UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019
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 incorporation or organization)	**(I.R.S. Employer 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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Units, Representing Limited Partner Interests	SHLX	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 ☐
	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. o

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 233,289,537 common units outstanding as of November 1, 2019.

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

Item 1. Financial Statements (Unaudited)

SHELL MIDSTREAM PARTNERS, L.P.
UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2019	December 31, 2018
	(in millions of dollars)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 294	$ 208
Accounts receivable – third parties, net	12	19
Accounts receivable – related parties	30	29
Allowance oil	13	13
Prepaid expenses	2	15
Total current assets	351	284
Equity method investments	926	823
Property, plant and equipment, net	733	742
Operating lease right-of-use assets	5	—
Other investments	2	62
Other assets – related parties	2	3
Total assets	$ 2,019	$ 1,914
LIABILITIES		
Current liabilities		
Accounts payable – third parties	$ 3	$ 4
Accounts payable – related parties	10	9
Deferred revenue – third parties	—	8
Deferred revenue – related party	—	3
Accrued liabilities – third parties	22	13
Accrued liabilities – related parties	19	16
Total current liabilities	54	53
Noncurrent liabilities		
Debt payable – related party	2,691	2,091
Operating lease liabilities	4	—
Finance lease liabilities	25	25
Other unearned income	2	2
Total noncurrent liabilities	2,722	2,118
Total liabilities	2,776	2,171
Commitments and Contingencies (Note 14)		
(DEFICIT) EQUITY		
Common unitholders – public (123,832,233 units issued and outstanding as of both September 30, 2019 and December 31, 2018)	3,461	3,459
Common unitholder – SPLC (109,457,304 and 99,979,548 units issued and outstanding as of September 30, 2019 and December 31, 2018)	(196)	(198)
General partner – SPLC (4,761,012 and 4,567,588 units issued and outstanding as of September 30, 2019 and December 31, 2018)	(4,042)	(3,543)
Accumulated other comprehensive loss	(6)	—
Total partners' deficit	(783)	(282)
Noncontrolling interests	26	25
Total deficit	(757)	(257)
Total liabilities and deficit	$ 2,019	$ 1,914

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions of dollars, except per unit data)			
Revenue				
Transportation, terminaling and storage services – third parties	$ 33	$ 58	$ 109	$ 150
Transportation, terminaling and storage services – related parties	68	66	196	164
Product revenue – third parties	—	1	4	2
Product revenue – related parties	10	14	26	24
Lease revenue – related parties	14	14	42	42
Total revenue	125	153	377	382
Costs and expenses				
Operations and maintenance – third parties	19	21	48	89
Operations and maintenance – related parties	14	13	44	39
Cost of product sold – third parties	—	1	3	2
Cost of product sold – related parties	10	13	23	21
Loss from revision of asset retirement obligation	—	—	2	—
General and administrative – third parties	2	1	8	5
General and administrative – related parties	14	12	37	39
Depreciation, amortization and accretion	12	11	36	34
Property and other taxes	5	3	14	13
Total costs and expenses	76	75	215	242
Operating income	49	78	162	140
Income from equity method investments	115	73	265	161
Dividend income from other investments	—	15	14	53
Other income	8	8	28	24
Investment, dividend and other income	123	96	307	238
Interest expense, net	26	19	67	43
Income before income taxes	146	155	402	335
Income tax expense	—	—	—	—
Net income	146	155	402	335
Less: Net income attributable to noncontrolling interests	5	6	14	11
Net income attributable to the Partnership	$ 141	$ 149	$ 388	$ 324
General partner's interest in net income attributable to the Partnership	$ 36	$ 37	$ 93	$ 96
Limited Partners' interest in net income attributable to the Partnership	$ 105	$ 112	$ 295	$ 228
Net income per Limited Partner Unit - Basic and Diluted:				
Common	$ 0.45	$ 0.50	$ 1.30	$ 1.04
Distributions per Limited Partner Unit	$ 0.4450	$ 0.3820	$ 1.2900	$ 1.0950
Weighted average Limited Partner Units outstanding - Basic and Diluted:				
Common units – public	123.8	123.8	123.8	120.6
Common units – SPLC	109.5	100.0	104.1	98.5

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions of dollars)			
Net income	$ 146	$ 155	$ 402	$ 335
Other comprehensive loss, net of tax:				
Remeasurements of pension and other postretirement benefits related to equity method investments, net of tax	—	—	—	—
Comprehensive income	$ 146	$ 155	$ 402	$ 335
Less comprehensive income attributable to:				
Noncontrolling interests	5	6	14	11
Comprehensive income attributable to the Partnership	$ 141	$ 149	$ 388	$ 324

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

SHELL MIDSTREAM PARTNERS, L.P.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2019	2018
	(in millions of dollars)	
Cash flows from operating activities		
Net income	$ 402	$ 335
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	36	34
Loss from revision of asset retirement obligation	2	—
Allowance oil reduction to net realizable value	1	—
Non-cash interest expense	1	—
Undistributed equity earnings	(5)	(2)
Changes in operating assets and liabilities		
Accounts receivable	4	(13)
Allowance oil	(1)	(3)
Prepaid expenses and other assets	14	10
Accounts payable	—	(5)
Deferred revenue and other unearned income	(11)	(4)
Accrued liabilities	15	16
Net cash provided by operating activities	458	368
Cash flows from investing activities		
Capital expenditures	(31)	(38)
Acquisitions from Parent	(90)	(482)
Contributions to investment	(13)	(21)
Return of investment	56	41
Net cash used in investing activities	(78)	(500)
Cash flows from financing activities		
Net proceeds from equity offerings	—	973
Borrowings under credit facilities	600	1,820
Repayments of credit facilities	—	(1,573)
Contributions from general partner	—	20
Capital distributions to general partner	(510)	(739)
Distributions to noncontrolling interests	(13)	(11)
Distributions to unitholders and general partner	(379)	(302)
Other contributions from Parent	9	7
Credit facility issuance costs	—	(1)
Repayment of finance leases	(1)	—
Net cash (used in) provided by financing activities	(294)	194
Net increase in cash and cash equivalents	86	62
Cash and cash equivalents at beginning of the period	208	138
Cash and cash equivalents at end of the period	$ 294	$ 200
Supplemental cash flow information		
Non-cash investing and financing transactions:		
Change in accrued capital expenditures	$ (2)	$ 1
Other non-cash contributions from Parent	—	2

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

SHELL MIDSTREAM PARTNERS, L.P.
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN (DEFICIT) EQUITY

	Partnership					
(in millions of dollars)	**Common Unitholders Public**	**Common Unitholder SPLC**	**General Partner SPLC**	**Accumulated Other Comprehensive Loss**	**Noncontrolling Interests**	**Total**
Balance as of December 31, 2018	$ 3,459	$ (198)	$ (3,543)	$ —	$ 25	$ (257)
Impact of change in accounting policy (Note 4)	(4)	(5)	—	—	—	(9)
Net income	58	47	27	—	5	137
Other contributions from Parent	—	—	7	—	—	7
Distributions to unitholders and general partner	(49)	(40)	(40)	—	—	(129)
Distributions to noncontrolling interests	—	—	—	—	(3)	(3)
Balance as of March 31, 2019	$ 3,464	$ (196)	$ (3,549)	$ —	$ 27	$ (254)
Net income	45	40	30	—	4	119
Other contributions from Parent	—	—	9	(6)	—	3
Distributions to unitholders and general partner	(51)	(42)	(26)	—	—	(119)
Distributions to noncontrolling interests	—	—	—	—	(6)	(6)
June 2019 Acquisition	—	—	(510)	—	—	(510)
Balance as of June 30, 2019	$ 3,458	$ (198)	$ (4,046)	$ (6)	$ 25	$ (767)
Net income	56	49	36	—	5	146
Other distributions to Parent	—	—	(1)	—	—	(1)
Distributions to unitholders and general partner	(53)	(47)	(31)	—	—	(131)
Distributions to noncontrolling interests	—	—	—	—	(4)	(4)
Balance as of September 30, 2019	$ 3,461	$ (196)	$ (4,042)	$ (6)	$ 26	$ (757)

	Partnership				
(in millions of dollars)	Common Unitholders Public	Common Unitholder SPLC	General Partner SPLC	Noncontrolling Interests	Total
Balance as of December 31, 2017	$ 2,774	$ (507)	$ (2,856)	$ 23	$ (566)
Impact of change in accounting policy	(1)	1	(2)	—	(2)
Net income	21	16	27	1	65
Net proceeds from equity offerings	673	300	—	—	973
Contributions from general partner	—	—	20	—	20
Other contributions from Parent	—	—	5	—	5
Distributions to unitholders and general partner	(33)	(30)	(20)	—	(83)
Distributions to noncontrolling interests	—	—	—	(2)	(2)
Balance as of March 31, 2018	$ 3,434	$ (220)	$ (2,826)	$ 22	$ 410
Net income	43	36	32	4	115
Other contributions from Parent	—	—	2	—	2
Distributions to unitholders and general partner	(43)	(35)	(28)	—	(106)
Distributions to noncontrolling interests	—	—	—	(4)	(4)
May 2018 Acquisition	—	—	(738)	—	(738)
Balance as of June 30, 2018	$ 3,434	$ (219)	$ (3,558)	$ 22	$ (321)
Net income	62	50	37	6	155
Other contributions from Parent	—	—	2	—	2
Distributions to unitholders and general partner	(45)	(36)	(32)	—	(113)
Distributions to noncontrolling interests	—	—	—	(5)	(5)
Balance as of September 30, 2018	$ 3,451	$ (205)	$ (3,551)	$ 23	$ (282)

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

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO UNAUDITED 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.

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 Royal Dutch Shell plc 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 either through our wholly owned subsidiary Shell Midstream Operating LLC ("Operating Company") or through direct ownership. Our general partner is Shell Midstream Partners GP LLC ("general partner" or "sponsor"). 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.

Description of Business

We are a growth-oriented master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets. As of September 30, 2019, 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.

We generate revenue from the transportation, terminaling and storage of crude oil and refined products through our pipelines and storage tanks, and generate income from our equity and other investments. Our operations consist of one reportable segment.

The following table reflects our ownership interests as of September 30, 2019:

	SHLX 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") [(1)]	92.5 %
Amberjack Pipeline Company LLC ("Amberjack") – Series A/Series B	75.0% / 50.0%
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 %
Explorer Pipeline Company ("Explorer")	38.59 %
Poseidon Oil Pipeline Company, L.L.C. ("Poseidon")	36.0 %
Colonial Pipeline Company ("Colonial")	16.125 %
Proteus Oil Pipeline Company, LLC ("Proteus")	10.0 %
Endymion Oil Pipeline Company, LLC ("Endymion")	10.0 %
Cleopatra Gas Gathering Company, LLC ("Cleopatra")	1.0 %

[(1)] SPLC owns the remaining 7.5% ownership interest in Zydeco.

Basis of Presentation

Our unaudited 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 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 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, 2018 (our "2018 Annual Report"), filed with the United States Securities and Exchange Commission ("SEC") unless otherwise described herein. The unaudited consolidated financial statements for the three and nine months ended September 30, 2019 and September 30, 2018 include all adjustments we believe are necessary for a fair statement of the results of operations 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 consolidated financial statements and other information included in this Quarterly Report on Form 10-Q should be read in conjunction with our audited consolidated financial statements and notes thereto included in our 2018 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 equity and other 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.

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 2018 Annual Report. There have been no significant changes to these policies during the nine months ended September 30, 2019, other than those noted below.

Recent Accounting Pronouncements

<u>Standards Adopted as of January 1, 2019</u>

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-02 to Topic 842, Leases. As permitted, we adopted the new standard using the modified retrospective approach, effective January 1, 2019, which provides a method for recording existing leases at the beginning of the period of adoption. As such, results and balances prior to January 1, 2019 are not adjusted and continue to be reported in accordance with our historical accounting under previous GAAP.

See *Note 8 — Leases* for additional information and disclosures required by the new standard.

<u>Standards Not Yet Adopted</u>

In June 2016, the FASB issued ASU 2016-13 to Topic 326, Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments, which replaces the current incurred loss impairment method with a method that reflects expected credit losses on financial instruments. For trade receivables, loans and held-to-maturity debt securities, entities will be required to estimate lifetime expected credit losses. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. While our evaluation is ongoing, we currently do not expect the adoption of ASU 2016-13 to have a material impact on our consolidated financial statements.

2. Acquisitions

June 2019 Acquisition

On June 6, 2019, we acquired SPLC's remaining 25.97% ownership interest in Explorer and 10.125% ownership interest in Colonial for consideration valued at $800 million (the "June 2019 Acquisition"). The June 2019 Acquisition increased our ownership interest in Explorer to 38.59% and in Colonial to 16.125%. The June 2019 Acquisition closed pursuant to a Contribution Agreement dated May 10, 2019 (the "May 2019 Contribution Agreement") between us and SPLC, and is accounted for as a transaction between entities under common control on a prospective basis as an asset acquisition. As such, we recorded the acquired equity interests at SPLC's historical carrying value of $90 million, which is included in Equity method investments in our unaudited consolidated balance sheet as of September 30, 2019. In addition, as a transfer between entities under common control, we recorded Accumulated other comprehensive loss of $6 million related to historical remeasurements of pension and other postretirement benefits provided by Explorer and Colonial to their employees. We recognized $510 million of cash consideration in excess of the historical carrying value of equity interests acquired as a capital distribution to our general partner in accordance with our policy for common control transactions. We funded the June 2019 Acquisition with $600 million in cash consideration from borrowings under our Ten Year Fixed Facility (as defined in *Note 7 — Related Party Debt*) with Shell Treasury Center (West) Inc. ("STCW") and non-cash equity consideration valued at $200 million. Pursuant to the May 2019 Contribution Agreement, the number of common units representing the equity consideration was determined by dividing the contribution amount (25% of total consideration of $800 million) by the price per unit of $20.68, which represents the volume weighted average sales prices of the common units calculated for the five trading day period ended on April 30, 2019, less the general partner units issued to the general partner in order to maintain its 2% general partner interest in us. The equity issued consisted of 9,477,756 common units issued to Shell Midstream LP Holdings LLC, an indirect subsidiary of Shell, and 193,424 general partner units issued to the general partner in order to maintain its 2% general partner interest in us. These common and general partner units issued were assigned no book value because the cash consideration exceeded the historical carrying value of equity interests acquired. Accordingly, the units issued had no impact on partner capital accounts, other than changing ownership percentages.

As a result of the June 2019 Acquisition, we now have significant influence over both Explorer and Colonial and account for these investments as equity method investments (see *Note 4 — Equity Method Investments* for further details).

May 2018 Acquisition

On May 11, 2018, we acquired SPLC's ownership interests in Amberjack, which is comprised of 75% of the issued and outstanding Series A membership interests of Amberjack and 50% of the issued and outstanding Series B membership interests of Amberjack for $1,220 million (the "May 2018 Acquisition"). The May 2018 Acquisition closed pursuant to a Purchase and Sale Agreement dated May 9, 2018 between us and SPLC, and is accounted for as a transaction between entities under common control on a prospective basis as an asset acquisition. We acquired historical carrying value of net assets under common control of $482 million, which is included in Equity method investments in our unaudited consolidated balance sheet. We recognized $738 million of consideration in excess of the historical carrying value of net assets acquired as a capital distribution to our general partner in accordance with our policy for common control transactions. We funded the May 2018 Acquisition with $494 million in borrowings under our Five Year Revolver due July 2023 (as defined in *Note 7—Related Party Debt*) and $726 million in borrowings under our Five Year Revolver due December 2022 (as defined in *Note 7—Related Party Debt*) with STCW.

