenues also includes the amortization expense associated with our favorable and unfavorable gas gathering contracts. The amounts reclassified to other revenues for each period presented can be determined based on the total of the other revenues line item and the amount of amortization of favorable and unfavorable gas gathering contracts disclosed in Note 5. These reclassifications had no impact on total revenues, total costs and expenses, net income, total partners' capital or segment adjusted EBITDA.

Also in the second quarter of 2015, we evaluated our historical classification of electricity expense for Bison Midstream. In connection with the reclassification of certain revenues noted above and to be consistent with the classification of pass-through electricity expense for our other operating segments, we reclassified pass-through electricity expenses for Bison Midstream (\$1.6 million for the three months ended September 30, 2014, and \$2.7 million and \$3.8 million for the nine months ended September 30, 2015 and 2014, respectively) from costs of natural gas and NGLs to operation and maintenance. These reclassifications had no impact on total revenues, total costs and expenses, net income, total partners' capital or segment adjusted EBITDA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Plant, and Equipment. We record property, plant, and equipment at historical cost of construction or fair value of the assets at acquisition. We capitalize expenditures that extend the useful life of an asset or enhance its productivity or efficiency from its original design over the expected remaining period of use. For maintenance and repairs that do not add capacity or extend the useful life of an asset, we recognize expenditures as an expense as incurred. We capitalize project costs incurred during construction, including interest on funds borrowed to finance

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the construction of facilities, as construction in progress. Prior to the Polar and Divide Drop Down and the Red Rock Drop Down, a subsidiary of Summit Investments incurred interest expense related to certain Polar and Divide and Red Rock Gathering capital projects. The associated interest expense was allocated to Polar and Divide and Red Rock Gathering as a noncash equity contribution and capitalized into the basis of the asset.

We base an asset's carrying value on estimates, assumptions and judgments for useful life and salvage value. We record depreciation on a straight-line basis over an asset's estimated useful life. We base our estimates for useful life on various factors including age (in the case of acquired assets), manufacturing specifications, technological advances, and historical data concerning useful lives of similar assets. Construction in progress is depreciated consistent with its applicable asset class once it is placed in service. Land and line fill are not depreciated.

Upon sale, retirement or other disposal, we remove the carrying value of an asset and its accumulated depreciation from our balance sheet and recognize the related gain or loss, if any.

Accrued capital expenditures are reflected in trade accounts payable.

Capital Leases. Leased property and equipment meeting capital lease criteria are capitalized based on the present value of the minimum payments required at inception of the lease and are recognized in property, plant and equipment, net on the balance sheet. Obligations under capital leases are recognized in other current liabilities and long-term debt on the balance sheet. We record depreciation on a straight-line basis over the leased asset's estimated useful life.

Impairment of Long-Lived Assets. We test assets for impairment when events or circumstances indicate that the carrying value of a long-lived asset may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If we conclude that an asset's carrying value will not be recovered through future cash flows, we recognize an impairment loss on the long-lived asset equal to the amount by which the carrying value exceeds its fair value. We determine fair value using either a market-based approach or an income-based approach. We concluded that none of our long-lived assets had been impaired during the periods covered by this report, except as discussed in Notes 4 and 6.

Revenue Recognition. We generate the majority of our revenue from the gathering, treating and processing services that we provide to our customers. We also generate revenue from our marketing of natural gas, NGLs and condensate. We realize revenues by receiving fees from our customers or by selling the residue natural gas, NGLs and condensate. We recognize revenue earned from fee-based gathering, treating and processing services in gathering services and related fees revenue. We also earn revenue from the sale of physical natural gas purchased from our customers under percentage-of-proceeds and keep-whole arrangements. These revenues are recognized in natural gas, NGLs and condensate sales with corresponding expense recognition in cost of natural gas and NGLs. We sell substantially all of the natural gas that we retain from our DFW Midstream customers to offset the power expenses of the electric-driven compression on the DFW Midstream system. We also sell condensate retained from our gathering services at Grand River Gathering. Revenues from the retainage of natural gas and condensate are recognized in natural gas, NGLs and condensate sales; the associated expense is included in operation and maintenance expense. Certain customers reimburse us for costs we incur on their behalf. We record costs incurred and reimbursed by our customers on a gross basis, with the revenue component recognized in other revenues.

We recognize revenue when all of the following criteria are met: (i) persuasive evidence of an exchange arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured.

We provide gathering and/or processing services principally under contracts that contain one or more of the following arrangements:

• **Fee-based arrangements.** Under fee-based arrangements, we receive a fee or fees for one or more of the following services (i) natural gas gathering, treating, and/or processing and (ii) crude oil and/or produced water gathering.

