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Shell Midstream Partners, L.P.  
Form 10-Q  
May 03, 2018

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 March 31, 2018

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: 001-36710

Shell Midstream Partners, L.P.  
(Exact name of registrant as specified in its charter)

Delaware 46-5223743  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
150 N. Dairy Ashford, Houston, Texas 77079  
(Address of principal executive offices) (Zip Code)  
(832) 337-2034  
(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 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 223,811,781 common units outstanding as of May 3, 2018.

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SHELL MIDSTREAM PARTNERS, L.P.  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## SHELL MIDSTREAM PARTNERS, L.P.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
	(in millions of dollars)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 184.7	\$ 137.7
Accounts receivable – third parties, net	8.0	17.2
Accounts receivable – related parties	23.3	23.8
Allowance oil	12.8	12.4
Prepaid expenses	8.8	12.5
Total current assets	237.6	203.6
Equity method investments	345.5	362.6
Property, plant and equipment, net	739.9	736.5
Cost investments	62.1	62.1
Other assets – related parties	2.6	1.7
Total assets	\$ 1,387.7	\$ 1,366.5
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable – third parties	\$ 11.1	\$ 4.0
Accounts payable – related parties	9.7	11.6
Deferred revenue – third parties	4.3	5.5
Deferred revenue – related party	8.5	13.9
Accrued liabilities – third parties	33.3	12.7
Accrued liabilities – related parties	5.9	7.2
Total current liabilities	72.8	54.9
Noncurrent liabilities		
Debt payable – related party	871.3	1,844.0
Lease liability	24.1	24.3
Asset retirement obligations	6.6	6.6
Other unearned income	2.6	2.6
Total noncurrent liabilities	904.6	1,877.5
Total liabilities	977.4	1,932.4
Commitments and Contingencies (Note 12)		
<b>EQUITY</b>		
Common unitholders – public (123,832,233 and 98,832,233 units issued and outstanding as of March 31, 2018 and December 31, 2017)	3,433.4	2,773.5
Common unitholder – SPLC (99,979,548 and 88,950,136 units issued and outstanding as of March 31, 2018 and December 31, 2017)	(219.7 )	(507.2 )
General partner – SPLC (4,567,588 and 3,832,293 units issued and outstanding as of March 31, 2018 and December 31, 2017)	(2,825.9 )	(2,855.5 )
Total partners' capital	387.8	(589.2 )
Noncontrolling interest	22.5	23.3
Total equity (deficit)	410.3	(565.9 )

Total liabilities and equity (deficit)	\$1,387.7	\$1,366.5
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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SHELL MIDSTREAM PARTNERS, L.P.  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31, 2018 2017 <sup>(1)</sup> (in millions of dollars, except per unit data)	
Revenue		
Transportation, terminaling and storage services – third parties	\$34.6	\$59.2
Transportation, terminaling and storage services – related parties	43.3	44.4
Product revenue – related parties	7.9	—
Lease revenue – related parties	13.8	5.5
Total revenue	99.6	109.1
Costs and expenses		
Operations and maintenance – third parties	43.1	19.0
Operations and maintenance – related parties	13.4	13.7
Cost of product sold – related parties	6.5	—
General and administrative – third parties	1.9	2.0
General and administrative – related parties	12.9	12.1
Depreciation, amortization and accretion	11.4	11.3
Property and other taxes	5.5	4.9
Total costs and expenses	94.7	63.0
Operating income	4.9	46.1
Income from equity method investments	40.2	46.7
Dividend income from cost investments	24.9	10.1
Other income	5.4	—
Investment, dividend and other income	70.5	56.8
Interest expense, net	10.6	4.8
Income before income taxes	64.8	98.1
Income tax expense	—	—
Net income	64.8	98.1
Less: Net income attributable to Parent	—	22.5
Less: Net income attributable to noncontrolling interests	0.8	4.8
Net income attributable to the Partnership	\$64.0	\$70.8
General partner's interest in net income attributable to the Partnership	\$27.0	\$12.1
Limited Partners' interest in net income attributable to the Partnership	\$37.0	\$58.7
Net income per Limited Partner Unit - Basic and Diluted:		
Common	\$0.18	\$0.33
Distributions per Limited Partner Unit	\$0.348	\$0.291
Weighted average Limited Partner Units outstanding - Basic and Diluted (in millions):		
Common units – public	113.8	88.4
Common units – SPLC	95.6	88.9

(1) The financial information presented has been retrospectively adjusted for acquisitions of businesses under common control.

