USA Compression Partners, LP
Form 10-K
February 19, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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: 001-35779

USA Compression Partners, LP

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Delaware<br>(State or Other Jurisdiction<br>of Incorporation or Organization) | 75-2771546<br>(I.R.S. Employer<br>Identification No.) |

| | |
|---|---|
| 100 Congress Avenue, Suite 450<br>Austin, TX<br>(Address of Principal Executive Offices) | <br>78701<br>(Zip Code) |

(512) 473-2662

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Units Representing Limited Partner Interests | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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<br>(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

The aggregate market value of common units held by non-affiliates of the registrant (treating directors and executive officers of the registrant's general partner and holders of 5% or more of the common units outstanding, for this purpose, as if they were affiliates of the registrant) as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter was $425,597,152. This calculation does not reflect a determination that such persons are affiliates for any other purpose.

As of February 17, 2015, there were 32,036,276 common units and 14,048,588 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements.” All statements other than statements of historical fact contained in this report are forward-looking statements, including, without limitation, statements regarding our plans, strategies, prospects and expectations concerning our business, results of operations and financial condition. You can identify many of these statements by looking for words such as “believe,” “expect,” “intend,” “project,” “anticipate,” “estimate,” “conti or similar words or the negative thereof.

Known material factors that could cause our actual results to differ from those in these forward-looking statements are described below, in Part I, Item 1A (“Risk Factors”) and Part II, Item 7 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”). Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other things:

- changes in general economic conditions and changes in economic conditions of the crude oil and natural gas industry specifically;
- competitive conditions in our industry;
- changes in the long-term supply of and demand for crude oil and natural gas;
- our ability to realize the anticipated benefits of acquisitions and to integrate the acquired assets with our existing fleet;
- actions taken by our customers, competitors and third-party operators;
- changes in the availability and cost of capital;
- operating hazards, natural disasters, weather related delays, casualty losses and other matters beyond our control;
- the effects of existing and future laws and governmental regulations; and

· the effects of future litigation.

All forward-looking statements included in this report are based on information available to us on the date of this report. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

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ITEM 1.Business

References in this report to "USA Compression," "we," "our," "us," "the Partnership" or like terms refer to USA Compression Partners, LP and its wholly owned subsidiaries, including USA Compression Partners, LLC ("USAC Operating") and USAC OpCo 2, LLC ("OpCo 2" and together with USAC Operating, the "Operating Subsidiaries"). References to our "general partner" refer to USA Compression GP, LLC. References to "USA Compression Holdings" refer to USA Compression Holdings, LLC, the owner of our general partner. References to "USAC Management" refer to USA Compression Management Services, LLC, a wholly owned subsidiary of our general partner. References to "Riverstone" refer to Riverstone/Carlyle Global Energy and Power Fund IV, L.P., and affiliated entities, including Riverstone Holdings, LLC.

Overview

We are a growth oriented Delaware limited partnership and we believe that we are one of the largest independent providers of compression services in the U.S. in terms of total compression fleet horsepower. We have been providing compression services since 1998 and completed our initial public offering in January 2013. As of December 31, 2014, we had 1,549,020 horsepower in our fleet and approximately 230,000 horsepower on order for expected delivery primarily in the first three quarters of 2015. We provide compression services to our customers primarily in connection with infrastructure applications, including both allowing for the processing and transportation of natural gas through the domestic pipeline system and enhancing crude oil production through artificial lift processes. As such, our compression services play a critical role in the production, processing and transportation of both natural gas and crude oil.

We provide compression services in a number of shale plays throughout the U.S., including the Utica, Marcellus, Permian Basin, Eagle Ford, Mississippi Lime, Granite Wash, Woodford, Barnett, Haynesville and Fayetteville shales. The demand for our services is driven by the domestic production of natural gas and crude oil; as such, we have focused our activities in areas of attractive production growth, which are generally found in these shale and unconventional resource plays. According to recent studies promulgated by the Energy Information Agency ("EIA"), the production and transportation volumes in these plays are expected to increase over time due to the comparatively attractive economic returns versus returns achieved in many conventional basins. Furthermore, the changes in production volumes and pressures of shale plays over time require a wider range of compression services than in conventional basins. We believe the flexibility of our compression units positions us well to meet these changing operating conditions. Our business focuses largely on compression services at infrastructure installations, including centralized natural gas gathering systems and processing facilities, utilizing large horsepower compression units, typically in shale plays; however, we also provide compression services in more mature conventional basins, including crude oil wells targeted by horizontal drilling techniques. The recent advent of horizontal drilling has allowed producers to produce incremental volumes of crude oil on economic terms that tend to remain attractive even in periods of low commodity prices.