3. Related Party Transactions

Related party transactions include transactions with SPLC and Shell, including those entities in which Shell has an ownership interest but does not have control.

Acquisition Agreements

Refer to *Note 2—Acquisitions* for a description of agreements applicable to the current reporting periods. For a description of all other applicable agreements, see *Note 4—Acquisitions and Divestiture* in the *Notes to Consolidated Financial Statements* of our 2018 Annual Report.

2019 Omnibus Agreement

On November 3, 2014, we entered into an Omnibus Agreement with SPLC and our general partner concerning our payment of an annual general and administrative services fee to SPLC as well as our reimbursement of certain costs incurred by SPLC on our behalf. On February 19, 2019, we, our general partner, SPLC, Operating Company and Shell Oil Company terminated the Omnibus Agreement effective as of February 1, 2019, and we, our general partner, SPLC and Operating Company entered into a new Omnibus Agreement effective February 1, 2019 (the "2019 Omnibus Agreement").

The 2019 Omnibus Agreement addresses, among other things, the following matters:

- our payment of an annual general and administrative fee of approximately $11 million for the provision of certain services by SPLC;
- our obligation to reimburse SPLC for certain direct or allocated costs and expenses incurred by SPLC on our behalf; and

- our obligation to reimburse SPLC for all expenses incurred by SPLC as a result of us becoming and continuing as a publicly traded entity; we will reimburse our general partner for these expenses to the extent the fees relating to such services are not included in the general and administrative fee.

Under the 2019 Omnibus Agreement, SPLC agreed to indemnify us against tax liabilities relating to our assets acquired at initial public offering (our "initial assets") that are identified prior to the date that is 60 days after the expiration of the statute of limitations applicable to such liabilities. This obligation has no threshold or cap. We in turn agreed to indemnify SPLC against events and conditions associated with the ownership or operation of our initial assets (other than any liabilities against which SPLC is specifically required to indemnify us as described above).

During the nine months ended September 30, 2019, neither we nor SPLC made any claims for indemnification under the 2019 Omnibus Agreement.

Trade Marks License Agreement

We, our general partner and SPLC entered into a Trade Marks License Agreement with Shell Trademark Management Inc. effective as of February 1, 2019. The Trade Marks License Agreement grants us the use of certain Shell trademarks and trade names and expires on January 1, 2024 unless earlier terminated by either party upon 360 days' notice.

Tax Sharing Agreement

For a discussion of the Tax Sharing Agreement, see *Note 3—Related Party Transactions—Tax Sharing Agreement* in the *Notes to Consolidated Financial Statements* of our 2018 Annual Report.

Other Agreements

We have entered into several customary agreements with SPLC and Shell. These agreements include pipeline operating agreements, reimbursement agreements and services agreements. See *Note 3—Related Party Transactions—Other Agreements* in the *Notes to Consolidated Financial Statements* of our 2018 Annual Report.

Partnership Agreement

On December 21, 2018, we executed Amendment No. 2 (the "Second Amendment") to the Partnership's First Amended and Restated Agreement of Limited Partnership dated November 3, 2014. Under the Second Amendment, our sponsor agreed to waive $50 million of distributions in 2019 by agreeing to reduce distributions to holders of the incentive distribution rights ("IDR's") by: (1) $17 million for the three months ended March 31, 2019, (2) $17 million for the three months ended June 30, 2019 and (3) $16 million for the three months ended September 30, 2019.

Noncontrolling Interests

For Zydeco, noncontrolling interest consists of SPLC's 7.5% retained ownership interest as of both September 30, 2019 and December 31, 2018. For Odyssey, noncontrolling interest consists of GEL Offshore Pipeline LLC's ("GEL") 29.0% retained ownership interest as of both September 30, 2019 and December 31, 2018.

Other Related Party Balances

Other related party balances consist of the following:

	September 30, 2019	December 31, 2018
Accounts receivable	$ 30	$ 29
Prepaid expenses	2	15
Other assets	2	3
Accounts payable [(1)]	10	9
Deferred revenue	—	3
Accrued liabilities [(2)]	19	16
Debt payable [(3)]	2,691	2,091

[(1)] Accounts payable reflects amounts owed to SPLC for reimbursement of third-party expenses incurred by SPLC for our benefit.
[(2)] As of September 30, 2019, accrued liabilities reflects $18 million accrued interest and $1 million other accrued liabilities. As of December 31, 2018, accrued liabilities reflects $14 million accrued interest and $2 million other accrued liabilities.
[(3)] Debt payable reflects borrowings outstanding after taking into account unamortized debt issuance costs of $3 million as of both September 30, 2019 and December 31, 2018.

Related Party Credit Facilities

We have entered into five credit facilities with STCW: the Ten Year Fixed Facility, the Seven Year Fixed Facility, the Five Year Revolver due July 2023, the Five Year Revolver due December 2022 and the Five Year Fixed Facility. Zydeco has also entered into the 2019 Zydeco Revolver with STCW. For definitions and additional information regarding these credit facilities, see *Note 7 – Related Party Debt* in this report and *Note 9 – Related Party Debt* in the *Notes to Consolidated Financial Statements* of our 2018 Annual Report.

Related Party Revenues and Expenses

We provide crude oil transportation, terminaling and storage services to related parties under long-term contracts. We entered into these contracts in the normal course of our business. Our revenue from related parties for the three and nine months ended September 30, 2019 and September 30, 2018 is disclosed in *Note 11 – Revenue Recognition*.

The following table shows related party expenses, including certain personnel costs, incurred by Shell and SPLC on our behalf that are reflected in the accompanying unaudited consolidated statements of income for the indicated periods. Included in these amounts, and disclosed below, is our share of operating and general corporate expenses, as well as the fees paid to SPLC under certain agreements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Allocated operating expenses	$ 5	$ 3	$ 13	$ 11
Insurance expense [(1)]	4	4	13	11
Other [(2)]	5	6	18	17
Operations and maintenance – related parties	$ 14	$ 13	$ 44	$ 39
Allocated general corporate expenses	$ 8	$ 8	$ 22	$ 27
Management Agreement fee	3	2	7	6
Omnibus Agreement fee	3	2	8	6
General and administrative – related parties	$ 14	$ 12	$ 37	$ 39

[(1)] The majority of our insurance coverage is provided by a wholly owned subsidiary of Shell with the remaining coverage provided by third-party insurers.
[(2)] Other expenses primarily relate to salaries and wages and other payroll expenses.

For a discussion of services performed by Shell on our behalf, see *Note 1 – Description of Business and Basis of Presentation – Basis of Presentation* in the *Notes to Consolidated Financial Statements* of our 2018 Annual Report.

Pension and Retirement Savings Plans

Employees who directly or indirectly support our operations participate in the pension, postretirement health and life insurance, and defined contribution benefit plans sponsored by Shell, which include other Shell subsidiaries. Our share of pension and postretirement health and life insurance costs for the three and nine months ended September 30, 2019 were $2 million and $5 million, respectively. Our share of pension and postretirement health and life insurance costs for the three and nine months ended September 30, 2018 were $2 million and $5 million, respectively. Our share of defined contribution benefit plan costs for the three months and nine months ended September 30, 2019 were $1 million and $2 million, respectively. Our share of defined contribution benefit plan costs for the three and nine months ended September 30, 2018 were $1 million and $2 million, respectively. Pension and defined contribution benefit plan expenses are included in either General and administrative – related parties or Operations and maintenance – related parties, depending on the nature of the employee's role in our operations.

Share-based Compensation

Certain SPLC and Shell employees supporting our operations as well as other Shell operations were historically granted awards under the Performance Share Plan, Shell's incentive compensation program. Share-based compensation expense is included in General and administrative – related parties in the accompanying unaudited consolidated statements of income. These costs for both the three and nine months ended September 30, 2019 and September 30, 2018 were not material.

Equity and Other Investments

We have equity and other investments in various entities. As of September 30, 2019, SPLC no longer owns an interest in any of these entities. See *Note 2 – Acquisitions* for additional details. In some cases, we may be required to make capital contributions or other payments to these entities. See *Note 4 – Equity Method Investments* for additional details.

Reimbursements

The following table reflects reimbursements from our Parent for the three and nine months ended September 30, 2019 and September 30, 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Cash received [(1)]	$ —	$ 1	$ 10	$ 7
Changes in receivable from Parent [(2)]	—	—	—	—
Total reimbursements [(3)]	$ —	$ 1	$ 10	$ 7

[(1)] These reimbursements are included in Other contributions from Parent in the accompanying unaudited consolidated statements of cash flows.
[(2)] These reimbursements are included in Other non-cash contributions from Parent in the accompanying unaudited consolidated statements of cash flows.
[(3)] These reimbursements are included in Other contributions from (distributions to) Parent in the accompanying unaudited consolidated statements of changes in (deficit) equity.

During the three and nine months ended September 30, 2019, we filed claims for reimbursement from our Parent of less than $1 million and $10 million, respectively. During the three and nine months ended September 30, 2018, we filed claims for reimbursement from our Parent of $1 million and $7 million, respectively. For each of these periods, this reflects our proportionate share of Zydeco directional drill project costs and expenses.

4. Equity Method Investments

For each of the following investments, we have the ability to exercise significant influence over these investments based on certain governance provisions and our participation in the significant activities and decisions that impact the management and economic performance of the investments.

Equity method investments comprise the following as of the dates indicated:

	September 30, 2019		December 31, 2018	
	Ownership	**Investment Amount**	**Ownership**	**Investment Amount**
Amberjack – Series A / Series B	75.0% / 50.0%	$ 433	75.0% / 50.0%	$ 458
Mars	71.5%	162	71.5%	169
Bengal	50.0%	88	50.0%	82
Permian Basin	50.0%	81	50.0%	72
LOCAP	41.48%	9	41.48%	8
Explorer [(1)]	38.59%	89	12.62%	—
Poseidon	36.0%	—	36.0%	—
Colonial [(1)]	16.125%	31	6.0%	—
Proteus	10.0%	15	10.0%	16
Endymion	10.0%	18	10.0%	18
		$ 926		$ 823

[(1)] As part of the June 2019 Acquisition, these interests have been accounted for prospectively. See below for additional information.

We acquired an additional 25.97% interest in Explorer and an additional 10.125% interest in Colonial in the June 2019 Acquisition. As a result, these investments now qualify for equity method accounting as we have the ability to exercise significant influence over these investments as of the acquisition date. Prior to the acquisition date, Explorer and Colonial were accounted for as Other investments without readily determinable fair values and were therefore carried at cost. Upon acquisition, we added our Parent’s historical carrying value of the equity interests transferred as a transaction between entities under common control, totaling $90 million, to the basis of our previously held interests of $60 million as this is the date these investments qualified for equity method accounting. Since the June 2019 Acquisition, we record distributions from these investments as reductions to the respective equity method investment balances for Explorer and Colonial as these amounts are no longer considered dividend income due to the change in the method of accounting. We recognize equity earnings for both Explorer and Colonial prospectively from the date of acquisition.

Unamortized differences in the basis of the initial investments and our interest in the separate net assets within the financial statements of the investees are amortized into net income over the remaining useful lives of the underlying assets. As of September 30, 2019 and December 31, 2018, the unamortized basis differences included in our equity investments are $94 million and $40 million, respectively. For the three and nine months ended September 30, 2019, the net amortization expense was $2 million and $4 million, respectively, and for the three and nine months ended September 30, 2018, the net amortization expense was $1 million and $3 million, respectively.

During the first quarter of 2018, the investment amount for Poseidon was reduced to zero due to distributions received that were in excess of our investment balance and we, therefore, suspended the equity method of accounting. Further, we have no commitments to provide further financial support to Poseidon. As such, we have recorded excess distributions in Other income of $8 million and $25 million for the three and nine months ended September 30, 2019, respectively, and $7 million and $17 million for the three and nine months ended September 30, 2018, respectively. Once our cumulative share of equity earnings becomes greater than the amount of distributions received, we will resume the equity method of accounting as long as the equity method investment balance remains greater than zero.

Earnings from our equity method investments were as follows during the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Amberjack [1]	$ 31	$ 33	$ 94	$ 49
Mars	35	30	93	76
Bengal	8	5	18	15
Explorer [2]	20	—	27	—
Colonial [2]	17	—	21	—
Poseidon [3]	—	—	—	6
Other [4]	4	5	12	15
	$ 115	$ 73	$ 265	$ 161

[1] We acquired an interest in Amberjack in May 2018. The acquisition of this interest has been accounted for prospectively.
[2] As stated above, we acquired additional interests in Explorer and Colonial in June 2019. The acquisition of these interests has been accounted for prospectively.
[3] As stated above, the equity method of accounting has been suspended for Poseidon and excess distributions are recorded in Other income.
[4] Included in Other is the activity associated with our investments in Permian Basin, LOCAP, Proteus and Endymion.

The adoption of the revenue standard for the majority of our equity method investments followed the non-public business entity adoption date of January 1, 2019 for their stand-alone financial statements, with the exception of Mars and Permian Basin which adopted on January 1, 2018. As a result of the adoption of the revenue standard on January 1, 2019, we recognized our proportionate share of Amberjack’s cumulative effect transition adjustments as a decrease to opening equity (deficit) in the amount of $9 million under the modified retrospective transition method. As a result of the adoption of the revenue standard on January 1, 2018, we recognized our proportionate share of Mars’ cumulative effect transition adjustments as a decrease to opening equity (deficit) in the amount of $7 million under the modified retrospective transition method.

Under the new lease standard (as defined in *Note 8 - Leases*), the adoption date for our equity method investments will follow the non-public business entity adoption date of January 1, 2021 or on January 1, 2020, if early adopted, for their stand-alone financial statements.

Summarized Financial Information

The following tables present aggregated selected unaudited income statement data for our equity method investments on a 100% basis. However, during periods in which an acquisition occurs, the selected unaudited income statement data reflects activity from the date of the acquisition.

	Three Months Ended September 30, 2019			
	Total revenues	Total operating expenses	Operating income	Net income
Statements of Income				
Amberjack	$ 80	$ 18	$ 62	$ 62
Mars	82	32	50	50
Bengal	22	7	15	15
Explorer	122	51	71	55
Colonial	354	190	164	109
Poseidon	31	9	22	20
Other [1]	44	21	23	21

[1] Included in Other is the activity associated with our investments in Permian Basin, LOCAP, Proteus and Endymion.

	Nine Months Ended September 30, 2019			
	Total revenues	Total operating expenses	Operating income	Net income
Statements of Income				
Amberjack	$ 235	$ 54	$ 181	$ 182
Mars	212	80	132	133
Bengal	59	23	36	36
Explorer [1]	159	64	95	73
Colonial [2]	442	234	208	136
Poseidon	96	26	70	63
Other [3]	130	76	54	47

[1] Our additional interest in Explorer was acquired on June 6, 2019. Explorer's total revenues, total operating expenses and operating income (on a 100% basis) were $344 million, $145 million and $199 million, respectively.
[2] Our additional interest in Colonial was acquired on June 6, 2019. Colonial's total revenues, total operating expenses and operating income (on a 100% basis) were $1,050 million, $520 million and $530 million, respectively.
[3] Included in Other is the activity associated with our investments in Permian Basin, LOCAP, Proteus and Endymion.