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

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## SHELL MIDSTREAM PARTNERS, L.P.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2018    2017 <sup>(1)</sup>	
	(in millions of dollars)	
Cash flows from operating activities		
Net income	\$64.8	\$98.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	11.4	11.3
Non-cash interest expense	0.2	—
Undistributed equity earnings	(0.9 )	(2.9 )
Changes in operating assets and liabilities		
Accounts receivable	13.0	0.5
Allowance oil	(0.4 )	2.0
Prepaid expenses and other assets	2.8	(0.3 )
Accounts payable	5.1	(2.9 )
Deferred revenue and other unearned income	(2.0 )	8.5
Accrued liabilities	15.0	1.8
Net cash provided by operating activities	109.0	116.1
Cash flows from investing activities		
Capital expenditures	(9.4 )	(10.5 )
Purchase price adjustment	—	0.4
Return of investment	11.1	6.8
Net cash provided by (used in) investing activities	1.7	(3.3 )
Cash flows from financing activities		
Net proceeds from equity offerings	973.3	—
Contributions from general partner	20.0	—
Repayment of credit facilities	(972.9 )	—
Distributions to noncontrolling interests	(1.9 )	(5.7 )
Distributions to unitholders and general partner	(83.1 )	(58.6 )
Net distributions to Parent	—	(17.5 )
Other contributions from Parent	1.1	2.8
Capital lease payments	(0.2 )	(0.2 )
Credit facility issuance costs	—	(0.7 )
Net cash used in financing activities	(63.7 )	(79.9 )
Net increase in cash and cash equivalents	47.0	32.9
Cash and cash equivalents at beginning of the period	137.7	122.1
Cash and cash equivalents at end of the period	\$184.7	\$155.0
Supplemental cash flow information		
Non-cash investing and financing transactions		
Change in accrued capital expenditures	\$4.3	\$4.7
Other non-cash contributions from Parent	4.4	3.8

<sup>(1)</sup> The financial information presented has been retrospectively adjusted for acquisitions of businesses under common control.

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





## SHELL MIDSTREAM PARTNERS, L.P.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

(in millions of dollars)	Partnership				Noncontrolling Interests	Total
	Common Unitholders Public	Common Unitholder SPLC	General Partner SPLC			
Balance as of December 31, 2017	\$2,773.5	\$ (507.2 )	\$ (2,855.5)	\$ 23.3		\$ (565.9)
Impact of change in accounting policy (Note 2)	(1.4 )	1.0	(2.2 )	0.3		(2.3 )
Net income	20.9	16.1	27.0	0.8		64.8
Net proceeds from equity offerings	673.3	300.0	—	—		973.3
Contributions from general partner	—	—	20.0	—		20.0
Other contributions from Parent	—	—	5.4	—		5.4
Distributions to unitholders and general partner	(32.9 )	(29.6 )	(20.6 )	—		(83.1 )
Distribution to noncontrolling interests	—	—	—	(1.9 )		(1.9 )
Balance as of March 31, 2018	\$3,433.4	\$ (219.7 )	\$ (2,825.9)	\$ 22.5		\$410.3

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

## SHELL MIDSTREAM PARTNERS, L.P.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Except as noted within the context of each note disclosure, the dollar amounts presented in the tabular data within these note disclosures are stated in millions of dollars. The financial information for the three months ended March 31, 2017 has been retrospectively adjusted for the acquisition of businesses under common control (see Note 3 - Acquisitions).

## 1. Description of Business and Basis of Presentation

Shell Midstream Partners, L.P. (“we,” “us,” “our” or “the Partnership”) is a Delaware limited partnership formed by Shell on March 19, 2014 to own and operate pipeline and other midstream assets, including certain assets acquired from Shell Pipeline Company LP (“SPLC”) and its affiliates. We conduct our operations through our wholly owned subsidiary Shell Midstream Operating, LLC (“Operating Company”). Our general partner is Shell Midstream Partners GP LLC (“general partner”). References to “RDS”, “Shell” or “Parent” refer collectively to Royal Dutch Shell plc and its controlled affiliates, other than us, our subsidiaries and our general partner. Our common units trade on the New York Stock Exchange under the symbol “SHLX”.