We operate a modern fleet of compression units, with an average age of approximately four years. We acquire our compression units from third-party fabricators who build the units to our specifications, utilizing specific original equipment manufacturers and assembling the units in a manner that provides us the ability to meet certain operating condition thresholds. Our standard new-build compression units are generally configured for multiple compression stages allowing us to operate our units across a broad range of operating conditions. The design flexibility of our units, particularly in midstream applications, allows us to enter into longer-term contracts and reduces the redeployment risk of our horsepower in the field. Our modern and standardized fleet, decentralized field level operating structure and technical proficiency in predictive and preventive maintenance and overhaul operations have enabled us to achieve average service run times consistently above the levels required by our customers.

As part of our services, we engineer, design, operate, service and repair our compression units and maintain related support inventory and equipment. The compression units in our modern fleet are designed to be easily adaptable to fit our customers' changing compression requirements. By focusing on the needs of our customers and by providing them with reliable and flexible compression services in geographic areas of attractive growth, we are able to generate stable cash flows for our unitholders.

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We provide compression services to our customers under fixed-fee contracts with initial contract terms between six months and five years, depending on the application and location of the compression unit. We typically continue to provide compression services at a specific location beyond the initial contract term, either through contract renewal or on a month-to-month or longer basis. We primarily enter into take-or-pay contracts whereby our customers are required to pay our monthly fee even during periods of limited or disrupted throughput, which enhances the stability and predictability of our cash flows. We are not directly exposed to commodity price risk because we do not take title to the natural gas we compress and because the natural gas used as fuel by our compression units is supplied by our customers without cost to us.

Our assets and operations are organized into a single reportable segment and are all located and conducted in the United States. See our consolidated financial statements, and the notes thereto, included elsewhere in this report for financial information on our operations and assets; such information is incorporated herein by reference.

Business Strategies

Our principal business objective is to increase the quarterly cash distributions that we pay to our unitholders over time while ensuring the ongoing stability and growth of our business. We expect to achieve this objective by executing on the following strategies:

- Capitalize on the increased need for natural gas compression in conventional and unconventional plays. We expect additional demand for compression services to result from the continuing shift of natural gas production to domestic shale plays as well as the declining production pressures of aging conventional basins. In addition, we expect horizontal drilling in crude oil production in targeted areas of comparatively better economic returns to continue and as a result, the use of, and thus demand for, artificial lift techniques required in such production represents an additional growth area. Our fleet of modern, flexible compression units is capable of being rapidly deployed and redeployed and designed to operate in multiple compression stages, which will enable us to capitalize on these opportunities both in emerging shale plays and conventional fields.

- Continue to execute on attractive organic growth opportunities. Between 2004 and 2014, we grew the horsepower in our fleet of compression units and our compression revenues at a compound annual growth rate of 25%, primarily through organic growth. We believe organic growth opportunities will continue to be our most attractive source of near-term growth. We seek to achieve continued organic growth by (i) increasing our business with existing customers, (ii) obtaining new customers in our existing areas of operations and (iii) expanding our operations into new geographic areas, each of which contributed to our fleet growth in 2014.

- Partner with customers who have significant compression needs. We actively seek to identify customers with meaningful acreage positions or significant infrastructure development in active and growing areas. We work with these customers to jointly develop long-term and adaptable solutions designed to optimize their lifecycle compression costs. We believe this is important in determining the overall economics of producing, gathering and

transporting natural gas and crude oil. Our proactive and collaborative approach positions us to serve as our customers' compression service provider of choice.

- Pursue accretive acquisition opportunities. While our principal growth strategy is to continue to grow organically, we may pursue accretive acquisition opportunities, including the acquisition of complementary businesses, participation in joint ventures or the purchase of compression units from existing or new customers in conjunction with providing compression services to them. We consider opportunities that (i) are in our existing geographic areas of operations or new, high-growth regions, (ii) meet internally established economic thresholds and (iii) may be financed on reasonable terms.