	Three Months Ended September 30, 2018			
	Total revenues	Total operating expenses	Operating income	Net income
Statements of Income				
Amberjack	$ 83	$ 18	$ 65	$ 65
Mars	69	26	43	43
Bengal	18	7	11	11
Poseidon	28	10	18	16
Other [1]	37	18	19	17

[1] Included in Other is the activity associated with our investments in Permian Basin, LOCAP, Proteus and Endymion.

	Nine Months Ended September 30, 2018			
	Total revenues	Total operating expenses	Operating income	Net income
Statements of Income				
Amberjack [1]	$ 123	$ 28	$ 95	$ 95
Mars	178	69	109	109
Bengal	51	21	30	30
Poseidon	84	27	57	52
Other [2]	112	48	64	57

[1] Our interest in Amberjack was acquired on May 11, 2018. Amberjack's total revenues, total operating expenses and operating income (on a 100% basis) were $214 million, $54 million and $160 million, respectively.
[2] Included in Other is the activity associated with our investments in Permian Basin, LOCAP, Proteus and Endymion.

Capital Contributions

We make capital contributions for our pro-rata interest in Permian Basin to fund capital and other expenditures. For the three and nine months ended September 30, 2019, we made capital contributions of $3 million and $13 million, respectively, and for the three and nine months ended September 30, 2018, we made capital contributions of $7 million and $21 million, respectively.

5. Property, Plant and Equipment

Property, plant and equipment consist of the following as of the dates indicated:

	Depreciable Life	September 30, 2019	December 31, 2018
Land	—	$ 11	$ 11
Building and improvements	10 - 40 years	40	39
Pipeline and equipment [1]	10 - 30 years	1,225	1,162
Other	5 - 25 years	19	18
		1,295	1,230
Accumulated depreciation and amortization [2]		(603)	(567)
		692	663
Construction in progress		41	79
Property, plant and equipment, net		$ 733	$ 742

[1] As of September 30, 2019 and December 31, 2018, includes cost of $369 million and $366 million, respectively, related to assets under operating lease (as lessor). As of both September 30, 2019 and December 31, 2018, includes cost of $23 million related to right-of-use ("ROU") assets under finance lease (as lessee).
[2] As of September 30, 2019 and December 31, 2018, includes accumulated depreciation of $131 million and $121 million, respectively, related to assets under operating lease (as lessor). As of September 30, 2019 and December 31, 2018, includes accumulated amortization of $6 million and $5 million, respectively, related to ROU assets under finance lease (as lessee).

Depreciation and amortization expense on property, plant and equipment for the three and nine months ended September 30, 2019 was $12 million and $36 million, respectively, and for the three and nine months ended September 30, 2018 was $11 million and $34 million, respectively, and is included in costs and expenses in the accompanying unaudited consolidated statements of income. Depreciation and amortization expense on property, plant and equipment includes amounts pertaining to assets under operating (as lessor) and finance leases (as lessee).

6. Accrued Liabilities – Third Parties

Accrued liabilities – third parties consist of the following as of the dates indicated:

	September 30, 2019	December 31, 2018
Project accruals	$ 7	$ 7
Property taxes	13	4
Other accrued liabilities	2	2
Accrued liabilities – third parties	$ 22	$ 13

See *Note 3—Related Party Transactions* for a discussion of Accrued liabilities – related parties.

7. Related Party Debt

Consolidated related party debt obligations comprise the following as of the dates indicated:

	September 30, 2019			December 31, 2018		
	Outstanding Balance	Total Capacity	Available Capacity	Outstanding Balance	Total Capacity	Available Capacity
Ten Year Fixed Facility	$ 600	$ 600	$ —	$ —	$ —	$ —
Seven Year Fixed Facility	600	600	—	600	600	—
Five Year Revolver due July 2023	494	760	266	494	760	266
Five Year Revolver due December 2022	400	1,000	600	400	1,000	600
Five Year Fixed Facility	600	600	—	600	600	—
2019 Zydeco Revolver [(1)]	—	30	30	—	30	30
Unamortized debt issuance costs	(3)	n/a	n/a	(3)	n/a	n/a
Debt payable – related party	$ 2,691	$ 3,590	$ 896	$ 2,091	$ 2,990	$ 896

(1) Effective August 6, 2019, the Zydeco Revolver expired. In its place, Zydeco entered into the 2019 Zydeco Revolver. See below for additional information.

For the three and nine months ended September 30, 2019, interest and fee expenses associated with our borrowings were $26 million and $67 million, respectively, of which we paid $23 million and $62 million, respectively. For the three and nine months ended September 30, 2018, interest and fee expenses associated with our borrowings were $19 million and $42 million, respectively, of which we paid $16 million and $35 million, respectively.

Borrowings under our revolving credit facilities approximate fair value as the interest rates are variable and reflective of market rates, which results in Level 2 instruments. The fair value of our fixed rate credit facilities is estimated based on the published market prices for issuances of similar risk and tenor and is categorized as Level 2 within the fair value hierarchy. As of September 30, 2019, the carrying amount and estimated fair value of total debt (before amortization of issuance costs) was $2,694 million and $2,819 million, respectively. As of December 31, 2018, the carrying amount and estimated fair value of total debt (before amortization of issuance costs) was $2,094 million and $2,099 million, respectively.

On August 6, 2019, the Zydeco Revolver expired. On August 1, 2019, Zydeco entered into a senior unsecured revolving loan facility agreement with STCW, effective August 6, 2019 (the “2019 Zydeco Revolver”). The 2019 Zydeco Revolver has a borrowing capacity of $30 million and matures on August 6, 2024. Borrowings under the credit facility bear interest at the three-month LIBOR rate plus a margin. No issuance fee was incurred in connection with the 2019 Zydeco Revolver.

On June 4, 2019, we entered into a ten-year fixed rate credit facility with STCW with a borrowing capacity of $600 million (the “Ten Year Fixed Facility”). The Ten Year Fixed Facility bears an interest rate of 4.18% per annum and matures on June 4, 2029. No issuance fee was incurred in connection with the Ten Year Fixed Facility. The Ten Year Fixed Facility contains customary representations, warranties, covenants and events of default, the occurrence of which would permit the lender to accelerate the maturity date of amounts borrowed under the Ten Year Fixed Facility. The Ten Year Fixed Facility was fully drawn on June 6, 2019 to partially fund the June 2019 Acquisition.

On July 31, 2018, in connection with entering into the Seven Year Fixed Facility, we incurred an issuance fee of $1 million which was paid on August 7, 2018. The Seven Year Fixed Facility was fully drawn on August 1, 2018 and the borrowings were used to partially repay borrowings under the Five Year Revolver due December 2022.

On May 11, 2018, we funded the May 2018 Acquisition with $494 million in borrowings under the Five Year Revolver due July 2023 and $726 million in borrowings under the Five Year Revolver due December 2022.

On February 6, 2018, we used net proceeds from sales of common units and from our general partner's proportionate capital contribution to repay $247 million of borrowings outstanding under our Five Year Revolver due July 2023 and $726 million of borrowings outstanding under our Five Year Revolver due December 2022.

For additional information on our credit facilities, refer to *Note 9 – Related Party Debt* in the *Notes to Consolidated Financial Statements* in our 2018 Annual Report.

Borrowings and repayments under our credit facilities for the nine months ended September 30, 2019 and September 30, 2018 are disclosed in our unaudited consolidated statements of cash flows. See *Note 10 – (Deficit) Equity* for additional information regarding the source of our repayments.

8. Leases

Adoption of ASC Topic 842 "Leases"

On January 1, 2019, we adopted ASC Topic 842 ("the new lease standard") by applying the modified retrospective approach to all leases on January 1, 2019. We elected the package of practical expedients upon transition that permits us to not reassess (1) whether any contracts entered into prior to adoption are or contain leases, (2) the lease classification of existing leases and (3) initial direct costs for any leases that existed prior to adoption. We also elected the practical expedient to not evaluate existing or expired land easements that were not accounted for as leases under previous guidance. Generally, we account for term-based land easements where we control the use of the land surface as leases.

Upon adoption on January 1, 2019, we recognized operating lease right-of-use ("ROU") assets and corresponding lease liabilities of $5 million. As lessor, the accounting for operating leases has not changed and the adoption did not have an impact on our existing transportation and terminaling services agreements that are considered operating leases. As lessee, the accounting for finance leases (capital leases) was substantially unchanged.

Lessee accounting

We determine if an arrangement is or contains a lease at inception. Our assessment is based on (1) whether the contract involves the use of a distinct identified asset, (2) whether we obtain the right to substantially all the economic benefit from the use of the asset throughout the period and (3) whether we have the right to direct the use of the asset. Leases are classified as either finance leases or operating leases. A lease is classified as a finance lease if any one of the following criteria are met: the lease transfers ownership of the asset by the end of the lease term, the lease contains an option to purchase the asset that is reasonably certain to be exercised, the lease term is for a major part of the remaining useful life of the asset or the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any one of these criteria. The lease classification affects the expense recognition in the income statement. Operating lease costs are recorded entirely in operating expenses. Finance lease costs are split, where amortization of the ROU asset is recorded in operating expenses and an implied interest component is recorded in interest expense.

Under the new lease standard, operating leases (as lessee) are included in Operating lease right-of-use assets, Accrued liabilities - third parties and Operating lease liabilities in our unaudited consolidated balance sheets. Finance leases (as lessee) are included in Property, plant and equipment, Accrued liabilities – third parties and Finance lease liabilities in our unaudited consolidated balance sheets. ROU assets and lease liabilities are recognized at commencement date based on the present value of the future minimum lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at transition date in determining the present value of future payments. The ROU asset includes any lease payments made but excludes lease incentives and initial direct costs incurred, if any. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have long-term non-cancelable third-party operating leases for land. Several of the leases provide for renewal terms. We hold cancellable easements or rights-of-way arrangements from landowners permitting the use of land for the construction and operation of our pipeline systems. Obligations under these easements are not material to the results of our operations. In addition, Odyssey has a third-party operating lease for use of offshore platform space at Main Pass 289C. This lease will continue to be in effect until the continued operation of the platform is uneconomic.

We are also obligated under two finance leases. We have a terminaling services agreement in which we took possession of certain storage tanks located in Port Neches, Texas and a lease of offshore platform space on the Garden Banks 128 “A” platform.

Lease extensions. Many of our leases have options to either extend or terminate the lease. In determining the lease term, we considered all available contract extensions which are reasonably certain of occurring.

Significant assumptions and judgments

Incremental borrowing rate. We are generally not made aware of the interest rate implicit in a lease due to several reasons, including: (1) uncertainty as to the total amount of the costs incurred by the lessor in negotiating the lease or whether certain costs incurred by the lessor would qualify as initial direct costs and (2) uncertainty as to the lessor’s expectation of the residual value of the asset at the end of the lease. Therefore, we use our incremental borrowing rate (“IBR”) at the commencement of the lease and estimate the IBR for each lease agreement taking into consideration lease contract term, collateral and entity credit ratings, and use sensitivity analyses to evaluate the reasonableness of the rates determined.

Lease balances and costs

The following tables summarize balance sheet data related to leases at September 30, 2019 and our lease costs as of and for the three and nine months ended September 30, 2019:

Leases	Classification	September 30, 2019
Assets		
Operating lease assets	Operating lease right-of-use assets	$ 5
Finance lease assets	Property, plant and equipment, net [1]	17
Total lease assets		$ 22
Liabilities		
Current		
Finance	Accrued liabilities - third parties	$ 1
Noncurrent		
Operating	Operating lease liabilities	4
Finance	Finance lease liabilities	25
Total lease liabilities		$ 30

[1] Finance lease assets are recorded net of accumulated amortization of $6 million as of September 30, 2019.

Lease cost	Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost [1]	Operations and maintenance - third parties	$ —	$ —
Finance lease cost (cost resulting from lease payments):			
Amortization of leased assets	Depreciation and amortization	1	1
Interest on lease liabilities	Interest expense, net	1	3
Total lease cost		$ 2	$ 4

[1] Amounts for the three and nine months ended September 30, 2019 were less than $1 million.

Other information

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases [1]	$ —
Operating cash flows from finance leases	(3)
Financing cash flows from finance leases	(1)

[1] Amounts for the nine months ended September 30, 2019 were less than $1 million.

	September 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	20
Finance leases	12
Weighted-average discount rate	
Operating leases	5.8 %
Finance leases	14.3 %

Annual maturity analysis

The future annual maturity of lease payments as of September 30, 2019 for the above lease obligations was:

Maturity of lease liabilities	Operating leases [1]	Finance leases [2]	Total
Remainder of 2019	$ —	$ 1	$ 1
2020	—	4	4
2021	1	4	5
2022	—	4	4
2023	1	4	5
Remainder	6	36	42
Total lease payments	8	53	61
Less: Interest [3]	(3)	(27)	(30)
Present value of lease liabilities [4]	$ 5	$ 26	$ 31

[1] Operating lease payments include $2 million related to options to extend lease terms that are reasonably certain of being exercised.
[2] Includes $26 million in principal and excludes $9 million in executory costs.
[3] Calculated using the interest rate for each lease.
[4] Includes the current portion of $1 million for the finance lease.

Lessor accounting

We have certain transportation and terminaling services agreements with related parties entered into prior to the adoption date of January 1, 2019 that are considered operating leases and include both lease and non-lease components. Certain of these agreements were entered into for terms of ten years with the option to extend for two additional terms of five years each, and we have additional agreements with an initial term of ten years with the option to extend for up to ten additional one year terms. As is the case with certain of our agreements, when the renewal options are reasonably certain to be exercised, the payments are included in the future maturity of lease payments. Our transportation, terminaling and storage services revenue and lease revenue from related parties for both the three and nine months ended September 30, 2019 and September 30, 2018 are disclosed in *Note 11 – Revenue Recognition*.

Our risk management strategy for the residual assets is mitigated by the long-term nature of the underlying assets and the long-term nature of our lease agreements.

Significant assumptions and judgments

Lease and non-lease components. Certain of our revenues are accounted for under Topic 842, *Leases*, as the underlying contracts convey the right to control the use of the identified asset for a period of time. We allocate the arrangement consideration between the lease components that fall within the scope of ASC Topic 842 and any non-lease service components within the scope of ASC Topic 606 based on the relative stand-alone selling price of each component. See *Note 11 – Revenue Recognition* for additional information regarding the allocation of the consideration in a contract between the lease and non-lease components.

Annual maturity analysis

As of September 30, 2019, future annual maturity of lease payments to be received under the contract terms of these operating leases, which includes only the lease components of these leases, was estimated to be:

Maturity of lease payments	Operating leases [1]
Remainder of 2019	$ 14
2020	56
2021	56
2022	56
2023	56
Remainder	604
Total lease payments	$ 842

[1] Operating lease payments include $411 million related to options to extend lease terms that are reasonably certain of being exercised.

9. Accumulated Other Comprehensive Loss

As a result of the June 2019 Acquisition, we recorded an accumulated other comprehensive loss related to pension and other post-retirement benefits provided by Explorer and Colonial to their employees. We are not a sponsor of these benefits plans. The June 2019 Acquisition is accounted for as a transaction between entities under common control on a prospective basis and we have recorded the acquisition on our unaudited consolidated balance sheet at SPLC's historical basis which included accumulated other comprehensive loss. Our assumption of the accumulated other comprehensive loss balance had no effect on our comprehensive income during the period as the balance was accumulated while under the ownership of SPLC.