## Description of Business

We are a fee-based, growth-oriented master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets. As of March 31, 2018, our assets include interests in entities that own crude oil and refined products pipelines and terminals that serve as key infrastructure to (i) transport onshore and offshore crude oil production to Gulf Coast and Midwest refining markets and (ii) deliver refined products from those markets to major demand centers. Our assets also include interests in entities that own natural gas and refinery gas pipelines that transport offshore natural gas to market hubs and deliver refinery gas from refineries and plants to chemical sites along the Gulf Coast.

The following table reflects our ownership, and Shell’s retained ownership as of March 31, 2018:

	SHLX Ownership		Shell’s Retained Ownership	
Pecten Midstream LLC (“Pecten”)	100.0	%	—	%
Sand Dollar Pipeline LLC (“Sand Dollar”)	100.0	%	—	%
Triton West LLC (“Triton”)	100.0	%	—	%
Zydeco Pipeline Company LLC (“Zydeco”)	92.5	%	7.5	%
Mars Oil Pipeline Company LLC (“Mars”)	71.5	%	—	%
Odyssey Pipeline L.L.C. (“Odyssey”)	71.0	%	—	%
Bengal Pipeline Company LLC (“Bengal”)	50.0	%	—	%
Crestwood Permian Basin LLC (“Permian Basin”)	50.0	%	—	%
LOCAP LLC (“LOCAP”)	41.48	%	—	%
Poseidon Oil Pipeline Company LLC (“Poseidon”)	36.0	%	—	%
Explorer Pipeline Company (“Explorer”)	12.62	%	25.97	%
Proteus Oil Pipeline Company, LLC (“Proteus”)	10.0	%	—	%
Endymion Oil Pipeline Company, LLC (“Endymion”)	10.0	%	—	%
Colonial Pipeline Company (“Colonial”)	6.0	%	10.12	%
Cleopatra Gas Gathering Company, LLC (“Cleopatra”)	1.0	%	—	%

We generate a substantial portion of our revenue under long-term agreements by charging fees for the transportation, terminaling and storage of crude oil and refined products through our pipelines and storage tanks, and generate income from our equity and cost method investments. Our operations consist of one reportable segment.

Basis of Presentation

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Our unaudited condensed consolidated financial statements include all subsidiaries required to be consolidated under generally accepted accounting principles in the United States (“GAAP”). Our reporting currency is U.S. dollars, and all references to dollars are U.S. dollars. The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete annual financial statements. The year-end condensed consolidated balance sheet data was derived from audited financial statements. During interim periods, we follow the accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 (our “2017 Annual Report”), filed with the United States Securities and Exchange Commission (“SEC”). The unaudited condensed consolidated financial statements for the three months ended March 31, 2018 and 2017 include all adjustments we believe are necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year. These unaudited condensed consolidated financial statements and other information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and notes thereto included in our 2017 Annual Report.

Our consolidated subsidiaries include Pecten, Sand Dollar, Triton, Zydeco, Odyssey and the Operating Company. Asset acquisitions of additional interests in previously consolidated subsidiaries and interests in cost and equity method investments are included in the financial statements prospectively from the effective date of each acquisition. In cases where these types of acquisitions are considered acquisitions of businesses under common control, the financial statements are retrospectively adjusted. As such, all financial results of interests acquired in the May 2017 Acquisition and the December 2017 Acquisition have been retrospectively adjusted. For additional interests acquired of cost and equity method investments previously owned, only the incremental ownership interest has been retrospectively adjusted. See Note 3 – Acquisitions for definitions and additional information.

The following businesses were acquired from our Parent and are accounted for as acquisitions between entities under common control. As such, our unaudited condensed consolidated financial statements include the financial results of these businesses, which were derived from the financial statements and accounting records of SPLC and Shell for the periods prior to acquisition. Specifically, such businesses are reflected for the following periods prior to the effective date of such acquisitions by us:

• May 2017 Acquisition (as defined in Note 3—Acquisitions) for periods prior to May 10, 2017; and

• December 2017 Acquisition (as defined in Note 3—Acquisitions) for periods prior to December 1, 2017, including the effect of fully consolidating Odyssey.

Our unaudited condensed consolidated statements of income and cash flow for the three months ended March 31, 2017 consist of the combined results of the May 2017 Acquisition and the December 2017 Acquisition prior to the respective acquisition dates, and the consolidated activity of the Partnership. Our unaudited condensed consolidated statement of income excludes the results of these businesses from net income attributable to the Partnership for the periods indicated above by allocating these results to our Parent. See Note 3 - Acquisitions for definitions.