- Maintain financial flexibility. We intend to maintain financial flexibility to be able to take advantage of growth opportunities. Historically, we have utilized our cash flow from operations, borrowings under our revolving credit facility and operating leases to fund capital expenditures to expand our compression services business. This approach has allowed us to significantly grow our fleet and the amount of cash we generate, while maintaining our debt at levels we believe are manageable for our business. We believe the appropriate

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management of our financial position and the resulting access to capital positions us to take advantage of future growth opportunities as they arise.

## Our Operations

### Compression Services

We provide compression services for a monthly service fee. As part of our services, we engineer, design, operate, service and repair our fleet of compression units and maintain related support inventory and equipment. We have consistently provided average service run times above the levels required by our customers. In general, our team of field service technicians service only our compression fleet. In limited circumstances for established customers, we will agree to service third-party owned equipment. We seek to enter into service contracts with each of our customers. On August 30, 2013, we completed the acquisition of assets and certain liabilities related to S&R Compression, LLC's ("S&R") business of providing gas lift compression services to third parties engaged in the exploration, production, gathering, processing, transportation or distribution of oil and gas in exchange for 7,425,261 common units, which were valued at $181.9 million at the time of issuance (the "S&R Acquisition"). In connection with the S&R Acquisition, we acquired contracts styled as rentals related to the active compressors in the acquired fleet. We have converted all but a small minority of these agreements into service contracts. We do not own any compression fabrication facilities.

### Our Compression Fleet

The fleet of compression units that we own and use to provide compression services consists of specially engineered compression units that utilize standardized components, principally engines manufactured by Caterpillar, Inc. and compressor frames and cylinders manufactured by Ariel Corporation. Our units can be rapidly and cost effectively modified for specific customer applications. Approximately 97% of our fleet horsepower as of December 31, 2014 was purchased new and the average age of our compression units was approximately four years. Our modern, standardized compressor fleet primarily consists of the Caterpillar 3400, 3500 and 3600 engine classes, which range from 401 to 4,735 horsepower per unit. These larger horsepower units, defined as 400 horsepower per unit or greater, represented 78.3% of our total fleet horsepower (including compression units on order) as of December 31, 2014. In addition, a portion of our fleet consists of smaller horsepower units ranging from 30 horsepower to 390 horsepower that are primarily used in gas lift applications. We believe the young age and overall composition of our compressor fleet results in fewer mechanical failures, lower fuel usage (a direct cost savings for our customers), and reduced environmental emissions.

The following table provides a summary of our compression units by horsepower as of December 31, 2014 (including additional new compression unit horsepower on order for delivery primarily in the first three quarters of 2015):

| Unit Horsepower | Fleet Horsepower | Number of Units | Horsepower on Order (1) | Number of Units on Order | Total Horsepower | Number of Units | Percentage of Total Horsepower | Percentage of Total Units |
|---|---|---|---|---|---|---|---|---|
| Small horsepower | | | | | | | | |
| <400 | 363,592 | 2,192 | 23,984 | 128 | 387,576 | 2,320 | 21.7 % | 68.5 % |
| Large horsepower | | | | | | | | |
| >400 <1,000 | 146,704 | 228 | - | - | 146,704 | 228 | 8.2 % | 6.7 % |
| >1,000 | 1,038,724 | 714 | 214,460 | 123 | 1,253,184 | 837 | 70.1 % | 24.7 % |
| Total | 1,549,020 | 3,134 | 238,444 | 251 | 1,787,464 | 3,385 | 100.0 % | 100.0 % |

(1) As of December 31, 2014, we had on order 238,444 horsepower, of which 189,684 horsepower is expected to be delivered between January 2015 and June 2015, and 48,760 horsepower is expected to be delivered between July 2015 and September 2015.