10. (Deficit) Equity

Our capital accounts are comprised of 2% general partner interests and 98% limited partner interests. The common units represent limited partner interests in us. The holders of common units, both public and SPLC, are entitled to participate in partnership distributions and have limited rights of ownership as provided for under our partnership agreement. Our general partner participates in our distributions and also currently holds IDR's that entitle it to receive increasing percentages of the cash we distribute from operating surplus.

Shelf Registrations

We have a universal shelf registration statement on Form S-3 on file with the SEC under which we, as a well-known seasoned issuer, have the ability to issue and sell an indeterminate amount of common units and partnership securities representing limited partner units. We also have on file with the SEC a shelf registration statement on Form S-3 relating to $1,000,000,000 of common units and partnership securities representing limited partner units to be used in connection with the at-the-market equity distribution program, direct sales, or other sales consistent with the plan of distribution set forth in the registration statement.

Public Offering and Private Placement

On February 6, 2018, we completed the sale of 25,000,000 common units in a registered public offering for $673 million net proceeds ($680 million gross proceeds, or $27.20 per common unit, less $6 million of underwriter's fees and $1 million of transaction fees). In connection with the issuance of common units, we issued 510,204 general partner units to our general partner for $14 million in order to maintain its 2% general partner interest in us. On February 6, 2018, we also completed the sale of 11,029,412 common units in a private placement with Shell Midstream LP Holdings LLC for an aggregate purchase price of $300 million, or $27.20 per common unit. In connection with the issuance of the common units, we issued 225,091 general partner units to the general partner for $6 million in order to maintain its 2% general partner interest in us. We used net proceeds from these sales to repay $247 million of borrowings outstanding under the Five Year Revolver due July 2023 and $726 million of borrowings outstanding under the Five Year Revolver due December 2022, as well as for general partnership purposes.

At-the-Market Program

We have an "at-the-market" equity distribution program pursuant to which we may issue and sell common units for up to $300 million in gross proceeds. During both the nine months ended September 30, 2019 and September 30, 2018, we did not have any sales under this program.

Units Outstanding

As of September 30, 2019, we had 233,289,537 common units outstanding, of which 123,832,233 were publicly owned. SPLC owned 109,457,304 common units, representing an aggregate 46% limited partner interest in us, all of the IDR's, and 4,761,012 general partner units, representing a 2% general partner interest in us.

The changes in the number of units outstanding from December 31, 2018 through September 30, 2019 are as follows:

(in units)	Public Common	SPLC Common	General Partner	Total
Balance as of December 31, 2018	123,832,233	99,979,548	4,567,588	228,379,369
June 2019 Acquisition [(1)]	—	9,477,756	193,424	9,671,180
Balance as of September 30, 2019	123,832,233	109,457,304	4,761,012	238,050,549

[(1)] See *Note 2 – Acquisitions* for additional information.

Distributions to our Unitholders

Our sponsor elected to waive $50 million of IDR's in 2019 to be used for future investment by the Partnership. See *Note 3 - Related Party Transactions* for terms of the Second Amendment.

The following table details the distributions declared and/or paid for the periods presented:

Date Paid or to be Paid	Three Months Ended	Public Common	SPLC Common	General Partner IDR's	General Partner 2%	Total	Distributions per Limited Partner Unit
				(in millions, except per unit amounts)			
February 14, 2018	December 31, 2017	$ 33	$ 30	$ 18	$ 2	$ 83	$ 0.3330
May 15, 2018	March 31, 2018	43	35	26	2	106	0.3480
August 14, 2018	June 30, 2018	45	36	30	2	113	0.3650
November 14, 2018	September 30, 2018	47	38	33	3	121	0.3820
February 14, 2019	December 31, 2018	49	40	37	3	129	0.4000
May 15, 2019	March 31, 2019 [(1)]	51	42	23	3	119	0.4150
August 14, 2019	June 30, 2019 [(1)]	53	47	28	3	131	0.4300
November 14, 2019	September 30, 2019 [(1)] [(2)]	56	48	33	3	140	0.4450

[(1)] Includes the impact of waived distributions to the holders of IDR's. See *Note 3—Related Party Transactions* for additional information.
[(2)] For more information, see *Note 15— Subsequent Events*.

Distributions to Noncontrolling Interests

Distributions to SPLC for its noncontrolling interest in Zydeco for the three and nine months ended September 30, 2019 were $1 million and $4 million, respectively, and for the three and nine months ended September 30, 2018 were $2 million and $5 million, respectively. Distributions to GEL for its noncontrolling interest in Odyssey for the three and nine months ended

September 30, 2019 were $3 million and $9 million, respectively, and for the three and nine months ended September 30, 2018 were $2 million and $6 million, respectively. See *Note 3—Related Party Transactions* for additional details.

11. Revenue Recognition

The 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 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.

Disaggregation of Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Transportation services revenue – third parties	$ 31	$ 57	$ 103	$ 144
Transportation services revenue – related parties [(1)]	55	52	156	125
Storage services revenue – third parties	2	1	6	6
Storage services revenue – related parties	1	2	5	5
Terminaling services revenue – related parties [(2)]	12	12	35	34
Product revenue – third parties [(3)]	—	1	4	2
Product revenue – related parties [(3)]	10	14	26	24
Total Topic 606 revenue	111	139	335	340
Lease revenue – related parties	14	14	42	42
Total revenue	$ 125	$ 153	$ 377	$ 382

[(1)] Transportation services revenue - related parties includes $2 million and $4 million, respectively, of the non-lease service component in our transportation services contracts for both the three and nine months ended September 30, 2019 and September 30, 2018.
[(2)] Terminaling services revenue - related parties is entirely comprised of the non-lease service component in our terminaling services contracts.
[(3)] Product revenue is comprised of allowance oil sales.

Lease revenue

Certain of our long-term transportation and terminaling services contracts with related parties are accounted for as operating leases under Topic 840, *Leases*, prior to January 1, 2019 and Topic 842, *Leases,* on or subsequent to January 1, 2019. These agreements have both a lease component and an implied operation and maintenance service component ("non-lease service component"). We allocate the arrangement consideration between the lease components that fall within the scope of Topic 840 or Topic 842 and any non-lease service components within the scope of the revenue standard based on the relative stand-alone selling price of each component. We estimate the stand-alone 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 revenue standard within Transportation, terminaling and storage services – related parties in the unaudited consolidated statements of income.

Revenues from the lease components of these agreements are recorded within Lease revenue – related parties in the unaudited consolidated statements of income. Certain of these agreements were entered into for terms of ten years, with the option for the lessee to extend for two additional five year terms, and we have additional agreements with an initial term of ten years with the option for the lessee to extend for up to ten additional one-year terms. As of September 30, 2019, future minimum payments of both the lease and service components to be received under the initial ten-year contract term of these operating leases were estimated to be:

	Total	Less than 1 year	Years 2 to 3	Years 4 to 5	More than 5 years
Operating leases	$ 853	$ 108	$ 216	$ 216	$ 313

Contract Balances

The following table provides information about receivables and contract liabilities from contracts with customers:

	January 1, 2019	September 30, 2019
Receivables from contracts with customers – third parties	$ 19	$ 13
Receivables from contracts with customers – related parties	21	25
Deferred revenue – third parties [(1)]	8	—
Deferred revenue – related party	3	—

[(1)] Amount as of September 30, 2019 was less than $1 million.

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

	December 31, 2018	Additions [(1)]	Reductions [(2)]	September 30, 2019
Deferred revenue – third parties [(3)]	$ 8	$ —	$ (8)	$ —
Deferred revenue – related party	3	—	(3)	—

[(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.
[(3)] Amount as of September 30, 2019 was less than $1 million.

We currently have no assets recognized from the costs to obtain or fulfill a contract as of both September 30, 2019 and December 31, 2018.

Remaining Performance Obligations

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 September 30, 2019:

	Total	Remainder of 2019	2020	2021	2022	2023 and beyond
Revenue expected to be recognized on multi-year committed shipper transportation contracts in place as of September 30, 2019 [(1)]	$ 605	$ 28	$ 106	$ 63	$ 63	$ 345
Revenue expected to be recognized on other multi-year committed shipper transportation contracts in place as of September 30, 2019 [(2)]	40	2	5	5	5	23
Revenue expected to be recognized on multi-year storage service contracts in place as of September 30, 2019	1	1	—	—	—	—
Revenue expected to be recognized on multi-year terminaling service contracts in place as of September 30, 2019 [(2)]	383	12	47	47	47	230
	$ 1,029	$ 43	$ 158	$ 115	$ 115	$ 598

[(1)] Excludes revenue deferred for deficiency payments of less than $1 million as of September 30, 2019.
[(2)] 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.

12. Net Income Per Limited Partner Unit

Net income per unit applicable to common limited partner units is computed by dividing the respective limited partners' interest in net income attributable to the Partnership for the period by the weighted average number of common units outstanding for the period. Because we have more than one class of participating securities, we use the two-class method when calculating the net income per unit applicable to limited partners. The classes of participating securities include common units, general partner units and IDR's. Basic and diluted net income per unit are the same because we do not have any potentially dilutive units outstanding for the periods presented.

Net income earned by the Partnership is allocated between the limited partners and the general partner (including IDR's) in accordance with our partnership agreement. Earnings are allocated based on actual cash distributions declared to our unitholders, including those attributable to IDR's. To the extent net income attributable to the Partnership exceeds or is less than cash distributions, this difference is allocated based on the unitholders' respective ownership percentages.

The following tables show the allocation of net income attributable to the Partnership to arrive at net income per limited partner unit:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2019	**2018**	**2019**	**2018**
Net income	$ 146	$ 155	$ 402	$ 335
Less:				
Net income attributable to noncontrolling interests	5	6	14	11
Net income attributable to the Partnership	141	149	388	324
Less:				
General partner's distribution declared [1]	36	36	93	96
Limited partners' distribution declared on common units	104	85	297	244
Income in excess of / (less than) distributions	$ 1	$ 28	$ (2)	$ (16)

[1] For the three and nine months ended September 30, 2019, this includes the impact of waived distributions to the holders of IDR's. See *Note 3—Related Party Transactions* for additional information.

	Three Months Ended September 30, 2019		
	General Partner	**Limited Partners' Common Units**	**Total**
	(in millions of dollars, except per unit data)		
Distributions declared [1]	$ 36	$ 104	$ 140
Income in excess of distributions	—	1	1
Net income attributable to the Partnership	$ 36	$ 105	$ 141
Weighted average units outstanding:			
Basic and diluted		233.3	
Net income per limited partner unit:			
Basic and diluted		$ 0.45	

[1] This includes the impact of waived distributions to the holders of IDR's. See *Note 3—Related Party Transactions* for additional information.

	Nine Months Ended September 30, 2019		
	General Partner	**Limited Partners' Common Units**	**Total**
	(in millions of dollars, except per unit data)		
Distributions declared [1]	$ 93	$ 297	$ 390
Distributions in excess of income	—	(2)	(2)
Net income attributable to the Partnership	$ 93	$ 295	$ 388
Weighted average units outstanding:			
Basic and diluted		227.9	
Net income per limited partner unit:			
Basic and diluted		$ 1.30	

(1) This includes the impact of waived distributions to the holders of IDR's. See *Note 3—Related Party Transactions* for additional information.

	Three Months Ended September 30, 2018		
	General Partner	Limited Partners' Common Units	Total
	(in millions of dollars, except per unit data)		
Distributions declared	$ 36	$ 85	$ 121
Income in excess of distributions	1	27	28
Net income attributable to the Partnership	$ 37	$ 112	$ 149
Weighted average units outstanding:			
Basic and diluted		223.8	
Net income per limited partner unit:			
Basic and diluted		$ 0.50	

	Nine Months Ended September 30, 2018		
	General Partner	Limited Partners' Common Units	Total
	(in millions of dollars, except per unit data)		
Distributions declared	$ 96	$ 244	$ 340
Distributions in excess of income	—	(16)	(16)
Net income attributable to the Partnership	$ 96	$ 228	$ 324
Weighted average units outstanding:			
Basic and diluted		219.1	
Net income per limited partner unit:			
Basic and diluted		$ 1.04	

13. Income Taxes

We are not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Taxes on our net income are generally borne by our partners through the allocation of taxable income. Our income tax expense results from partnership activity in the state of Texas, as conducted by Zydeco, Sand Dollar and Triton. Income tax expense for both the three and nine months ended September 30, 2019 and September 30, 2018 was not material.

With the exception of the operations of Colonial, Explorer and LOCAP, which are treated as corporations for federal income tax purposes, the operations of the Partnership are not subject to federal income tax.

14. Commitments and Contingencies

Environmental Matters

We are subject to federal, state, and local environmental laws and regulations. We routinely conduct reviews of potential environmental issues and claims that could impact our assets or operations. These reviews assist us in identifying environmental issues and estimating the costs and timing of remediation efforts. In making environmental liability estimations, we consider the material effect of environmental compliance, pending legal actions against us and potential third-party liability claims. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in income in the period in which they are probable and reasonably estimable. As of both September 30, 2019 and December 31, 2018, these costs and any related liabilities are not material.

Legal Proceedings

We are named defendants in lawsuits and governmental proceedings that arise in the ordinary course of business. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies and the likelihood of an unfavorable outcome. While there are still uncertainties related to the ultimate costs we may incur, based upon our evaluation and experience to date, we do not expect that the ultimate resolution of these matters will have a material adverse effect on our financial position, operating results or cash flows.

Indemnification

Under the 2019 Omnibus Agreement, certain tax liabilities are indemnified by SPLC. See *Note 3—Related Party Transactions* for additional information.

Minimum Throughput

On September 1, 2016, the in-service date of the finance lease for the Port Neches storage tanks, a joint tariff agreement with a third party became effective. The tariff is reviewed annually and the rate updated based on the Federal Energy Regulatory Commission (“FERC”) indexing adjustment effective July 1 of each year. Effective July 1, 2019, there was an approximately 4.3% increase to this rate based on FERC indexing adjustment. The initial term of the agreement is ten years with automatic one year renewal terms with the option to cancel prior to each renewal period.

15. Subsequent Events

We have evaluated events that have occurred after September 30, 2019 through the issuance of these unaudited consolidated financial statements. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the unaudited consolidated financial statements and accompanying notes.

Distribution

On October 23, 2019, the Board declared a cash distribution of $0.4450 per limited partner unit for the three months ended September 30, 2019. The distribution will be paid on November 14, 2019 to unitholders of record as of November 4, 2019.

Mars Reimbursement

On October 23, 2019, we entered into a Settlement Agreement with SPLC (the “Settlement Agreement”) with respect to the storage revenue reimbursement provision contained in the Purchase and Sale Agreement entered into in 2016 under which we acquired an additional 20% interest in Mars. As a result of the Settlement Agreement, we expect to receive approximately $9 million on or about December 1, 2019 from SPLC that will be recognized as an additional capital contribution. Pursuant to the Purchase and Sale Agreement, SPLC agreed to pay us up to $10 million if Mars inventory management fees do not meet certain levels for the calendar years 2017 through 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Shell Midstream Partners, L.P. ("we," "us," "our" or "the Partnership") is a Delaware limited partnership formed by Royal Dutch Shell plc 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 either through our wholly owned subsidiary Shell Midstream Operating LLC ("Operating Company") or through direct ownership. Our general partner is Shell Midstream Partners GP LLC ("general partner" or "sponsor"). 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".

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes in this quarterly report and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018 (our "2018 Annual Report") and the consolidated financial statements and related notes therein. Our 2018 Annual Report contains a discussion of other matters not included herein, such as disclosures regarding critical accounting policies and estimates and contractual obligations. You should also read the following discussion and analysis together with the risk factors set forth in our 2018 Annual Report and the "Cautionary Statement Regarding Forward-Looking Statements" in this report.