• **Percent-of-proceeds arrangements.** Under percent-of-proceeds arrangements, we generally purchase natural gas from producers at the wellhead, or other receipt points, gather the wellhead natural gas through our gathering system, treat the natural gas, process the natural gas and/or sell the natural gas to a third party for processing. We then remit to our producers an agreed-upon percentage of the actual proceeds received from sales of the residue natural gas and NGLs. Certain of these arrangements may also result in returning all or a portion of the residue natural gas and/or the NGLs

to the producer, in lieu of returning

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sales proceeds. The margins earned are directly related to the volume of natural gas that flows through the system and the price at which we are able to sell the residue natural gas and NGLs.

Certain of our gathering and processing agreements provide for a monthly, quarterly or annual minimum volume commitment ("MVC"). Under these MVCs, our customers agree to ship and/or process a minimum volume of production on our gathering systems or to pay a minimum monetary amount over certain periods during the term of the MVC. A customer must make a shortfall payment to us at the end of the contracted measurement period if its actual throughput volumes are less than its MVC for that period. Certain customers are entitled to utilize shortfall payments to offset gathering fees in one or more subsequent contracted measurement periods to the extent that such customer's throughput volumes in a subsequent contracted measurement period exceed its MVC for that contracted measurement period.

We recognize customer billings for obligations under their MVCs as revenue when the obligations are billable under the contract and the customer does not have the right to utilize shortfall payments to offset gathering fees in excess of its MVCs in subsequent periods.

We record customer billings for obligations under their MVCs as deferred revenue when the customer has the right to utilize shortfall payments to offset gathering or processing fees in subsequent periods. We recognize deferred revenue under these arrangements in revenue once all contingencies or potential performance obligations associated with the related volumes have either (i) been satisfied through the gathering or processing of future excess volumes of natural gas, or (ii) expired (or lapsed) through the passage of time pursuant to the terms of the applicable natural gas gathering agreement. We also recognize deferred revenue when it is determined that a given amount of MVC shortfall payments cannot be recovered by offsetting gathering or processing fees in subsequent contracted measurement periods. In making this determination, we consider both quantitative and qualitative facts and circumstances, including, but not limited to, contract terms, capacity of the associated pipeline or receipt point and/or expectations regarding future investment, drilling and production.

We classify deferred revenue as a current liability for arrangements where the expiration of a customer's right to utilize shortfall payments is 12 months or less. We classify deferred revenue as noncurrent for arrangements where the expiration of the right to utilize shortfall payments and our estimate of its potential utilization is more than 12 months. Comprehensive Income. Comprehensive income is the same as net income for all periods presented.

Environmental Matters. We are subject to various federal, state and local laws and regulations relating to the protection of the environment. Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, and penalties and other sources are charged to expense when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

We accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties or insurers are recorded as assets when their receipt is deemed probable.

Other Significant Accounting Policies. For information on our other significant accounting policies, see Note 2 of the consolidated financial statements included in the 2014 Annual Report.

Recent Accounting Pronouncements. Accounting standard setters frequently issue new or revised accounting rules. We review new pronouncements to determine the impact, if any, on our financial statements. There are currently no recent pronouncements that have been issued that we believe may materially affect our financial statements, except as noted below.

In May 2014, the FASB released a joint revenue recognition standard, Accounting Standards Update ("ASU") No. 2014-09 Revenue From Contracts With Customers (Topic 606) ("ASU 2014-09"). Under ASU 2014-09, revenue will be recognized under a five-step model: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to performance obligations; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. In its original form, ASU 2014-09 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016; early adoption was not permitted. In July 2015, the FASB reaffirmed the guidance in its April 2015 proposed ASU that defers for one year the effective date of the ASU 2014-09 for both public and nonpublic entities

reporting under U.S. GAAP and allows early adoption as of the original effective date. We are currently in the process of evaluating the impact of this update.

In February 2015, the FASB issued ASU No. 2015-02—Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The standard changes the analysis that a reporting entity must perform to

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determine whether it should consolidate certain types of legal entities. This new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted. We are currently in the process of evaluating the impact of this update.

In April 2015, the FASB issued ASU 2015-03. Under ASU 2015-03, entities that have historically presented debt issuance costs as an asset, related to a recognized debt liability, will be required to present those costs as a direct deduction from the carrying amount of that debt liability. This presentation will result in debt issuance cost being presented the same way debt discounts have historically been handled. In August 2015, the FASB amended ASU 2015-03 to address the presentation and subsequent measurement of debt issuance costs related to line of credit (“LOC”) arrangements. The amendment added a paragraph that states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of a LOC arrangement, regardless of whether there are outstanding borrowings under that LOC arrangement.