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The following table sets forth certain information regarding our compression fleet as of the dates and for the periods indicated:

| | Year Ended December 31, | | | Percent Change | |
|---|---|---|---|---|---|
| Operating Data (unaudited): | 2014 | 2013 | 2012 | 2014 | 2013 |
| Fleet horsepower(1) | 1,549,020 | 1,202,374 | 919,121 | 28.8 % | 30.8 % |
| Total available horsepower(2) | 1,623,400 | 1,278,829 | 935,681 | 26.9 % | 36.7 % |
| Revenue generating horsepower(3) | 1,351,052 | 1,070,457 | 794,324 | 26.2 % | 34.8 % |
| Average revenue generating horsepower(4) | 1,200,851 | 902,168 | 749,821 | 33.1 % | 20.3 % |
| Revenue generating compression units | 2,651 | 2,137 | 978 | 24.1 % | 118.5 % |
| Average horsepower per revenue generating compression unit(5) | 505 | 720 | 791 | (29.9)% | (9.0) % |
| Horsepower utilization(6): | | | | | |
| At period end | 93.6 % | 94.1 % | 92.8 % | (0.5) % | 1.4 % |
| Average for the period(7) | 94.0 % | 93.8 % | 94.5 % | 0.2 % | (0.7) % |

(1) Fleet horsepower is horsepower for compression units that have been delivered to us (and excludes units on order). As of December 31, 2014, we had approximately 230,000 horsepower on order with expected delivery primarily in the first three quarters of 2015.

(2) Total available horsepower is revenue generating horsepower under contract for which we are billing a customer, horsepower in our fleet that is under contract but is not yet generating revenue, horsepower not yet in our fleet that is under contract but not yet generating revenue and that is subject to a purchase order and idle horsepower. Total available horsepower excludes new horsepower on order for which we do not have a compression services contract.

(3) Revenue generating horsepower is horsepower under contract for which we are billing a customer.

(4) Calculated as the average of the month-end revenue generating horsepower for each of the months in the period.

(5) Calculated as the average of the month-end horsepower per revenue generating compression unit for each of the months in the period.

(6) Horsepower utilization is calculated as (i)(a) revenue generating horsepower plus (b) horsepower in our fleet that is under contract, but is not yet generating revenue plus (c) horsepower not yet in our fleet that is under contract not yet generating revenue and that is subject to a purchase order, divided by (ii) total available horsepower less idle horsepower that is under repair. Horsepower utilization based on revenue generating horsepower and fleet

horsepower at each applicable period end was 87.2%, 89.0%, and 86.4% for the years ended December 31, 2014, 2013 and 2012, respectively.

(7) Calculated as the average utilization for the months in the period based on utilization at the end of each month in the period. Average horsepower utilization based on revenue generating horsepower was 87.3%, 87.3% and 88.9% for each year ended December 31, 2014, 2013, and 2012, respectively.

A growing number of our compression units contained electronic control systems that enable us to monitor the units remotely by satellite or other means to supplement our technicians' on-site monitoring visits. We intend to continue to selectively add remote monitoring systems to our fleet during 2015. All of our compression units are designed to automatically shut down if operating conditions deviate from a pre-determined range. While we retain the care, custody, ongoing maintenance and control of our compression units, we allow our customers, subject to a defined protocol, to start, stop, accelerate and slow down compression units in response to field conditions.

We adhere to routine, preventive and scheduled maintenance cycles. Each of our compression units is subjected to rigorous sizing and diagnostic analyses, including lubricating oil analysis and engine exhaust emission analysis. We have

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proprietary field service automation capabilities that allow our service technicians to electronically record and track operating, technical, environmental and commercial information at the discrete unit level. These capabilities allow our field technicians to identify potential problems and act on them before such problems result in down-time.

Generally, we expect each of our compression units to undergo a major overhaul between service deployment cycles. The timing of these major overhauls depends on multiple factors, including run time and operating conditions. A major overhaul involves the periodic rebuilding of the unit to materially extend its economic useful life or to enhance the unit's ability to fulfill broader or more diversified compression applications. Because our compression fleet is comprised of units of varying horsepower that have been placed into service with staggered initial on-line dates, we are able to schedule overhauls in a way to avoid excessive annual maintenance capital expenditures and minimize the revenue impact of down-time.