On January 1, 2019, we adopted Topic 842, Leases ("the new lease standard") by applying the modified retrospective approach. Results for reporting periods beginning after January 1, 2019 and balances at September 30, 2019 are presented in accordance with the new lease standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under previous generally accepted accounting principles in the United States ("GAAP"). See Note 8 – Leases in the Notes to the Unaudited Consolidated Financial Statements for additional information.

Partnership Overview

We are a growth-oriented master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets. As of September 30, 2019, 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.

For a description of our assets, see *Part I, Item 1 - Business and Properties* in our 2018 Annual Report.

2019 developments include:

- *June 2019 Acquisition.* In May 2019, we entered into a Contribution Agreement (the "May 2019 Contribution Agreement") with SPLC to acquire SPLC's remaining 25.97% ownership interest in Explorer and 10.125% ownership interest in Colonial for consideration valued at $800 million (the "June 2019 Acquisition"). The June 2019 Acquisition increased the Partnership's ownership interest in Explorer to 38.59% and in Colonial to 16.125%. We funded the June 2019 Acquisition with $600 million in cash consideration from borrowings under our Ten Year Fixed Facility (as defined below) with Shell Treasury Center (West) Inc. ("STCW") and non-cash equity consideration valued at $200 million from the issuance of 9,477,756 common units to Shell Midstream LP Holdings LLC, an indirect subsidiary of Shell, and 193,424 general partner units to the general partner in order to maintain its 2% general partner interest in us.

- *Borrowings.* In June 2019, we entered into a ten-year fixed rate credit facility with STCW with a borrowing capacity of $600 million (the "Ten Year Fixed Facility"). The Ten Year Fixed Facility was fully drawn to partially fund the June 2019 Acquisition.

We generate revenue from the transportation, terminaling and storage of crude oil and refined products through our pipelines and storage tanks, and we generate income from our equity and other investments. Our revenue is generated from customers in the same industry, our Parent's affiliates, integrated oil companies, marketers, and independent exploration, production and refining companies primarily within the Gulf Coast region of the U.S. We generally do not own any of the crude oil, refinery gas or refined petroleum products we handle, nor do we engage in the trading of these commodities. We therefore have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long-term.

As a result of Hurricane Barry, we incurred an impact of approximately $10 million to net income and cash available for distribution in the third quarter of 2019. Certain producers in the Gulf of Mexico elected to shut-in and evacuate as a safety precaution, while others were forced to shut-in or curtail production due to onshore closures. There was no material impact to our people, assets or the environment as a result of the storm.

Certain connected producers have had planned turnarounds during 2019. The impact to net income and cash available for distribution was approximately $5 million in the first half of 2019, and we expect the impact for the fourth quarter of 2019 to be approximately $5 million. Additionally, as a result of lower expected production volumes in the offshore, as well as a planned producer turnaround in the region, we anticipate an impact in 2020 of approximately $15 million to both net income and cash available for distribution.

We expect to receive approximately $9 million in the fourth quarter of 2019 from SPLC related to a storage revenue reimbursement provision contained in the Purchase and Sale Agreement entered into in 2016 under which we acquired an additional 20% interest in Mars. Pursuant to the Purchase and Sale Agreement, SPLC agreed to pay us up to $10 million if Mars inventory management fees do not meet certain levels for the calendar years 2017 through 2021. Refer to *Note 15 – Subsequent Events* in the *Notes to the Unaudited Consolidated Financial Statements* for additional information.

Executive Overview

Net income was $402 million and net income attributable to the Partnership was $388 million during the nine months ended September 30, 2019. We generated cash from operations of $458 million. As of September 30, 2019, we had cash and cash equivalents of $294 million, total debt of $2,694 million and unused capacity under our credit facilities of $896 million.

Our 2019 operations and strategic initiatives demonstrate our continuing focus on our business strategies:

- Maintain operational excellence through prioritization of safety, reliability and efficiency;
- Growth through strategic acquisitions in key geographies to achieve integrated value;
- Focus on advantageous commercial agreements with creditworthy counterparties to enhance financial results and deliver reliable distribution growth over the long-term; and
- Optimize existing assets and pursue organic growth opportunities.

How We Evaluate Our Operations

Our management uses a variety of financial and operating metrics to analyze our performance. These metrics are significant factors in assessing our operating results and profitability and include: (i) revenue (including pipeline loss allowance (“PLA”) from contracted capacity and throughput; (ii) operations and maintenance expenses (including capital expenses); (iii) Adjusted EBITDA (defined below); and (iv) Cash Available for Distribution.

Contracted Capacity and Throughput

The amount of revenue our assets generate primarily depends on our transportation and storage services agreements with shippers and the volumes of crude oil, refinery gas and refined products that we handle through our pipelines, terminals and storage tanks.

The commitments under our transportation, terminaling and storage services agreements with shippers and the volumes which we handle in our pipelines and storage tanks are primarily affected by the supply of, and demand for, crude oil, refinery gas, natural gas and refined products in the markets served directly or indirectly by our assets. This supply and demand is impacted by the market prices for these products in the markets we serve. We utilize the commercial arrangements we believe are the most prudent under the market conditions to deliver on our business strategy. The results of our operations will be impacted by our ability to:

- maintain utilization of and rates charged for our pipelines and storage facilities;
- utilize the remaining uncommitted capacity on, or add additional capacity to, our pipeline systems;

- increase throughput volumes on our pipeline systems by making connections to existing or new third-party pipelines or other facilities, primarily driven by the anticipated supply of, and demand for, crude oil and refined products; and

- identify and execute organic expansion projects.

Operations and Maintenance Expenses

Our management seeks to maximize our profitability by effectively managing operations and maintenance expenses. These expenses are comprised primarily of labor expenses (including contractor services), insurance costs (including coverage for our consolidated assets and operated joint ventures), utility costs (including electricity and fuel) and repairs and maintenance expenses. Utility costs fluctuate based on throughput volumes and the grades of crude oil and types of refined products we handle. Our property and business interruption coverage is provided by a wholly owned subsidiary of Shell, which results in cost savings and improved coverage. Our other operations and maintenance expenses generally remain stable across broad ranges of throughput and storage volumes, but can fluctuate from period to period depending on the mix of activities, particularly maintenance activities, performed during a period. At times, the fluctuation in operations and maintenance expenses may materially increase due to the performance of planned maintenance, such as turnaround work and asset integrity work, and unplanned maintenance, such as repair of damage caused by a natural disaster.

Adjusted EBITDA and Cash Available for Distribution

Adjusted EBITDA and cash available for distribution have important limitations as analytical tools because they exclude some, but not all, items that affect net income and net cash provided by operating activities. You should not consider Adjusted EBITDA or cash available for distribution in isolation or as a substitute for analysis of our results as reported under GAAP. Additionally, because Adjusted EBITDA and cash available for distribution may be defined differently by other companies in our industry, our definition of Adjusted EBITDA and cash available for distribution may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The GAAP measures most directly comparable to Adjusted EBITDA and cash available for distribution are net income and net cash provided by operating activities. Adjusted EBITDA and cash available for distribution should not be considered as an alternative to GAAP net income or net cash provided by operating activities. Please refer to "*Results of Operations - Reconciliation of Non-GAAP Measures*" for the reconciliation of GAAP measures net income and cash provided by operating activities to non-GAAP measures, Adjusted EBITDA and cash available for distribution.

We define Adjusted EBITDA as net income before income taxes, net interest expense, gain or loss from dispositions of fixed assets, allowance oil reduction to net realizable value, loss from revision of asset retirement obligation, and depreciation, amortization and accretion, *plus* cash distributed to us from equity investments for the applicable period, *less* equity method distributions included in other income and income from equity investments. We define Adjusted EBITDA attributable to the Partnership as Adjusted EBITDA less Adjusted EBITDA attributable to noncontrolling interests and Adjusted EBITDA attributable to Parent.

We define cash available for distribution as Adjusted EBITDA attributable to the Partnership less maintenance capital expenditures attributable to the Partnership, net interest paid, cash reserves and income taxes paid, plus net adjustments from volume deficiency payments attributable to the Partnership and certain one-time payments received. Cash available for distribution will not reflect changes in working capital balances.

We believe that the presentation of these non-GAAP supplemental financial measures provides useful information to management and investors in assessing our financial condition and results of operations. We present these financial measures because we believe replacing our proportionate share of our equity investments' net income with the cash received from such equity investments more accurately reflects the cash flow from our business, which is meaningful to our investors.

Adjusted EBITDA and cash available for distribution are non-GAAP supplemental financial measures that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess:

- our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods;

- the ability of our business to generate sufficient cash to support our decision to make distributions to our unitholders;

- our ability to incur and service debt and fund capital expenditures; and

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

Factors Affecting Our Business and Outlook

We believe key factors that impact our business are the supply of, and demand for, crude oil, natural gas, refinery gas and refined products in the markets in which our business operates. We also believe that our customers' requirements, competition and government regulation of crude oil, refined products, natural gas and refinery gas play an important role in how we manage our operations and implement our long-term strategies. In addition, acquisition opportunities, whether from Shell or third parties, and financing options, will also impact our business. These factors are discussed in more detail below.

Changes in Crude Oil Sourcing and Refined Product Demand Dynamics

To effectively manage our business, we monitor our market areas for both short-term and long-term shifts in crude oil and refined products supply and demand. Changes in crude oil supply such as new discoveries of reserves, declining production in older fields, operational impacts at producer fields and the introduction of new sources of crude oil supply, affect the demand for our services from both producers and consumers. One of the strategic advantages of our crude oil pipeline systems is their ability to transport attractively priced crude oil from multiple supply markets to key refining centers along the Gulf Coast. Our crude oil shippers periodically change the relative mix of crude oil grades delivered to the refineries and markets served by our pipelines. They also occasionally choose to store crude longer term when the forward price is higher than the current price (a "contango market"). While these changes in the sourcing patterns of crude oil transported or stored are reflected in changes in the relative volumes of crude oil by type handled by our pipelines, our total crude oil transportation revenue is primarily affected by changes in overall crude oil supply and demand dynamics and U.S. exports.

Similarly, our refined products pipelines have the ability to serve multiple major demand centers. Our refined products shippers periodically change the relative mix of refined products shipped on our refined products pipelines, as well as the destination points, based on changes in pricing and demand dynamics. While these changes in shipping patterns are reflected in relative types of refined products handled by our various pipelines, our total product transportation revenue is primarily affected by changes in overall refined products supply and demand dynamics. Demand can also be greatly affected by refinery performance in the end market, as refined products pipeline demand will increase to fill the supply gap created by refinery issues.

We can also be constrained by asset integrity considerations in the volumes we ship. We may elect to reduce cycling on our systems to reduce asset integrity risk, which in turn would likely result in lower revenues.

As these supply and demand dynamics shift, we anticipate that we will continue to actively pursue projects that link new sources of supply to producers and consumers. Similarly, as demand dynamics change, we anticipate that we will create new services or capacity arrangements that meet customer requirements. We expect to continue extending our corridor pipelines to provide developing growth regions in the Gulf of Mexico with access via our existing corridors to onshore refining centers and market hubs. For example, Appomattox and Buckskin came online during 2019. We believe this strategy will allow our offshore business to grow profitably throughout demand cycles.

Changes in Customer Contracting

We generate a portion of our revenue under long-term transportation service agreements with shippers, including ship-or-pay agreements and life-of-lease transportation agreements, some of which provide a guaranteed return, and storage service agreements with marketers, pipelines and refiners. Historically, the commercial terms of these long-term transportation and storage service agreements have substantially mitigated volatility in our financial results by limiting our direct exposure to reductions in volumes due to supply or demand variability. Our business could be negatively affected if we are unable to renew or replace our contract portfolio on comparable terms, by sustained downturns or sluggishness in commodity prices or the economy in general, and is impacted by shifts in supply and demand dynamics, the mix of services requested by the customers of our pipelines, competition and changes in regulatory requirements affecting our operations. Our business can also be impacted by asset integrity or customer interruptions and natural disasters.

Two of our long-term transportation services agreements on the Zydeco system expired at the end of 2018, and another expired in the second quarter of 2019. These contracts represented approximately 30% of our revenues for the year ended December 31,

2018. As a result of the open season conducted in the second quarter of 2019, Zydeco was able to re-contract the expired volumes. Although we have replaced the volumes from the expired contracts, the rates under the new contracts are lower than those previously contracted, and therefore net income and cash available for distribution will be lower.

The market environment dictated the rates, terms and duration of these agreements. Increases or decreases in available crude supply in the Houston market can affect demand for transportation to other markets, especially the Louisiana refining market. A number of factors can impact this, including increased production in fields with Houston connectivity and increased export capabilities at Texas Gulf Coast ports. Shippers may also choose alternate routes on which to ship. Alternatively, Louisiana refineries' availability and crude slates, as well as potential crude options at Louisiana Gulf Coast ports, can impact Louisiana demand for crude types available in the Houston market. Additionally, crude prices and basis differentials directly impact the price our customers are willing to pay to transport. Despite these challenges, we believe that Zydeco continues to serve an important market and we strive to maximize the long-term value of the system to both shippers and the pipeline.

Revenue we generate from spot shipments typically has a corresponding positive impact on cash available for distribution. However, in the first half of 2019, previously committed shippers whose contracts expired at the end of 2018 had the ability to ship on credits earned related to under-shipments prior to the expiration of their contracts. As such, revenue is recognized for the usage of those credits, but cash is not received. For the contract that expired during the second quarter of 2019, the shipper has the ability to use the credits, and if unused, they will expire during the fourth quarter of 2019. These credits are not expected to be material.

The cumulative effect of the foregoing circumstances and challenges on Zydeco has had, and may continue to have, a material impact on our financial results. The impact on both our net income and cash available for distribution in the first half of 2019 was approximately $55 million.

Changes in Commodity Prices and Customers' Volumes

Crude oil prices have fluctuated significantly over the past few years, often with drastic moves in relatively short periods of time. The current global geopolitical and economic uncertainty continues to contribute to volatility in financial and commodity markets. Our direct exposure to commodity price fluctuations is limited to the PLA provisions in our tariffs. We have indirect exposure to commodity price fluctuations to the extent such fluctuations affect the shipping patterns of our customers. Certain of our assets benefit from long-term fee-based arrangements, and are strategically positioned to connect crude oil volumes originating from key onshore and offshore production basins to the Texas and Louisiana refining markets, where demand for throughput has remained strong. Historically, we have not experienced a material decline in throughput volumes on our crude oil pipeline systems as a result of lower crude oil prices. However, if crude oil prices remain at lower levels for a sustained period, we could see a reduction in our transportation volumes if production coming into our systems is deferred and our associated allowance oil sales decrease. Our customers may also experience liquidity and credit problems, which could cause them to defer development or repair projects, avoid our contracts in bankruptcy, or renegotiate our contracts on terms that are less attractive to us or impair their ability to perform under our contracts.

Our throughput volumes on our refined products pipeline systems depend primarily on the volume of refined products produced at connected refineries and the desirability of our end markets. These factors in turn are driven by refining margins, maintenance schedules and market differentials. Refining margins depend on the cost of crude oil or other feedstocks and the price of refined products. These margins are affected by numerous factors beyond our control, including the domestic and global supply of and demand for crude oil and refined products. We are currently experiencing relatively high demand for our pipeline systems that service refineries.