This new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted. The adoption of this update will result in a reclassification from other noncurrent assets to long-term debt of the debt issuance costs associated with our senior notes. Debt issuance costs associated with our revolving credit facility will remain in other noncurrent assets (see Note 8). There will be no impact on interest expense, net income, earnings per unit or partners' capital.

In September 2015, the FASB issued ASU No. 2015-16-Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). Under ASU 2015-16, an acquirer would be required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Further, the acquirer must record in the financial statements for the same period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Entities must also present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted. We are currently in the process of evaluating the impact of this update.

3. SEGMENT INFORMATION

As of September 30, 2015, our reportable segments are:

- the Marcellus Shale, which is served by Mountaineer Midstream;
- the Williston Basin – Gas, which is served by Bison Midstream;
- the Williston Basin – Liquids, which is served by Polar and Divide;
- the Barnett Shale, which is served by DFW Midstream; and
- the Piceance Basin, which is served by Grand River Gathering.

Each of our reportable segments provides midstream services in a specific geographic area. Within specific geographic areas, we may further differentiate reportable segments by type of gathering service provided. Our reportable segments reflect the way in which we internally report the financial information used to make decisions and allocate resources in connection with our operations.

In the first quarter of 2015, we combined our Red Rock Gathering operating segment with the Grand River Gathering operating segment to become one operating segment serving the Piceance Basin. Prior to 2015, we aggregated the Red Rock Gathering and Grand River Gathering operating segments into the Piceance Basin reportable segment.

In the second quarter of 2015, in connection with the Polar and Divide Drop Down, we identified two reportable segments in the Williston Basin. We had previously only provided natural gas gathering services in the Williston Basin. With the acquisition of Polar and Divide, we now also provide crude oil and produced water gathering services in the Williston Basin. As such, we evaluated the quantitative and qualitative factors for operating segment aggregation in the Williston Basin and concluded that the characteristics for crude oil and produced water gathering services were not sufficiently similar to those of our natural gas gathering services. As a result, we now report the

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results of Bison Midstream in the Williston Basin – Gas reportable segment and those of Polar and Divide in the Williston Basin – Liquids reportable segment.

Corporate represents those revenues and expenses that are not specifically attributable to a reportable segment, not individually reportable, or that have not been allocated to our reportable segments. Beginning in the first quarter of 2015, we discontinued allocating certain general and administrative expenses, primarily salaries, benefits, incentive compensation and rent expense, to our operating segments.

Assets by reportable segment follow.

	September 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Marcellus Shale	\$236,322	\$243,884
Williston Basin – Gas	283,884	311,041
Williston Basin – Liquids	448,761	398,847
Barnett Shale	419,421	428,935
Piceance Basin	826,895	872,437
Total reportable segment assets	2,215,283	2,255,144
Corporate	16,899	38,577
Total assets	\$2,232,182	\$2,293,721

Revenues by reportable segment follow.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues:				
Marcellus Shale	\$6,963	\$5,674	\$22,585	\$16,695
Williston Basin – Gas	6,390	15,965	22,754	47,547
Williston Basin – Liquids	9,563	5,754	28,050	14,121
Barnett Shale	19,788	22,737	67,508	70,015
Piceance Basin	60,545	34,654	116,787	101,771
Total reportable segment revenues and total revenues	\$103,249	\$84,784	\$257,684	\$250,149

Counterparties accounting for more than 10% of total revenues were as follows:

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
Percentage of total revenues (1):					
Counterparty A - Piceance	38	% *	19	% *	
Counterparty B - Piceance	*	17	% 12	% 17	%
Counterparty C - Williston Basin – Gas	*	11	% *	10	%

(1) Includes recognition of revenue that was previously deferred in connection with minimum volume commitments (see Notes 2 and 7).

* Less than 10%

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Depreciation and amortization, including the amortization expense associated with our favorable and unfavorable gas gathering contracts as reported in other revenues, by reportable segment follow.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Depreciation and amortization:				
Marcellus Shale	\$2,170	\$1,853	\$6,508	\$5,515
Williston Basin – Gas	4,830	4,690	14,306	13,428
Williston Basin – Liquids	1,839	1,168	5,186	2,860
Barnett Shale	4,081	3,968	12,352	11,795
Piceance Basin	11,239	10,626	33,653	30,687
Total reportable segment depreciation and amortization	24,159	22,305	72,005	