We believe that our customers, by outsourcing their compression requirements, can achieve higher compression runtimes, which translates into increased volumes of either natural gas or crude oil production and therefore increased revenues. Utilizing our compression services also allows our customers to reduce their operating, maintenance and equipment costs by allowing us to efficiently manage their changing compression needs. In many of our service contracts, we guarantee our customers availability (as described below) ranging from 95% to 98%, depending on field level requirements.

General Compression Service Contract Terms

The following discussion describes the material terms generally common to our compression service contracts. We generally have separate contracts for each distinct location for which we will provide compression services.

Term and termination. Our contracts typically have an initial term between six months and five years, depending on the application and location of the compression unit. After the expiration of the applicable term, the contract continues on a month-to-month or longer basis until terminated by us or our customers upon notice as provided for in the applicable contract.

Availability. Our contracts often provide a guarantee of specified availability. We define availability as the percentage of time in a given period that our compression services are being provided or are capable of being provided. Availability is reduced by instances of "down-time" that are attributable to anything other than events of force majeure or acts or failures to act by the customer. Down-time under our contracts usually begins when our services stop being provided or when we receive notice from the customer of the problem. Down-time due to scheduled maintenance is also excluded from our availability commitment. Our failure to meet a stated availability guarantee may result in a service fee credit to the customer. As a consequence of our availability guarantee, we are incentivized to perform predictive and preventive maintenance on our fleet as well as promptly respond to a problem to meet our contractual

commitments and ensure our customers the compression availability on which their business and our service relationship are based. For service contracts that do not have a stated availability guarantee, we work with those customers to ensure that our compression services meet their operational needs.

Fees and expenses. Our customers pay a fixed monthly fee for our services. Compression services generally are billed monthly in advance of the service period, except for certain customers, which are billed at the beginning of the service month, and they are generally due 30 days from the date of the invoice. We are not responsible for acts of force majeure, and our customers generally are required to pay our monthly fee even during periods of limited or disrupted throughput. We are generally responsible for the costs and expenses associated with operation and maintenance of our compression equipment, such as providing necessary lubricants, although certain fees and expenses are the responsibility of our customers under the terms of their contracts. For example, all fuel gas is provided by our customers without cost to us, and in many cases customers are required to provide all water and electricity. At the customer's option, we can provide fluids necessary to run the unit to the customer for an additional fee. We provide such fluids for a substantial majority of the compression units deployed in gas lift applications. We are also reimbursed by our customers for certain ancillary expenses such as trucking and crane operation, depending on the terms agreed to in the applicable contract, resulting in no gross operating margin.

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Service standards and specifications. We commit to provide compression services under service contracts that typically provide that we will supply all compression equipment, tools, parts, field service support and engineering. Our contracts do not specify the specific compression equipment we will use; instead, in consultation with the customer, we determine what equipment is necessary to perform our contractual commitments.

Title; Risk of loss. We own all of the compression equipment in our fleet that we use to provide compression services, and we normally bear the risk of loss or damage to our equipment and tools and injury or death to our personnel.

Insurance. Our contracts typically provide that both we and our customers are required to carry general liability, workers' compensation, employers' liability, automobile and excess liability insurance.

Marketing and Sales

Our marketing and client service functions are performed on a coordinated basis by our sales and field technicians. Salespeople and field technicians qualify, analyze and scope new compression applications as well as regularly visit our customers to ensure customer satisfaction, to determine a customer's needs related to existing services being provided and to determine the customer's future compression service requirements. This ongoing communication allows us to quickly identify and respond to our customers' compression requirements. We currently focus on geographic areas where we can achieve economies of scale through high density operations.

Customers

Our customers consist of more than 250 companies in the energy industry, including major integrated oil companies, public and private independent exploration and production companies and midstream companies. Our largest customer for the years ended December 31, 2014 and 2013 was Southwestern Energy Corporation and its subsidiaries ("Southwestern Energy"). Southwestern Energy accounted for 11.6% of our revenue for the year ended December 31, 2014 and 14.3% of our revenue for the year ended December 31, 2013. Our ten largest customers, including Southwestern Energy, accounted for 46% and 49% of our revenue for the years ended December 31, 2014 and 2013, respectively.