Other Changes in Customers' Volumes

Total Zydeco volumes were higher in the three months ended September 30, 2019 ("Current Quarter") versus the three months ended September 30, 2018 ("Comparable Quarter") primarily resulting from increased demand out of Nederland. Total Zydeco volumes were higher in the nine months ended September 30, 2019 ("Current Period") versus the nine months ended September 30, 2018 ("Comparable Period") primarily due to declaring Force Majeure in the Comparable Period related to the hydro-test of the Zydeco pipeline from Houston, Texas to Houma, Louisiana which resulted in 49 days of downtime.

Transportation volumes on the Auger pipeline were lower in the Current Quarter versus the Comparable Quarter primarily due to Hurricane Barry, as well as temporary shut-ins of connected platforms due to unplanned maintenance. Volumes were higher in the Current Period versus the Comparable Period due to increased production at the Auger and Enchilada platforms following drilling and workover activity at existing fields, as well as the shut-in of production at certain connected producer facilities in the Comparable Period caused by the fire at the Enchilada platform late in 2017.

Transportation volumes on the Na Kika pipeline were lower in the Current Quarter versus the Comparable Quarter due to a planned turnaround on the producing platform in the Current Quarter, as well as the impact of Hurricane Barry. Volumes in the Current Period versus the Comparable Period were lower due to both a planned turnaround and unplanned maintenance in the Current Period, as well as the impact of Hurricane Barry. Delta experienced higher transportation volumes in the Current Quarter and Current Period versus the Comparable Quarter and Comparable Period due to higher receipts from Odyssey, partially offset by lower volumes received from Na Kika.

Odyssey volumes were higher in the Current Quarter versus the Comparable Quarter primarily driven by increased production at certain platforms in the Current Quarter. Odyssey volumes were higher in the Current Period versus the Comparable Period primarily driven by multiple fields tied back to the Delta House platform being shut-in for unplanned maintenance in the Comparable Period, as well as increased production at certain platforms in the Current Period.

Transportation volumes on Amberjack were slightly lower in the Current Quarter versus the Comparable Quarter driven by reductions related to Hurricane Barry, largely offset by increased production from two large fields in the central Gulf of Mexico. Transportation volumes on Amberjack were higher in the Current Period versus the Comparable Period driven by increased production from two large fields in the central Gulf of Mexico.

Transportation volumes on Mars were lower in the Current Quarter versus the Comparable Quarter driven by impacts from Hurricane Barry, as well as changes in shipper behavior based on current market conditions. Transportation volumes on Mars were higher in the Current Period versus the Comparable Period driven by increased production from three large fields in the central Gulf of Mexico, as well as from an increase in receipt volume from a connecting pipeline system. Storage volumes decreased in both the Current Quarter and Current Period versus the Comparable Quarter and Comparable Period due to the increase in demand for exports reducing the need for storage.

Major Maintenance Projects

On the Zydeco pipeline system, we are finalizing a directional drill project to address soil erosion over a two-mile section of our 22-inch diameter pipeline under the Atchafalaya River and Bayou Shaffer in Louisiana (the "directional drill project"). Due to weather and water conditions, final construction activities were delayed and we now expect the project to be completed by the end of 2019. Zydeco expects to incur approximately $42 million in maintenance capital expenditures for the total project. Since inception in the latter half of 2017, Zydeco has incurred $41 million, of which less than $1 million and $10 million were incurred in the Current Quarter and Current Period, respectively. In connection with the acquisitions of additional interests in Zydeco, SPLC agreed to reimburse us against our proportionate share of certain costs and expenses with respect to this project. During the Current Quarter and Current Period, we filed claims for reimbursement from SPLC of less than $1 million and $10 million, respectively, which were treated as capital contributions from our Parent.

For expected capital expenditures in 2019, refer to *Capital Resources and Liquidity - Capital Expenditures and Investments*.

Major Expansion Projects

In June 2017, Zydeco began construction on a tank expansion project in Houma to address future capacity shortfalls during tank maintenance which will allow us to service additional capacity, as well as allow for existing tanks to come out of service for regularly scheduled inspection and maintenance. The scope included interconnecting piping, dike expansion and associated facility work. The tanks were completed during the first quarter of 2019 and are operational. We built two 250,000 barrel working tanks at the existing Houma facility and have incurred growth capital expenditures of $46 million since inception, of which less than $1 million and $7 million, respectively, were incurred in the Current Quarter and Current Period. Any remaining costs are not expected to be material.

On Mars, we recently announced a solicitation of interest for a potential expansion of the system. The solicitation is intended to gauge producer interest in an expansion in order to transport volumes to market and would offer priority service on any new incremental capacity.

On Amberjack, we have seen an increase in volume due to multiple production expansion projects, which has resulted in an increase in equity investment income and distributions received from Amberjack. See *"Factors Affecting Our Business and Outlook - Changes in Crude Oil Sourcing and Refined Products Demand Dynamics"* for additional information.

Customers

We transport and store crude oil, refined products, natural gas, and refinery gas for a broad mix of customers, including producers, refiners, marketers and traders, and are connected to other crude oil and refined products pipelines. In addition to serving directly-connected U.S. Gulf Coast markets, our crude oil and refined products pipelines have access to customers in various regions of the United States through interconnections with other major pipelines. Our customers use our transportation and storage services for a variety of reasons. Refiners typically require a secure and reliable supply of crude oil over a prolonged period of time to meet the needs of their specified refining diet and frequently enter into long-term firm transportation agreements to ensure a ready supply of crude oil, rate surety and sometimes sufficient transportation capacity over the life of the contract. Similarly, chemical sites require a secure and reliable supply of refinery gas to crackers and enter into long-term firm transportation agreements to ensure steady supply. Producers of crude oil and natural gas require the ability to deliver their product to market and frequently enter into firm transportation contracts to ensure that they will have sufficient capacity available to deliver their product to delivery points with greater market liquidity. Marketers and traders generate income from buying and selling crude oil and refined products to capitalize on price differentials over time or between markets. Our customer mix can vary over time and largely depends on the crude oil and refined products supply and demand dynamics in our markets.

Competition

Our pipeline systems compete primarily with other interstate and intrastate pipelines and with marine and rail transportation. Some of our competitors may expand or construct transportation systems that would create additional competition for the services we provide to our customers. For example, newly constructed transportation systems in the onshore Gulf of Mexico region may increase competition in the markets where our pipelines operate. In addition, future pipeline transportation capacity could be constructed in excess of actual demand, which could reduce the demand for our services, in the market areas we serve, and could lead to the reduction of the rates that we receive for our services. While we do see some variation from quarter to quarter resulting from changes in our customers' demand for transportation, this risk has historically been mitigated by the long-term, fixed rate basis upon which we had contracted a substantial portion of our capacity. However, contracts that represented approximately 30% of our revenues for the year ended December 31, 2018 expired in either December 2018 or in the second quarter of 2019. During the open season held in the second quarter of 2019, the volumes from these expired contracts were replaced with new contracts. See *"Changes in Customer Contracting"* for additional information.

Our storage terminal competes with surrounding providers of storage tank services. Some of our competitors have expanded terminals and built new pipeline connections, and third parties may construct pipelines that bypass our location. These, or similar events, could have a material adverse impact on our operations.

Our refined products terminals generally compete with other terminals that serve the same markets. These terminals may be owned by major integrated oil and gas companies or by independent terminaling companies. While fees for terminal storage and throughput services are not regulated, they are subject to competition from other terminals serving the same markets. However, our contracts provide for stable, long-term revenue, which is not impacted by market competitive forces.

Regulation

Our assets are subject to regulation by various federal, state and local agencies, For example, our interstate common carrier and intrastate pipeline systems are subject to economic regulation by the Federal Energy Regulatory Commission ("FERC").

In May 2019, Zydeco, Mars, LOCAP and Colonial filed with FERC to increase rates subject to FERC's indexing adjustment methodology by approximately 4.3% starting on July 1, 2019.

On March 21, 2019, FERC issued a Notice of Inquiry ("NOI") in Docket No. PL19-4-000 seeking comments on whether it should modify its policies concerning the determination of return on equity ("ROE") for utilities, and on whether any policy changes concerning utility ROEs should be applied to oil and natural gas pipelines. The NOI includes a discussion on: FERC's use of the discounted cash flow ("DCF") methodology for utilities and pipelines; other financial models that can be used to determine ROE; and the decisions on use of DCF in the utility sector that led to issuance of the NOI. The NOI seeks comments on eight topics and on several technical sub-issues within each topic, including on whether to apply a single ROE policy across oil pipelines, natural gas pipelines, and utilities. Initial comments were filed on June 26, 2019, and reply comments were filed July 26, 2019. We will continue to monitor developments in this area.

On July 18, 2018, FERC issued Order No. 849, which adopts procedures to address the impact of the Tax Cuts and Jobs Act and its Revised Policy Statement on Treatment of Income Taxes in Docket No. PL17-1-000, issued on March 15, 2018 (the "March 2018 Revised Policy Statement"). FERC contemporaneously issued Order on Rehearing in Docket No. PL17-1-000, which affirms the FERC position in the March 2018 Revised Policy Statement that eliminated the recovery of an income tax allowance by master limited partnership ("MLP") oil and gas pipelines in cost-of-service-based rates. In Order No. 849, however, FERC has clarified its general disallowance of MLP income tax allowance recovery by providing that an MLP will not be precluded in a future proceeding from making a claim that it is entitled to an income tax allowance. FERC will permit an MLP to demonstrate that its recovery of an income tax allowance does not result in a "double-recovery of investors' income tax costs." FERC affirmed Order No. 849 on rehearing on April 18, 2019. Parties also have sought judicial review of the March 2018 Revised Policy Statement, and that challenge is pending in the U.S. Court of Appeals for the D.C. Circuit.

As was the case with the March 2018 Revised Policy Statement, FERC did not propose any industry-wide action regarding review of rates for crude oil and liquids pipelines in its July 2018 issuances. MLP owned crude oil and liquids pipelines are now required to report Page 700 information in their FERC Form 6 annual reports. FERC intends to address the impact of the elimination of the income tax allowance as part of its five-year review of the oil pipeline rate index level in 2020. FERC will also implement the elimination of the income tax allowance in proceedings involving review of initial cost-of-service rates, rate changes, and rate complaints. For crude oil and liquids pipelines owned by non-MLP partnerships and other pass-through businesses, FERC will address such issues as they arise in subsequent proceedings.

We believe that FERC's recent decisions, including the March 2018 Revised Policy Statement and issuances in July 2018, will not have a material impact on our operations and financial performance. Since FERC only maintains jurisdiction over interstate crude oil and liquids pipelines, the recent decisions are not expected to have an impact on rates charged through our offshore operations. FERC also does not maintain jurisdiction over certain of the onshore assets in which we have interests. Rates related to these assets should not be impacted by the FERC decision. For our FERC-regulated rates charged through our interstate crude oil and liquids pipelines, the rates are based on either a negotiated or market-based rate, which are below the cost-of-service rates established by FERC. As such, neither our negotiated nor market-based rate revenue for our FERC-regulated assets would be subject to the income tax recovery disallowance. Additionally, we have evaluated the impact of FERC's recent policy changes on our non-operated joint ventures. Due to the nature of their assets, operations and/or their entity form, we do not believe there will be a material impact to their operations and earnings.

On October 1, 2019, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued three new final rules. One rule establishes procedures to implement the expanded emergency order enforcement authority set forth in an October 2016 interim final rule. Among other things, this rule allows PHMSA to issue an emergency order without advance notice or opportunity for a hearing. The other two rules impose several new requirements on operators of onshore gas transmission systems and hazardous liquids pipelines. The rule concerning gas transmission extends the requirement to conduct integrity assessments beyond High Consequence Areas ("HCAs") to pipelines in Moderate Consequence Areas ("MCAs"). It also includes requirements to reconfirm Maximum Allowable Operating Pressure ("MAOP"), report MAOP exceedances, consider seismicity as a risk factor in integrity management, and use certain safety features on in-line inspection equipment. The rule concerning hazardous liquids extends the required use of leak detection systems beyond HCAs to all regulated non-gathering hazardous liquid pipelines, requires reporting for gravity fed lines and unregulated gathering lines, requires periodic inspection of all lines not in HCAs, calls for inspections of lines after extreme weather events, and adds a requirement to make all lines in or affecting HCAs capable of accommodating in-line inspection tools over the next 20 years. These new rules could require us to install new or modified safety controls, pursue additional capital projects, or conduct maintenance programs on an accelerated basis; any or all of which tasks could result in incurring increased operating costs that could be significant and have a material adverse effect on our operations or financial position.

For more information on federal, state and local regulations affecting our business, please read *Part I, Items 1 and 2, Business and Properties* in our 2018 Annual Report.

Acquisition Opportunities

We plan to continue to pursue acquisitions of complementary assets from SPLC and other affiliates of Shell, as well as from third parties. Since our initial public offering, we have acquired approximately $5,700 million of assets from Shell and its affiliates. We also may pursue acquisitions jointly with SPLC. Given the size and scope of SPLC's footprint and its significant ownership interest in us, we expect acquisitions from SPLC will be an important growth mechanism for the foreseeable future. Neither SPLC nor any of its affiliates is under any obligation, however, to sell or offer to sell us additional assets or to pursue acquisitions jointly with us, and we are under no obligation to buy any additional assets from them or to pursue any joint acquisitions with them. We will continue to focus our acquisition strategy on transportation and midstream assets. We believe that we will be well positioned to acquire midstream assets from SPLC, other subsidiaries of Shell, and third parties should such opportunities arise. Identifying and executing acquisitions is a key part of our strategy. However, if we do not make acquisitions on economically acceptable terms or if we incur a substantial amount of debt in connection with the acquisitions, our future growth will be limited, and the acquisitions we do make may reduce, rather than increase, our available cash. Our ability to obtain financing or access capital markets may also directly impact our ability to continue to pursue strategic acquisitions. The level of current market demand for equity issued by MLP’s may make it more challenging for us to fund our acquisitions with the issuance of equity in the capital markets. However, we believe our balance sheet offers us flexibility, providing us other financing options such as hybrid securities, purchases of common units by our Sponsor and debt.

Results of Operations

The following tables and discussion are a summary of our results of operations, including a reconciliation of Adjusted EBITDA and cash available for distribution to net income and net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	$ 125	$ 153	$ 377	$ 382
Costs and expenses				
Operations and maintenance	33	34	92	128
Cost of product sold	10	14	26	23
Loss from revision of asset retirement obligation	—	—	2	—
General and administrative	16	13	45	44
Depreciation, amortization and accretion	12	11	36	34
Property and other taxes	5	3	14	13
Total costs and expenses	76	75	215	242
Operating income	49	78	162	140
Income from equity method investments	115	73	265	161
Dividend income from other investments	—	15	14	53
Other income	8	8	28	24
Investment, dividend and other income	123	96	307	238
Interest expense, net	26	19	67	43
Income before income taxes	146	155	402	335
Income tax expense	—	—	—	—
Net income	146	155	402	335
Less: Net income attributable to noncontrolling interests	5	6	14	11
Net income attributable to the Partnership	$ 141	$ 149	$ 388	$ 324
General partner's interest in net income attributable to the Partnership	$ 36	$ 37	$ 93	$ 96
Limited Partners' interest in net income attributable to the Partnership	$ 105	$ 112	$ 295	$ 228
Adjusted EBITDA attributable to the Partnership [(1)]	$ 186	$ 187	$ 543	$ 438
Cash available for distribution attributable to the Partnership [(1)]	$ 153	$ 163	$ 455	$ 380

[(1)] For a reconciliation of Adjusted EBITDA and cash available for distribution attributable to the Partnership to their most comparable GAAP measures, please read "—*Reconciliation of Non-GAAP Measures*."