#### Summary of Significant Accounting Policies

The accounting policies are set forth in Note 2—Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of our 2017 Annual Report. There have been no significant changes to these policies during the three months ended March 31, 2018, other than those noted below.

Recent Accounting Pronouncements

Standards Adopted as of January 1, 2018

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09 to Topic 606, Revenue from Contracts with Customers, which superseded nearly all revenue recognition guidance in Topic 605, Revenue Recognition, under GAAP. We adopted the new standard utilizing the modified retrospective transition approach, effective January 1, 2018, by recognizing the cumulative effect of initially applying the standard for periods prior to January 1, 2018 to the opening balance of equity (deficit).

See Note 2—Revenue Recognition for additional information and disclosures required by the new standard.

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In January 2017, the FASB issued ASU 2017-01 to Topic 805, Business Combinations, to clarify the definition of a business and to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update was effective for us as of January 1, 2018 and will be applied to future transactions.

In August 2016, the FASB issued ASU 2016-15 to Topic 230, Statement of Cash Flows, making changes to the classification of certain cash receipts and cash payments in order to reduce diversity in presentation. The update addresses eight specific cash flow issues, of which only one is applicable to our financial statements. The applicable update relates to distributions received from equity method investees and prescribes two options for presenting these cash flows: cumulative earnings approach or nature of the distribution approach. We will continue to apply the cumulative earnings approach, where distributions received are considered either returns on investment and classified as operating cash flows or returns of investment and classified as investing cash flows. The adoption of this update on January 1, 2018 did not have a material impact on our financial statements.

In January 2016, the FASB issued ASU 2016-01 to Topic 825, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Additionally, the update allows equity investments that do not have readily determinable fair values to be re-measured at fair value either upon the occurrence of an observable price change or upon identification of impairment, and requires additional disclosure around those investments. We have the following three equity investments which are accounted for under the cost method and which do not have readily determinable fair values:

	March 31, 2018	December 31, 2017
	Ownership % Amount	Ownership % Amount
Colonial	6.0 % \$ 11.4	6.0 % \$ 11.4
Explorer	12.62 % 48.6	12.62 % 48.6
Cleopatra	1.0 % 2.1	1.0 % 2.1
	\$ 62.1	\$ 62.1

As of the adoption of this update on January 1, 2018, and as of March 31, 2018, we did not identify the occurrence of an observable price change or an identification of impairment for these three equity investments. Therefore, the adoption of this update on January 1, 2018 did not have a material impact on our financial statements.

#### Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 to Topic 842, Leases, which requires lessees to recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. This update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This provision is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. In November 2017, the FASB decided to amend Topic 842 with an additional transition method which would enable entities to apply transition methods at the effective date with the effects of initially applying Topic 842 recognized as a cumulative effect adjustment to retained earnings in the period of adoption. Further, on January 25, 2018, the FASB issued ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842. This ASU provides an optional transition practical expedient that, if elected, would not require companies to reconsider its accounting for existing or expired land easements before the adoption of Topic 842 and that were not previously accounted for as leases under Topic

840. ASU No. 2018-01 will be effective as of January 1, 2019, and earlier adoption is permitted.

Our project team continues to evaluate implementation of the new standard, including cataloging our existing lease contracts. We plan to adopt this new standard on January 1, 2019 and are currently assessing its impact to our consolidated financial statements and related disclosures.

## 2. Revenue Recognition

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

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On January 1, 2018, we adopted Topic 606 and all related ASU's to this Topic (collectively, "the new revenue standard") by applying the modified retrospective method to all contracts that were not completed on January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented in accordance with the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under previous GAAP. We recorded a non-cash cumulative effect transition adjustment to increase opening total equity (deficit) of \$4.5 million, with the impact primarily due to the earlier recognition of revenue related to deficiency payments under minimum volume commitment contracts. Additionally, we recorded a non-cash cumulative effect transition adjustment related to our equity method investment for Mars which resulted in a total net decrease to opening total equity (deficit) of \$2.3 million. See Note 5 - Equity Method Investments for additional information.

### Revenue Recognition

The new revenue standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new revenue standard requires entities to recognize revenue through the application of a five-step model, which includes: identification of the contract; identification of the performance obligations; determination of the transaction price; allocation of the transaction price to the performance obligations; and recognition of revenue as the entity satisfies the performance obligations.