Suppliers and Service Providers

The principal manufacturers of components for our natural gas compression equipment include Caterpillar, Inc., Cummins Inc., and Arrow Engine Company for engines, Air-X-Changers and Air Cooled Exchangers for coolers, and Ariel Corporation, GE Oil & Gas Gemini products and Arrow Engine Company for compressor frames and cylinders. We also rely primarily on four vendors, A G Equipment Company, Alegacy Equipment, LLC, Standard Equipment Corp. and S&R, to package and assemble our compression units. Although we rely primarily on these suppliers, we believe alternative sources for natural gas compression equipment are generally available if needed. However, relying on alternative sources may increase our costs and change the standardized nature of our fleet. We have not experienced any material supply problems to date, although lead-times for new Caterpillar engines and new Ariel compressor frames have in the past been in excess of one year due to increased demand and supply allocations imposed on equipment packagers and end-users. Please read Part I, Item 1A ("Risk Factors — Risks Related to Our Business — We depend on a limited number of suppliers and are vulnerable to product shortages and price increases, which could have a negative impact on our results of operations").

Competition

The compression services business is highly competitive. Some of our competitors have a broader geographic scope, as well as greater financial and other resources than we do. On a regional basis, we experience competition from numerous smaller companies that may be able to more quickly adapt to changes within our industry and changes in economic conditions as a whole, more readily take advantage of available opportunities and adopt more aggressive pricing policies. Additionally, the historical availability of attractive financing terms from financial institutions and equipment manufacturers has made the purchase of individual compression units increasingly affordable to our

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customers. We believe that we compete effectively on the basis of price, equipment availability, customer service, flexibility in meeting customer needs, quality and reliability of our compressors and related services. Please read Part I, Item 1A ("Risk Factors — Risks Related to Our Business — We face significant competition that may cause us to lose market share and reduce our cash available for distribution").

Seasonality

Our results of operations have not historically reflected any material seasonality, and we do not currently have reason to believe seasonal fluctuations will have a material impact in the foreseeable future.

Insurance

We believe that our insurance coverage is customary for the industry and adequate for our business. As is customary in the energy services industry, we review our safety equipment and procedures and carry insurance against most, but not all, risks of our business. Losses and liabilities not covered by insurance would increase our costs. The compression business can be hazardous, involving unforeseen circumstances such as uncontrollable flows of gas or well fluids, fires and explosions or environmental damage. To address the hazards inherent in our business, we maintain insurance coverage that, subject to significant deductibles, includes physical damage coverage, third party general liability insurance, employer's liability, environmental and pollution and other coverage, although coverage for environmental and pollution related losses is subject to significant limitations. Under the terms of our standard compression services contract, we are responsible for the maintenance of insurance coverage on our compression equipment. Please read Part I, Item 1A ("Risk Factors — Risks Related to Our Business — We do not insure against all potential losses and could be seriously harmed by unexpected liabilities").

Environmental and Safety Regulations

We are subject to stringent and complex federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to protection of human health, safety and the environment. These regulations include compliance obligations for air emissions, water quality, wastewater discharges and solid and hazardous waste disposal, as well as regulations designed for the protection of human health and safety and threatened or endangered species. Compliance with these environmental laws and regulations may expose us to significant costs and liabilities and cause us to incur significant capital expenditures in our operations. We are often obligated to assist customers in obtaining permits or approvals in our operations from various federal, state and local authorities. Permits and approvals can be denied or delayed, which may cause us to lose potential and current customers, interrupt our operations and limit our growth and revenue. Moreover, failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of remedial obligations and the issuance of injunctions delaying or prohibiting operations. Private parties may also have the right to pursue legal actions to

enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. While we believe that our operations are in substantial compliance with applicable environmental laws and regulations and that continued compliance with current requirements would not have a material adverse effect on us, there is no assurance that this trend of compliance will continue in the future. In addition, the clear trend in environmental regulation is to place more restrictions on activities that may adversely affect the environment. Thus, any changes in, or more stringent enforcement of, these laws and regulations that result in more stringent and costly pollution control equipment, waste handling, storage, transport, disposal or remediation requirements could have a material adverse effect on our operations and financial position.