Pipeline throughput (thousands of barrels per day) [1]	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Zydeco – Mainlines	667	657	643	596
Zydeco – Other segments	257	244	262	243
Zydeco total system	924	901	905	839
Amberjack total system	358	359	360	315
Mars total system	519	580	548	499
Bengal total system	522	536	516	545
Poseidon total system	249	224	256	229
Auger total system	69	81	78	54
Delta total system	254	252	259	222
Na Kika total system	26	48	35	42
Odyssey total system	146	130	149	110
Colonial total system	2,653	2,586	2,619	2,581
Explorer total system	694	732	674	666
LOCAP total system	1,134	1,240	1,186	1,226
Other systems	381	300	315	338
Terminals [2] [3]				
Lockport terminaling throughput and storage volumes	233	227	225	236
Revenue per barrel ($ per barrel)				
Zydeco total system [4]	$ 0.50	$ 0.79	$ 0.54	$ 0.73
Amberjack total system [4]	2.38	2.48	2.38	2.49
Mars total system [4]	1.36	1.22	1.24	1.21
Bengal total system [4]	0.46	0.35	0.41	0.33
Auger total system [4]	1.47	1.35	1.40	1.28
Delta total system [4]	0.60	0.54	0.58	0.55
Na Kika total system [4]	0.81	0.82	0.77	0.77
Odyssey total system [4]	0.93	0.89	0.91	0.87
Lockport total system [5]	0.22	0.21	0.22	0.21

[1] Pipeline throughput is defined as the volume of delivered barrels. For additional information regarding our pipeline and terminal systems, refer to *Part I, Item I - Business and Properties - Our Assets and Operations* in our 2018 Annual Report.
[2] Terminaling throughput is defined as the volume of delivered barrels and storage is defined as the volume of stored barrels.
[3] Refinery Gas Pipeline and our refined products terminals are not included above as they generate revenue under transportation and terminaling service agreements, respectively, that provide for guaranteed minimum throughput.
[4] Based on reported revenues from transportation and allowance oil divided by delivered barrels over the same time period. Actual tariffs charged are based on shipping points along the pipeline system, volume and length of contract.
[5] Based on reported revenues from transportation and storage divided by delivered and stored barrels over the same time period. Actual rates are based on contract volume and length.

Reconciliation of Non-GAAP Measures

The following tables present a reconciliation of Adjusted EBITDA and cash available for distribution to net income and net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

Please read "—*Adjusted EBITDA and Cash Available for Distribution*" for more information.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Reconciliation of Adjusted EBITDA and Cash Available for Distribution to Net Income				
Net income	$ 146	$ 155	$ 402	$ 335
Add:				
Loss from revision of asset retirement obligation	—	—	2	—
Allowance oil reduction to net realizable value	1	—	1	—
Depreciation, amortization and accretion	12	11	36	34
Interest expense, net	26	19	67	43
Cash distribution received from equity method investments	130	89	341	217
Less:				
Equity method distributions included in other income	8	7	25	17
Income from equity method investments	115	73	265	161
Adjusted EBITDA	192	194	559	451
Less:				
Adjusted EBITDA attributable to noncontrolling interests	6	7	16	13
Adjusted EBITDA attributable to the Partnership	186	187	543	438
Less:				
Net interest paid attributable to the Partnership [1]	26	19	67	43
Maintenance capex attributable to the Partnership	7	5	21	18
Add:				
Net adjustments from volume deficiency payments attributable to the Partnership	—	(1)	(10)	(4)
Reimbursements from Parent included in partners' capital	—	1	10	7
Cash available for distribution attributable to the Partnership	$ 153	$ 163	$ 455	$ 380

[1] Amount represents both paid and accrued interest attributable to the period.

	Nine Months Ended September 30,	
	2019	2018
Reconciliation of Adjusted EBITDA and Cash Available for Distribution to Net Cash Provided by Operating Activities		
Net cash provided by operating activities	$ 458	$ 368
Add:		
Interest expense, net	67	43
Return of investment	56	41
Less:		
Change in deferred revenue and other unearned income	(11)	(4)
Non-cash interest expense	1	—
Allowance oil reduction to net realizable value	1	—
Change in other assets and liabilities	31	5
Adjusted EBITDA	559	451
Less:		
Adjusted EBITDA attributable to noncontrolling interests	16	13
Adjusted EBITDA attributable to the Partnership	543	438
Less:		
Net interest paid attributable to the Partnership [1]	67	43
Maintenance capex attributable to the Partnership	21	18
Add:		
Net adjustments from volume deficiency payments attributable to the Partnership	(10)	(4)
Reimbursements from Parent included in partners' capital	10	7
Cash available for distribution attributable to the Partnership	$ 455	$ 380

[1] Amount represents both paid and accrued interest attributable to the period.

Current Quarter compared to Comparable Quarter

Revenues

Total revenue decreased by $28 million in the Current Quarter as compared to the Comparable Quarter, comprised of $23 million attributable to transportation services revenue and $5 million attributable to product revenue.

Transportation services revenue decreased $24 million for Zydeco primarily due to committed contracts that expired either at the end of 2018 or during the second quarter of 2019, coupled with a larger amount of used and expired credits in the Comparable Quarter. Transportation services revenue decreased by $1 million for Pecten primarily due to a decrease in Na Kika revenue due to lower volumes in the Current Quarter resulting from planned turnaround activity and the impact of Hurricane Barry. Further, Auger revenue decreased due to temporary shut-ins of connected platforms due to unplanned maintenance, as well as the impact of Hurricane Barry. Partially offsetting this decrease was an increase in Delta revenue due to higher receipts from Odyssey in the Current Quarter and the impact of operational issues in the Comparable Quarter. Odyssey revenue increased $2 million primarily due to increased production at certain platforms. Transportation services revenue for Sand Dollar represents the non-lease service component of its transportation services agreements and was relatively flat.

Product revenue decreased by $5 million. Product revenue results from allowance oil sales for Zydeco and Pecten.

Storage revenue, terminaling services revenue and lease revenue were consistent in the Current Quarter and Comparable Quarter.

Costs and Expenses

Total costs and expenses increased $1 million in the Current Quarter due to $3 million of higher general and administrative expenses, $2 million in higher property taxes due to changes in property tax appraisal estimates and $1 million of higher depreciation expense. These increases were partially offset by $4 million of lower cost of product sold due to less allowance oil sales in the Current Quarter, as well as a net realizable value adjustment on allowance oil inventory, and $1 million of lower operations and maintenance expense.

General and administrative expense increased primarily due to an increase in the fee under the 2019 Omnibus Agreement, as well as higher outside services in the Current Quarter, partially offset by the allocation of severance expense in the Comparable Quarter.

Operations and maintenance expenses decreased as a result of lower maintenance expense and a larger gain on pipeline operations, partially offset by higher power and fuel costs, as well as insurance expense.

Investment, Dividend and Other Income

Investment, dividend and other income increased $27 million in the Current Quarter as compared to the Comparable Quarter. Income from equity method investments increased by $42 million, primarily as a result of the acquisition of additional interests in Explorer and Colonial in June 2019. Other income was flat and is primarily related to distributions from Poseidon in both the Current Quarter and Comparable Quarter. These increases were partially offset by a decrease in dividend income from other investments of $15 million due to the change in accounting for Explorer and Colonial as equity method investments in the Current Quarter rather than other investments in the Comparable Quarter following the acquisition of additional interests in June 2019.

Interest Expense

Interest expense increased by $7 million due to additional borrowings outstanding under our credit facilities during the Current Quarter versus the Comparable Quarter.

Current Period compared to Comparable Period

Revenues

Total revenue decreased by $5 million in the Current Period as compared to the Comparable Period, comprised of $9 million attributable to transportation services revenue, partially offset by an increase of $4 million attributable to product revenue.

Transportation services revenue decreased by $37 million for Zydeco primarily due to committed contracts that expired either at the end of 2018 or during the Current Period. This decrease was partially offset by the impact of being out of service for 49 days as a result of the hydro-test in the Comparable Period. Transportation services revenue increased by $17 million for Pecten primarily due to an increase on Auger due to improved volumes at connected production facilities in the Current Period that were negatively impacted in the Comparable Period as a result of the fire in November 2017. Further, Delta revenue increased due to higher receipts from Odyssey in the Current Period and the impact of operational issues in the Comparable Period, partially offset by lower volumes received from Na Kika in the Current Period. Na Kika revenue decreased slightly due to lower volumes in the Current Quarter resulting from planned turnaround activity and the impact of Hurricane Barry. Odyssey revenue increased $11 million primarily due to connecting fields being shut-in for unplanned maintenance in the Comparable Period, as well as increased production at certain platforms in the Current Period. Transportation services revenue for Sand Dollar represents the non-lease service component of its transportation services agreements and was relatively flat.

Product revenue increased by $4 million. Product revenue results from allowance oil sales for Zydeco and Pecten.

Storage revenue, terminaling services revenue and lease revenue were relatively consistent in the Current Period and Comparable Period.

Costs and Expenses

Total costs and expenses decreased $27 million in the Current Period primarily due to $36 million in lower operations and maintenance expenses. This decrease was partially offset by $3 million of higher cost of product sold due to more allowance oil sales in the Current Period and a net realizable value adjustment on allowance oil inventory, a $2 million loss on revision of asset retirement obligation, $2 million of additional depreciation expense, $1 million of higher general and administrative expenses and $1 million in higher property taxes due to changes in property tax appraisal estimates.

Operations and maintenance expenses decreased primarily due to the impact in the Comparable Period of being out of service for 49 days as a result of the hydro-test, as well as a larger gain on pipeline operations in the Current Period. This decrease was partially offset by an increase in insurance expense.

General and administrative expense increased primarily due to an increase in the fee under the 2019 Omnibus Agreement, as well as higher outside services in the Current Period, partially offset by the allocation of severance expense in the Comparable Period.

Investment, Dividend and Other Income

Investment, dividend and other income increased $69 million in the Current Period as compared to the Comparable Period. Income from equity method investments increased by $104 million, primarily as a result of the equity earnings associated with the acquisition of additional interests in Explorer and Colonial in June 2019, as well as the acquisition of Amberjack in May 2018. Other income increased by $4 million primarily related to distributions from Poseidon, partially offset by higher business continuity insurance proceeds received in the Comparable Period in connection with the fire at the Enchilada platform impacting Auger. These increases were partially offset by a decrease in dividend income from other investments of $39 million due to the change in accounting for Explorer and Colonial as equity method investments in the Current Quarter rather than other investments in the Comparable Quarter following the acquisition of additional interests in June 2019. We were entitled to distributions from Explorer and Colonial with respect to the period beginning April 1, 2019 as these were paid after the acquisition date and were no longer considered dividend income.

Interest Expense

Interest expense increased by $24 million due to additional borrowings outstanding under our credit facilities during the Current Period versus the Comparable Period.

Capital Resources and Liquidity

We expect our ongoing sources of liquidity to include cash generated from operations, borrowings under our credit facilities and our ability to access the capital markets. We believe this access to credit along with cash generated from operations will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements, and to make quarterly cash distributions. Our liquidity as of September 30, 2019 was $1,190 million, consisting of $294 million cash and cash equivalents and $896 million of available capacity under our credit facilities.

On August 1, 2019, Zydeco entered into a senior unsecured revolving loan facility agreement with STCW, effective August 6, 2019 (the "2019 Zydeco Revolver"). The 2019 Zydeco Revolver has a borrowing capacity of $30 million and matures on August 6, 2024. Borrowings under the credit facility bear interest at the three-month LIBOR rate plus a margin. No issuance fee was incurred in connection with the 2019 Zydeco Revolver.

On December 21, 2018, we and our general partner executed Amendment No. 2 (the "Second Amendment") to the Partnership's First Amended and Restated Agreement of Limited Partnership dated November 3, 2014. Under the Second Amendment, our sponsor agreed to waive $50 million of distributions in 2019 by agreeing to reduce distributions to holders of the incentive distribution rights by: (1) $17 million for the quarter ended March 31, 2019, (2) $17 million for the quarter ended June 30, 2019 and (3) $16 million for the quarter ended September 30, 2019.

Credit Facility Agreements

As of September 30, 2019, we have entered into the following credit facilities:

	Total Capacity	Current Interest Rate	Maturity Date
Ten Year Fixed Facility	$ 600	4.18 %	June 4, 2029
Seven Year Fixed Facility	600	4.06 %	July 31, 2025
Five Year Revolver due July 2023	760	3.27 %	July 31, 2023
Five Year Revolver due December 2022	1,000	3.28 %	December 1, 2022
Five Year Fixed Facility	600	3.23 %	March 1, 2022
2019 Zydeco Revolver [1]	30	2.93 %	August 6, 2024

[1] Effective August 6, 2019, the Zydeco Revolver expired. In its place, Zydeco entered into the 2019 Zydeco Revolver. See above for additional information.

Borrowings under the Five Year Revolver due July 2023, the Five Year Revolver due December 2022 and the 2019 Zydeco Revolver bear interest at the three-month LIBOR rate plus a margin. Our weighted average interest rate for the nine months ended September 30, 2019 and September 30, 2018 was 3.8% and 3.4%, respectively. The weighted average interest rate includes drawn and undrawn interest fees, but does not consider the amortization of debt issuance costs or capitalized interest. A 1/8 percentage point (12.5 basis points) increase in the interest rate on the total variable rate debt of $894 million as of September 30, 2019 would increase our consolidated annual interest expense by approximately $1 million.

We will need to rely on the willingness and ability of our related party lender to secure additional debt, our ability to use cash from operations and/or obtain new debt from other sources to repay/refinance such loans when they come due and/or to secure additional debt as needed.

As of September 30, 2019, we were in compliance with the covenants contained in our credit facilities, and Zydeco was in compliance with the covenants contained in the 2019 Zydeco Revolver.

For definitions and additional information on our credit facilities, refer to *Note 7 – Related Party Debt* in the *Notes to the Unaudited Consolidated Financial Statements* and *Note 9 – Related Party Debt* in the *Notes to the Consolidated Financial Statements* included in *Part II, Item 8* in our 2018 Annual Report.

Equity Issuances

On June 6, 2019, in connection with the June 2019 Acquisition, we issued 9,477,756 common units to Shell Midstream LP Holdings LLC, an indirect subsidiary of Shell. In connection with the issuance of the common units, we issued 193,424 general partner units to the general partner in order to maintain its 2% general partner interest in us. The non-cash equity consideration from this issuance was valued at $200 million pursuant to the May 2019 Contribution Agreement and was used to partially fund the June 2019 Acquisition.

On February 6, 2018, we completed the sale of 25,000,000 common units in a registered public offering for approximately $673 million net proceeds. Additionally, we completed the sale of 11,029,412 common units in a private placement with Shell Midstream LP Holdings LLC for an aggregate purchase price of $300 million.

For additional information, see *Note 10 – (Deficit) Equity* in the *Notes to the Unaudited Consolidated Financial Statements*.

Cash Flows from Our Operations

Operating Activities. We generated $458 million in cash flow from operating activities in the Current Period compared to $368 million in the Comparable Period. The increase was primarily driven by an increase in operating income due to the adverse impact of the hydro-test in the Comparable Period, as well as an increase in equity investment income related to the acquisition of Amberjack in May 2018, the acquisition of additional interests in Explorer and Colonial in June 2019 and the timing of receipt of receivables and payment of accruals in the Current Period.