Our revenues are primarily generated from the transportation, terminaling and storage of crude oil, refinery gas and refined petroleum products through our pipelines, terminals and storage tanks. To identify the performance obligations, we considered all the products or services promised in the contracts with customers, whether explicitly stated or implied based on customary business practices. Revenue is recognized when each performance obligation is satisfied under terms of the contract.

Each barrel of product transported or day of providing services is considered a distinct service that represents a performance obligation that would be satisfied over time if it were accounted for separately. The services provided over the contract period are a series of distinct services that are substantially the same, have the same pattern of transfer to the customer, and therefore, qualify as a single performance obligation. Since the customer simultaneously receives and consumes the benefits of services, we recognize revenue over time based on a measure of progress of volumes transported for transportation services contracts or number of days elapsed for storage and terminaling services contracts.

Product revenue related to allowance oil sales is recognized at the point in time when the control of the oil transfers to the customer.

For all performance obligations, payment is typically due in full within 30 days of invoice date.

### Disaggregation of Revenue

The following table provides information about disaggregated revenue by service type and customer type:

	Three Months Ended March 31, 2018
Transportation services revenue – third parties	\$ 32.3
Transportation services revenue – related parties <sup>(1)</sup>	30.6
Total transportation services revenue	62.9
Storage services revenue – third parties	2.3
Storage services revenue – related parties	1.3
Total storage services revenue	3.6
Terminaling services revenue – third parties	—
Terminaling services revenue – related parties	11.4
Total terminaling services revenue <sup>(2)</sup>	11.4
Product revenue – third parties	—
Product revenue – related parties	7.9
Total product revenue <sup>(3)</sup>	7.9
Total Topic 606 revenue	85.8
Lease revenue	13.8
Total revenue	\$ 99.6

<sup>(1)</sup> Transportation services revenue - related parties includes \$1.2 million of the non-lease service component in our transportation services contracts.

<sup>(2)</sup> Terminaling services revenue is entirely comprised of the non-lease service component in our terminaling services contracts.

<sup>(3)</sup> Product revenue is comprised of allowance oil sales.

#### Transportation services revenue

We have both long-term transportation contracts and month-to-month contracts for spot shippers that make nominations on our pipelines. Some of the long-term contracts entitle the customer to a specified amount of guaranteed capacity on the pipeline.

Transportation services are charged at a per barrel rate or other applicable unit of measure. We apply the allocation exception guidance for variable consideration related to market indexing for long-term transportation contracts because (a) the variable payment relates specifically to our efforts to transfer the distinct service and (b) we allocate the variable amount of consideration entirely to the distinct service which is consistent with the allocation objective. Except for guaranteed capacity payments as discussed below, transportation services are billed monthly as services are rendered.

#### Deferred revenue

Our transportation services agreements on Zydeco entitle the customer to a specified amount of guaranteed capacity on the pipeline. This capacity cannot be pro-rated even if the pipeline is oversubscribed. In exchange, the customer

makes a specified monthly payment regardless of the volume transported. If the customer does not ship its full guaranteed volume in a given month, it makes the full monthly cash payment (i.e., deficiency payments) and it may ship the unused volume in a later month for no additional cash payment for up to 12 months, subject to availability on the pipeline. The cash payment received is recognized as deferred revenue, a contract liability under the new revenue standard. If there is insufficient capacity on the pipeline to allow the unused volume to be shipped, the customer forfeits its right to ship such unused volume. We do not refund any cash payments relating to unused volumes.

Deferred revenue under these arrangements was previously recognized into revenue once all contingencies or potential performance obligations associated with the related volumes had been satisfied or expired. Under the new revenue standard, we are required to estimate the likelihood that unused volumes will be shipped or forfeited at each reporting period based on

additional data that becomes available and only to the extent that it is probable that a significant reversal of any incremental revenue will not occur. In some cases, this estimate could result in the earlier recognition of revenue.

#### Storage and terminaling services revenue

Storage and terminaling services are provided under short-term and long-term contracts, with a fixed price per month for committed storage and terminaling capacity, or under a monthly spot-rate for uncommitted storage or terminaling. Storage and terminaling services are billed monthly as services are rendered.

#### Reimbursements from customers

Under certain transportation, terminaling and storage service contracts, we receive reimbursements from customers to recover costs of construction, maintenance or operating costs either under a tariff surcharge per volume shipped or under separate reimbursement payments. Because we consider these amounts as consideration from customers associated with ongoing services to be provided to customers, we defer these payments in deferred revenue and recognize amounts in revenue over the life of the associated revenue contract as performance obligations are satisfied under the contract. We consider these payments to be revenue because control of the long-lived assets does not transfer to our customer upon completion and the payments do not present for the transfer of goods. Our financial statements were not materially impacted by adoption of the new revenue standard related to reimbursements from customers.