We do not believe that compliance with federal, state or local environmental laws and regulations will have a material adverse effect on our business, financial position or results of operations or cash flows. We cannot assure you, however, that future events such as changes in existing laws or enforcement policies, the promulgation of new laws or regulations, or the development or discovery of new facts or conditions or unforeseen incidents will not cause us to incur significant costs. The following is a discussion of material environmental and safety laws that relate to our operations. We believe that we are in substantial compliance with all of these environmental laws and regulations. Please read Part I, Item 1A (“Risk Factors — Risks Related to Our Business — We are subject to substantial environmental regulation, and changes in these regulations could increase our costs or liabilities”).

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Air emissions. The Clean Air Act ("CAA") and comparable state laws regulate emissions of air pollutants from various industrial sources, including natural gas compressors, and impose certain monitoring and reporting requirements. Such emissions are regulated by air emissions permits, which are applied for and obtained through the various state or federal regulatory agencies. Our standard natural gas compression contract provides that the customer is responsible for obtaining air emissions permits and assuming the environmental risks related to site operations. Increased obligations of operators to reduce air emissions of nitrogen oxides and other pollutants from internal combustion engines in transmission service have been enacted by governmental authorities. For example, in 2010, the U.S. Environmental Protection Agency ("EPA") published new regulations under the CAA to control emissions of hazardous air pollutants from existing stationary reciprocal internal combustion engines, also known as Quad Z regulations. In 2012, the EPA proposed amendments to the final rule in response to several petitions for reconsideration, which were finalized and became effective in 2013. The rule requires us to undertake certain expenditures and activities, including purchasing and installing emissions control equipment on certain compressor engines and generators.

In 2012, the EPA proposed minor amendments to the CAA regulations applicable to the manufacturers, owners and operators of new, modified and reconstructed stationary reciprocating internal combustion engines, also known as Quad J regulations, in order to conform the final rule to the amendments to the Quad Z regulations discussed above. These amendments were finalized and became effective in 2013. These modifications do not impose material unbudgeted costs on operations.

On November 25, 2014, the EPA issued a proposed rule to strengthen the National Ambient Air Quality Standard ("NAAQs") for ground level ozone. The proposed rule updates both the primary ozone standard and the secondary standard. Both proposed standards are 8-hour standards set within a range of 65 to 70 parts per billion (ppb). The EPA is also seeking comments on levels for the health standard as low as 60 ppb. The EPA will take comments on this proposed regulation for 90 days after its publication in the federal register and has stated it will issue a final decision by October 1, 2015. In addition, in 2013, the EPA promulgated a final rule revising the annual standard for fine particulate matter, or PM 2.5, by lowering the level from 15 to 12 micrograms per cubic meter. On December 18, 2014, the EPA issued final area designations for the 2012 NAAQs for PM 2.5. Designation of new non-attainment areas for the revised ozone or PM 2.5 NAAQS may result in additional federal and state regulatory actions that may impact our customers' operations and increase the cost of additions to property, plant and equipment.

In 2012, the EPA finalized rules that establish new air emission controls for oil and natural gas production and natural gas processing operations. Specifically, the EPA's rule package included New Source Performance Standards to address emissions of sulfur dioxide and volatile organic compounds ("VOCs") and a separate set of emission standards to address hazardous air pollutants frequently associated with oil and natural gas production and processing activities. The rules establish specific new requirements regarding emissions from compressors and controllers at natural gas processing plants, dehydrators, storage tanks and other production equipment as well as the first federal air standards for natural gas wells that are hydraulically fractured. In addition, the rules establish leak detection requirements for natural gas processing plants at 500 ppm. In 2013, the EPA issued a final update to the VOC performance standards for storage tanks used in crude oil and natural gas production and transmission. On December 19, 2014, the EPA published final amendments to the July 2014 proposal. These rules may require a number of modifications to our operations, including the installation of new equipment to control emissions from our compressors at initial startup.

Compliance with such rules may result in significant costs, including increased capital expenditures and operating costs, and could adversely impact our business.

In addition, the Texas Commission on Environmental Quality ("TCEQ") has finalized revisions to certain air permit programs that significantly increase the air permitting requirements for new and certain existing oil and gas production and gathering sites for 15 counties in the Barnett Shale production area. The final rule establishes new emissions standards for engines, which could impact the operation of specific categories of engines by requiring the use of alternative engines, compressor packages or the installation of aftermarket emissions control equipment. The rule became effective for the Barnett Shale production area in April 2011, with the lower emissions standards becoming applicable between 2015 and 2030 depending on the type of engine and the permitting requirements. The cost to comply with the revised air permit programs is not expected to be material at this time. However, the TCEQ has stated it will

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consider expanding application of the new air permit program statewide. At this point, we cannot predict the cost to comply with such requirements if the geographic scope is expanded.