#### Lease revenue

Certain of our long-term transportation and terminaling service contracts are accounted for as operating leases under Topic 840. These agreements have both a lease component and the implied operation and maintenance service component. We allocate the arrangement consideration between the lease components that fall within the scope of Topic 840 and any non-lease service components within the scope of the new revenue standard based on the relative standalone selling price of each component. We estimate the standalone selling price of the lease and non-lease service components based on an analysis of service-related and lease-related costs for each contract, adjusted for a representative profit margin. The contracts have a minimum fixed monthly payment for both the lease and non-lease service components. We present the non-lease service components under the new revenue standard within Transportation, terminaling and storage services revenue in the unaudited condensed consolidated statement of income.

#### Product revenue

We generate revenue by selling accumulated allowance oil inventory to customers. Sale of allowance oil is recorded as revenue, with specific cost based on a weighted average price per barrel recorded as cost of product sold.

Our contracts and tariffs contain terms for the customer to reimburse us for losses from evaporation or other loss in transit in the form of allowance oil. We obtain control of the excess oil not lost during transportation, if any. Prior to the adoption of the new revenue standard, allowance oil received was recorded as revenue on a gross basis with the resulting actual gain or loss recorded in operations and maintenance expense. The subsequent sale of allowance oil, net of the product cost, was recorded as operations and maintenance expenses. Under the new revenue standard, we include the excess oil retained during the period, if any, as non-cash consideration and include this amount in the transaction price.

#### Joint tariff

Under the joint tariff agreement between Zydeco and LOCAP, revenues were historically recorded on a net basis as an agent prior to the adoption of the new revenue standard. However, subsequent to the adoption of the new revenue standard, because we control the transportation service before it is transferred to the customer, we are the principal and, therefore, record revenues from these agreements on a gross basis.

#### Impact of adoption

In accordance with the new revenue standard, the following tables summarize the impact of adoption on our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2018:

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Unaudited Condensed Consolidated Statement of Income	As Reported Under Topic 606	Amounts Without Adoption of Topic 606	Effect of Change Increase/(Decrease)
Revenue			
Transportation, terminaling and storage services – third parties	\$ 34.6	\$ 33.6	\$ 1.0
Transportation, terminaling and storage services – related parties	43.3	32.1	11.2
Product revenue – related parties	7.9	—	7.9
Lease revenue – related parties	13.8	26.4	(12.6 )
Costs and expenses			
Cost of product sold – related parties	6.5	—	6.5
Operations and maintenance – third parties	43.1	43.3	(0.2 )
Operations and maintenance – related parties	13.4	10.6	2.8
Net income	64.8	66.4	(1.6 )

Unaudited Condensed Consolidated Balance Sheet	As Reported Under Topic 606	Amounts Without Adoption of Topic 606	Effect of Change Increase/(Decrease)
Deferred revenue – related party	\$ 8.5	\$ 11.4	\$ (2.9 )

Contract Balances

We perform our obligations under a contract with a customer by providing services in exchange for consideration from the customer. The timing of our performance may differ from the timing of the customer's payment, which results in the recognition of a contract asset or a contract liability. Although we did not have any contract assets as of March 31, 2018, we recognize a contract asset when we transfer goods or services to a customer and contractually bill an amount which is less than the revenue allocated to the related performance obligation. We recognize deferred revenue (contract liability) when the customer's payment of consideration precedes our performance. The following table provides information about receivables and contract liabilities from contracts with customers:

	January 1, 2018	March 31, 2018
Receivables from contracts with customers – third parties	\$ 17.2	\$ 7.9
Receivables from contracts with customers – related parties	18.8	14.3
Deferred revenue – third parties	5.5	4.3
Deferred revenue – related party	9.4	8.5

Significant changes in the deferred revenue balances with customers during the period are as follows:

	December 31, 2017	Transition Adjustment	Additions (1)	Reductions (2)	March 31, 2018
Deferred revenue – third parties	\$ 5.5	—	1.4	(2.6 )	\$ 4.3
Deferred revenue – related party	\$ 13.9	(4.5 )	—	(0.9 )	\$ 8.5

- (1) Contract liability additions resulted from deficiency payments from minimum volume commitment contracts.
- (2) Contract liability reductions resulted from revenue earned through the actual or estimated use and expiration of deficiency credits.

We currently have no assets recognized from the costs to obtain or fulfill a contract as of March 31, 2018.

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### Remaining Performance Obligations

As of March 31, 2018, contracts with remaining performance obligation primarily include minimum volume commitment contracts, long-term storage contracts and the service component of transportation and terminaling services contracts accounted for as operating leases.

The following table includes revenue expected to be recognized in the future related to performance obligations exceeding one year of their initial terms that are unsatisfied or partially unsatisfied as of March 31, 2018:

	Total	2018	2019	2020	2021	2022 and beyond
Revenue expected to be recognized on multi-year committed shipper transportation contracts in place as of March 31, 2018 <sup>(1)</sup>	\$664.1	\$147.0	\$61.6	\$47.9	\$47.7	\$359.9
Revenue expected to be recognized on other multi-year transportation service contracts in place as of March 31, 2018 <sup>(2)</sup>	49.1	4.1	5.4	5.4	5.4	28.8
Revenue expected to be recognized on multi-year storage service contracts in place as of March 31, 2018	7.0	3.0	4.0	—	—	—
Revenue expected to be recognized on multi-year terminaling service contracts in place as of March 31, 2018 <sup>(2)</sup>	441.4	34.2	45.7	45.7	45.7	270.1
	\$1,161.6	\$188.3	\$116.7	\$99.0	\$98.8	\$658.8

<sup>(1)</sup> Excludes revenue deferred for deficiency payments.

<sup>(2)</sup> Relates to the non-lease service components of certain of our long-term transportation and terminaling service contracts which are accounted for as operating leases.

As an exemption, we do not disclose the amount of remaining performance obligations for contracts with an original expected duration of one year or less.

### 3. Acquisitions

During 2017, we completed two acquisitions that were considered transfers of businesses between entities under common control, and therefore the related acquired assets and liabilities were transferred at historical carrying value. Because these acquisitions were common control transactions in which we acquired businesses, our historical financial statements have been retrospectively adjusted as if we owned the acquired assets and liabilities for all periods presented.

#### December 2017 Acquisition

On December 1, 2017, we acquired a 100% interest in Triton, 41.48% of the issued and outstanding membership interest in LOCAP, an additional 22.9% interest in Mars, an additional 22.0% interest in Odyssey, and an additional 10.0% interest in Explorer from SPLC and Equilon Enterprises LLC d/b/a Shell Oil Products US (“SOPUS”) for \$825.0 million in cash (the “December 2017 Acquisition”). The December 2017 Acquisition closed pursuant to a Purchase and Sale Agreement (the “December 2017 Purchase and Sale Agreement”) among the Operating Company, us, SPLC and SOPUS. SPLC and SOPUS are each wholly owned subsidiaries of Shell. We funded the cash consideration for the December 2017 Acquisition from \$825.0 million in borrowings under the Five Year Revolver due December 2022 (as defined in Note 8—Related Party Debt) with Shell Treasury Center (West) Inc. (“STCW”), an affiliate of Shell, and the



Five Year Fixed Facility (as defined in Note 8—Related Party Debt) with STCW.

May 2017 Acquisition

On May 10, 2017, we acquired a 100% interest in Delta, Na Kika and Refinery Gas Pipeline for \$630.0 million in consideration (the “May 2017 Acquisition”). As part of the May 2017 Acquisition, SPLC and Shell GOM Pipeline Company LP (“Shell GOM”) contributed all but the working capital of Delta and Na Kika to Pecten, and Shell Chemical LP (“Shell Chemical”)

contributed all but the working capital of Refinery Gas Pipeline to Sand Dollar. The May 2017 Acquisition closed pursuant to a Purchase and Sale Agreement dated May 4, 2017 (the “May 2017 Purchase and Sale Agreement”), among the Operating Company, us, Shell Chemical, Shell GOM and SPLC. Shell Chemical, Shell GOM and SPLC are each wholly owned subsidiaries of Shell. We funded the May 2017 Acquisition with \$50.0 million of cash on hand, \$73.1 million in borrowings under our Five Year Revolver (as defined in Note 8—Related Party Debt), and \$506.9 million in borrowings under our Five Year Fixed Facility (as defined in Note 8—Related Party Debt) with STCW.