There can be no assurance that future requirements compelling the installation of more sophisticated emission control equipment would not have a material adverse impact on our business, financial condition, results of operations and cash available for distribution.

Climate change. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of natural gas, are examples of greenhouse gases. In recent years, the U.S. Congress has considered legislation to reduce emissions of greenhouse gases. It presently appears unlikely that comprehensive climate legislation will be passed by either house of Congress in the near future, although energy legislation and other initiatives are expected to be proposed that may be relevant to greenhouse gas emissions issues. However, almost half of the states have begun to address greenhouse gas emissions, primarily through the planned development of emission inventories or regional greenhouse gas cap and trade programs. Depending on the particular program, we could be required to control greenhouse gas emissions or to purchase and surrender allowances for greenhouse gas emissions resulting from our operations.

Independent of Congress, the EPA is beginning to adopt regulations controlling greenhouse gas emissions under its existing CAA authority. For example, on December 15, 2009, the EPA officially published its findings that emissions of carbon dioxide, methane and other greenhouse gases endanger human health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings by the EPA allowed the agency to proceed with the adoption and implementation of regulations that restrict emissions of greenhouse gases under existing provisions of the CAA. In 2009, the EPA adopted rules regarding regulation of greenhouse emissions from motor vehicles. In addition, on September 22, 2009, the EPA issued a final rule requiring the reporting of greenhouse gas emissions in the United States beginning in 2011 for emissions occurring in 2010 from specified large greenhouse gas emission sources. On November 30, 2010, the EPA published a final rule expanding its existing greenhouse gas emissions reporting rule for petroleum and natural gas facilities, including natural gas transmission compression facilities that emit 25,000 metric tons or more of carbon dioxide equivalent per year. The rule, which went into effect on December 30, 2010, requires reporting of greenhouse gas emissions by such regulated facilities to the EPA by September 2012 for emissions during 2011 and annually thereafter. In 2010, the EPA also issued a final rule, known as the "Tailoring Rule," that made certain large stationary sources and modification projects subject to permitting requirements for greenhouse gas emissions under the CAA.

Both the Tailoring Rule and the EPA's endangerment finding were challenged in federal court and were upheld by the D.C. Court of Appeals. In July 2014, the United States Supreme Court invalidated the Tailoring Rule but it refused to consider other issues such as whether greenhouse gases endanger public health. As a result, under federal law, a source is no longer required to meet the PSD and Title V permitting requirements based solely on its greenhouse gas emissions.

Finally, on January 8, 2014, the EPA published standards of performance for greenhouse gas emissions from new power plants. The proposal sets forth a performance standard for integrated gasification combined cycled units and utility boilers based on the use of partial carbon capture and sequestration technology. The proposal also sets limits for stationary natural gas combustion turbines based on the use of natural gas combined cycle technology. Comments on this proposed rule were due March 10, 2014. In addition, on June 2, 2014, the EPA proposed the Clean Power Plan rule, which is intended to reduce carbon emissions from existing power plants. The rule was published in the Federal Register on June 18, 2014. Comments on the plan were due on December 1, 2014 and the EPA is expected to issue a final rule regarding carbon emissions from new power plants sometime in mid-summer 2015. In June 2014, an Ohio-based coal company filed a petition for an extraordinary writ in the United States Court of Appeals in Washington, D.C. challenging the EPA's authority to regulate carbon dioxide emissions from existing coal-fired power plants under Section 111(d) of the Clean Air Act. Briefing in this case is currently ongoing.

Although it is not currently possible to predict with specificity how any proposed or future greenhouse gas legislation or regulation will impact our business, any legislation or regulation of greenhouse gas emissions that may be imposed in areas in which we conduct business could result in increased compliance costs or additional operating

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restrictions or reduced demand for our services, and could have a material adverse effect on our business, financial condition and results of operations.

Water discharge. The Clean Water Act