Retrospective adjusted information tables

The following tables present our results of operations and of cash flows giving effect to the May 2017 Acquisition and the December 2017 Acquisition. These acquisitions are accounted for as transactions between entities under common control and were recast for the periods of our Parent’s ownership prior to the transaction. The results of the May 2017 Acquisition and the December 2017 Acquisition prior to the closing date of the acquisition are included in the respective acquisition columns and the consolidated results are included in “Consolidated Results” within the tables below:

	Three Months Ended March 31, 2017			Consolidated Results
	Shell Midstream Partners L.P. (1)	May 2017 Acquisition (2)	December 2017 Acquisition (3)	
<b>Revenue</b>				
Transportation, terminaling and storage services – third parties	\$47.3	\$ 8.1	\$ 3.8	\$ 59.2
Transportation, terminaling and storage services – related parties	22.9	6.1	15.4	44.4
Lease revenue – related parties	—	—	5.5	5.5
Total revenue	70.2	14.2	24.7	109.1
<b>Costs and expenses</b>				
Operations and maintenance – third parties	12.9	2.7	3.4	19.0
Operations and maintenance – related parties	8.5	2.6	2.6	13.7
General and administrative – third parties	1.6	0.1	0.3	2.0
General and administrative – related parties	6.4	2.1	3.6	12.1
Depreciation, amortization and accretion	6.2	3.3	1.8	11.3
Property and other taxes	2.8	1.4	0.7	4.9
Total costs and expenses	38.4	12.2	12.4	63.0
Operating income	31.8	2.0	12.3	46.1
Income from equity investments	38.7	—	8.0	46.7
Dividend income from cost investments	7.3	—	2.8	10.1
Investment and dividend income	46.0	—	10.8	56.8
Interest expense, net	4.8	—	—	4.8
Income before income taxes	73.0	2.0	23.1	98.1
Income tax expense	—	—	—	—
Net income	73.0	2.0	23.1	98.1
Less: Net income attributable to Parent	—	2.0	20.5	22.5
Less: Net income attributable to noncontrolling interests	2.2	—	2.6	4.8
Net income attributable to the Partnership	\$70.8	\$ —	\$ —	\$ 70.8

(1) As previously reported in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017.

(2) Our Parents’ results of the May 2017 Acquisition for the three months ended March 31, 2017.

(3) Our Parents’ results of the December 2017 Acquisition for the three months ended March 31, 2017.



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	Three Months Ended March 31, 2017			
	Shell Midstream Partners, L.P. <sup>(1)</sup>	May 2017 Acquisition <sup>(2)</sup>	December 2017 Acquisition <sup>(3)</sup>	Consolidated Results
Cash flows from operating activities				
Net income	\$73.0	\$ 2.0	\$ 23.1	\$ 98.1
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	6.2	3.3	1.8	11.3
Non-cash interest expense	—	—	—	—
Undistributed equity earnings	(0.8)	) —	(2.1)	) (2.9)
Changes in operating assets and liabilities				
Accounts receivable	2.7	(2.2)	) —	0.5
Allowance oil	1.1	0.9	—	2.0
Prepaid expenses and other assets	(0.5)	) 0.3	(0.1)	) (0.3)
Accounts payable	(0.1)	) (1.9)	(0.9)	) (2.9)
Deferred revenue	8.5	—	—	8.5
Accrued liabilities	3.4	0.8	(2.4)	) 1.8
Net cash provided by operating activities	93.5	3.2	19.4	116.1
Cash flows from investing activities				
Capital expenditures	(7.3)	) (0.7)	) (2.5)	) (10.5)
Purchase price adjustment	0.4	—	—	0.4
Return of investment	6.0	—	0.8	6.8
Net cash used in investing activities	(0.9)	) (0.7)	) (1.7)	) (3.3)
Cash flows from financing activities				
Net distributions to Parent	—	(2.5)	) (15.0)	) (17.5)
Distributions to noncontrolling interests	(3.2)	) —	(2.5)	) (5.7)
Distributions to unitholders and general partner	(58.6)	) —	—	(58.6)
Other contribution from Parent	2.8	—	—	2.8
Capital lease payments	(0.2)	) —	—	(0.2)
Credit facility issuance costs	(0.7)	) —	—	(0.7)
Net cash used in financing activities	(59.9)	) (2.5)	) (17.5)	) (79.9)
Net increase in cash and cash equivalents	32.7	—	0.2	32.9
Cash and cash equivalents at beginning of the period	121.9	—	0.2	122.1
Cash and cash equivalents at end of the period	\$154.6	\$ —	\$ 0.4	\$ 155.0