Investing Activities. Our cash flow used in investing activities was $78 million in the Current Period compared to $500 million in the Comparable Period. The decrease in cash flow used in investing activities was primarily due to a smaller acquisition from Parent in the Current Period versus the Comparable Period, as well as lower contributions to Permian Basin, lower capital expenditures and a higher return of investment in the Current Period.

Financing Activities. Our cash flow used in financing activities was $294 million in the Current Period compared to cash flow provided by financing activities of $194 million in the Comparable Period. The decrease in cash flow provided by financing activities was primarily due to lower borrowings under credit facilities, increased distributions paid to the unitholders and our general partner and lower contributions from general partner in the Current Period. The decrease in cash flow provided by financing activities was partially offset by lower capital distributions to Parent, as well as the lack of repayments of credit facilities in the Current Period.

Capital Expenditures and Investments

Our operations can be capital intensive, requiring investments to maintain, expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements consist of maintenance capital expenditures and expansion capital expenditures. Examples of maintenance capital expenditures are those made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. In contrast, expansion capital expenditures are those made to acquire additional assets to grow our business, to expand and upgrade our systems and facilities and to construct or acquire new systems or facilities. We regularly explore opportunities to improve service to our customers and maintain or increase our assets' capacity and revenue. We may incur substantial amounts of capital expenditures in certain periods in connection with large maintenance projects that are intended to only maintain our assets' capacity or revenue.

We incurred capital expenditures of $29 million and $39 million for the Current Period and the Comparable Period, respectively. The decrease in capital expenditures is primarily due to lower spend on the directional drill and Houma tank expansion projects for Zydeco, coupled with lower capital contributions to Permian Basin in the Current Period.

A summary of our capital expenditures and investments is shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Expansion capital expenditures	$ 3	$ 9	$ 10	$ 19
Maintenance capital expenditures	5	4	21	19
Total capital expenditures paid	8	13	31	38
(Decrease) Increase in accrued capital expenditures	—	—	(2)	1
Total capital expenditures incurred	$ 8	$ 13	$ 29	$ 39
Contributions to investment	$ 3	$ 7	$ 13	$ 21

We expect total capital expenditures and investments to be approximately $58 million for 2019, a summary of which is shown in the table below:

	Actual	Expected	
	Nine Months Ended September 30, 2019	Three Months Ending December 31, 2019	Total Expected 2019 Capital Expenditures
Expansion capital expenditures			
Zydeco	$ 7	$ —	$ 7
Total expansion capital expenditures	7	—	7
Maintenance capital expenditures			
Zydeco	16	5	21
Pecten	3	1	4
Triton	3	2	5
Total maintenance capital expenditures	22	8	30
Contributions to investment	13	8	21
Total capital expenditures and investments	$ 42	$ 16	$ 58

Total expected expansion capital expenditures for 2019 are primarily related to the Houma tank expansion project, and expected capital contributions to Permian Basin to fund expansion capital and other expenditures.

Zydeco's maintenance capital expenditures for the three and nine months ended September 30, 2019 were $5 million and $16 million, respectively, primarily for the directional drill project. In connection with the acquisition of additional interests in Zydeco, SPLC agreed to reimburse us for our proportionate share of certain costs and expenses incurred by Zydeco with respect to the directional drill project. During the three and nine months ended September 30, 2019, we filed claims for reimbursement from SPLC of less than $1 million and $10 million, respectively. We expect Zydeco's maintenance capital expenditures to be $5 million for the remainder of 2019, of which approximately $2 million is for the directional drill project and $1 million is related to a pipeline exposure requiring replacement. The majority of the remaining spend is related an upgrade of the motor control center at Houma, pressure cycling mitigation and other routine maintenance.

Pecten's maintenance capital expenditures for the three and nine months ended September 30, 2019 were $1 million and $3 million, respectively, and we expect Pecten's maintenance capital expenditures to be approximately $1 million for the remainder of 2019. These expenditures relate to electrical improvements at the Lockport terminal and various improvements on Delta.

Triton's maintenance capital expenditures for the three and nine months ended September 30, 2019 were $2 million and $3 million, respectively, and we expect Triton's maintenance capital expenditures to be approximately $2 million for the remainder of 2019. These expenditures relate to vapor recovery improvements at the Des Plaines terminal, and tank and facility work at the Colex and Des Plaines terminals.

With the exception of the Zydeco directional drill project for which we are indemnified for our proportionate share, we anticipate that both maintenance and expansion capital expenditures for the remainder of the year will be funded primarily with cash from operations.

Contractual Obligations

A summary of our contractual obligations as of September 30, 2019 is shown in the table below:

		Total		Less than 1 year		Years 2 to 3		Years 4 to 5		More than 5 years
Operating leases for land and platform space	$	8	$	—	$	1	$	1	$	6
Finance leases [(1)]		62		5		10		10		37
Other agreements [(2)]		44		6		12		12		14
Debt obligation [(3)]		2,694		—		600		894		1,200
Interest payments on debt [(4)]		541		100		188		115		138
Total	$	3,349	$	111	$	811	$	1,032	$	1,395

(1) Finance leases include Port Neches storage tanks and Garden Banks 128 "A" platform. Finance leases include $27 million in interest, $26 million in principal and $9 million in executory costs.
(2) Includes a joint tariff agreement and tie-in agreement.
(3) See *Note 7 – Related Party Debt* in the *Notes to the Unaudited Consolidated Financial Statements* for additional information.
(4) Interest payments were calculated based on rates in effect at September 30, 2019 for variable rate borrowings.

As of September 30, 2019, our contractual obligations included long-term debt, finance lease obligations, operating lease obligations and other contractual obligations. Other than entering into the Ten Year Fixed Facility, there were no material changes to these obligations outside the ordinary course of business since December 31, 2018.

Off-Balance Sheet Arrangements

We have not entered into any transactions, agreements or other contractual arrangements that would result in off-balance sheet liabilities.

Environmental Matters and Compliance Costs

Our operations are subject to extensive and frequently changing federal, state and local laws, regulations and ordinances relating to the protection of the environment. Among other things, these laws and regulations govern the emission or discharge of pollutants into or onto the land, air and water, the handling and disposal of solid and hazardous wastes and the remediation of contamination. As with the industry in general, compliance with existing and anticipated environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, operate and upgrade equipment and facilities. While these laws and regulations affect our maintenance capital expenditures and net income, we believe they do not affect our competitive position, as the operations of our competitors are similarly affected. We believe our facilities are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to changes, or to changes in the interpretation of such laws and regulations, by regulatory authorities, and continued and future compliance with such laws and regulations may require us to incur significant expenditures. Additionally, violation of environmental laws, regulations, and permits can result in the imposition of significant administrative, civil and criminal penalties, injunctions limiting our operations, investigatory or remedial liabilities or construction bans or delays in the construction of additional facilities or equipment. Additionally, a release of hydrocarbons or hazardous substances into the environment could, to the extent the event is not insured, subject us to substantial expenses, including costs to comply with applicable laws and regulations and to resolve claims by third parties for personal injury or property damage, or by the U.S. federal government or state governments for natural resources damages. These impacts could directly and indirectly affect our business and have an adverse impact on our financial position, results of operations and liquidity if we do not recover these expenditures through the rates and fees we receive for our services. We believe our competitors must comply with similar environmental laws and regulations. However, the specific impact on each competitor may vary depending on a number of factors, including, but not limited to, the type of competitor and location of its operating facilities. For additional information, refer to *Environmental Matters*, *Items 1 and 2. Business and Properties* in our 2018 Annual Report.

We accrue for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs can be reasonably estimated. As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. New or expanded environmental requirements, which could increase our environmental costs, may arise in the future. We believe we comply with all legal requirements regarding the environment, but since not all of them are fixed or presently determinable (even under existing legislation) and may be affected by future legislation or regulations, it is not possible to predict all of the ultimate costs of compliance, including remediation costs that may be incurred and penalties that may be imposed.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are set forth in *Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Estimates* in our 2018 Annual Report. As of September 30, 2019, there have been no significant changes to our critical accounting policies and estimates since our 2018 Annual Report was filed other than those noted below.

Leases

We adopted the new lease standard on January 1, 2019. See *Note 8 – Leases* in the *Notes to the Unaudited Consolidated Financial Statements* for additional information.

Recent Accounting Pronouncements

Please refer to *Note 1– Description of Business and Basis of Presentation* in the *Notes to the Unaudited Consolidated Financial Statements* for a discussion of recently adopted accounting pronouncements and new accounting pronouncements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. You can identify our forward-looking statements by the words “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “should,” “would,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target” and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about us and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed in the forward-looking statements. Any differences could result from a variety of factors, including the following:

- The continued ability of Royal Dutch Shell plc and our non-affiliate customers to satisfy their obligations under our commercial and other agreements and the impact of lower market prices for crude oil, refined petroleum products and refinery gas.
- The volume of crude oil, refined petroleum products and refinery gas we transport or store and the prices that we can charge our customers.
- The tariff rates with respect to volumes that we transport through our regulated assets, which rates are subject to review and possible adjustment imposed by federal and state regulators.
- Changes in revenue we realize under the loss allowance provisions of our fees and tariffs resulting from changes in underlying commodity prices.
- Our ability to renew or replace our third-party contract portfolio on comparable terms.
- Fluctuations in the prices for crude oil, refined petroleum products and refinery gas.
- The level of production of refinery gas by refineries and demand by chemical sites.
- The level of onshore and offshore (including deepwater) production and demand for crude oil by U.S. refiners.
- Changes in global economic conditions and the effects of a global economic downturn on the business of Shell and the business of its suppliers, customers, business partners and credit lenders.
- Availability of acquisitions and financing for acquisitions on our expected timing and acceptable terms.
- Changes in, and availability to us, of the equity and debt capital markets.
- Liabilities associated with the risks and operational hazards inherent in transporting and/or storing crude oil, refined petroleum products and refinery gas.
- Curtailment of operations or expansion projects due to unexpected leaks, spills, or severe weather disruption; riots, strikes, lockouts or other industrial disturbances; or failure of information technology systems due to various causes, including unauthorized access or attack.
- Costs or liabilities associated with federal, state and local laws and regulations relating to environmental protection and safety, including spills, releases and pipeline integrity.
- Costs associated with compliance with evolving environmental laws and regulations on climate change.
- Costs associated with compliance with safety regulations and system maintenance programs, including pipeline integrity management program testing and related repairs.
- Changes in tax status or applicable tax laws.
- Changes in the cost or availability of third-party vessels, pipelines, rail cars and other means of delivering and transporting crude oil, refined petroleum products and refinery gas.
- Direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war.
- The factors generally described in *Part I, Item 1A. Risk Factors* in our 2018 Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information about market risks for the nine months ended September 30, 2019 does not differ materially from that disclosed in the section entitled *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk"* in our 2018 Annual Report, except as noted below.

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. With the exception of buy/sell arrangements on some of our offshore pipelines and our allowance oil retained, we do not take ownership of the crude oil or refined products that we transport and store for our customers, and we do not engage in the trading of any commodities. We therefore have limited direct exposure to risks associated with fluctuating commodity prices.

Our long-term transportation agreements and tariffs for crude oil shipments include PLA. The PLA provides additional revenue for us at a stated factor per barrel. If product losses on our pipelines are within the allowed levels, we retain the benefit; otherwise, we are required to compensate our customers for any product losses that exceed the allowed levels. We take title to any excess product that we transport when product losses are within the allowed level, and we sell that product several times per year at prevailing market prices. This allowance oil revenue, which accounted for approximately 6% of our total revenue for the nine months ended September 30, 2019, is subject to more volatility than transportation revenue, as it is directly dependent on our measurement capability and commodity prices. As a result, the income we realize under our loss allowance provisions will increase or decrease as a result of changes in the mix of product transported, measurement accuracy and underlying commodity prices. We do not intend to enter into any hedging agreements to mitigate our exposure to decreases in commodity prices through our loss allowances.

We may also have risk associated with changes in policy or other actions taken by FERC. Please see *Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Affecting Our Business and Outlook - Regulation*" for additional information.

Interest Rate Risk

We are exposed to the risk of changes in interest rates, primarily as a result of variable rate borrowings under our revolving credit facilities. To the extent that interest rates increase, interest expense for these revolving credit facilities will also increase. As of September 30, 2019, the Partnership had $894 million in outstanding variable rate borrowings under these revolving credit facilities. A hypothetical change of 12.5 basis points in the interest rate of our revolving credit facilities would impact the Partnership's annual interest expense by approximately $1 million. We do not currently intend to enter into any interest rate hedging agreements, but will continue to monitor interest rate exposure.

Our fixed rate debt does not expose us to fluctuations in our results of operations or liquidity from changes in market interest rates. Changes in interest rates do affect the fair value of our fixed rate debt. See *Note 7 – Related Party Debt* in the *Notes to the Unaudited Consolidated Financial Statements* for further discussion of our borrowings and fair value measurements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Our disclosure controls and procedures have been designed to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on management's evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), were effective at the reasonable assurance level as of September 30, 2019.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the ordinary course of business, we are not a party to any litigation or governmental or other proceeding that we believe will have a material adverse impact on our financial position, results of operations, or cash flows.

Information regarding legal proceedings is set forth in *Note 14—Commitments and Contingencies* in the *Notes to the Unaudited Consolidated Financial Statements* and is incorporated herein by reference.

Item 1A. Risk Factors

Risk factors relating to us are discussed in *Part I, Item 1A. Risk Factors* in our 2018 Annual Report. There have been no material changes from the risk factors previously disclosed in our 2018 Annual Report.

Item 5. Other Information

Disclosures Required Pursuant to Section 13(r) of the Securities Exchange Act of 1934

In accordance with our General Business Principles and Code of Conduct, Shell Midstream Partners seeks to comply with all applicable international trade laws including applicable sanctions and embargoes.

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, and Section 13(r) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are required to include certain disclosures in our periodic reports if we or any of our “affiliates” (as defined in Rule 12b-2 under the Exchange Act) knowingly engaged in certain specified activities during the period covered by the report. Because the Securities and Exchange Commission (the “SEC”) defines the term “affiliate” broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us.

The activities listed below have been conducted outside the U.S. by non-U.S. affiliates of Royal Dutch Shell plc that may be deemed to be under common control with us. The disclosure does not relate to any activities conducted directly by us, our subsidiaries or our general partner, Shell Midstream Partners GP LLC (the “General Partner”) and does not involve our or the General Partner’s management.

For purposes of this disclosure, we refer to Royal Dutch Shell plc and its subsidiaries other than us, our subsidiaries, the General Partner and Shell Midstream LP Holdings LLC as the “RDS Group”. When not specifically identified, references to actions taken by the RDS Group mean actions taken by the applicable RDS Group company. None of the payments disclosed below was made in U.S. dollars, nor are any of the balances disclosed below held in U.S. dollars; however, for disclosure purposes, all have been converted into U.S. dollars at the appropriate exchange rate. We do not believe that any of the transactions or activities listed below violated U.S. sanctions.

During the third quarter of 2019, the RDS Group paid $6,724 for the clearance of overflight permits for RDS Group aircraft over Iranian airspace. There was no gross revenue or net profit associated with these transactions. On occasion, RDS Group aircraft may be routed over Iran and therefore these payments may continue in the future.

The RDS Group maintains accounts with Karafarin Bank where its cash deposits (balance of $5,125,008 at September 30, 2019) generated non-taxable interest income of $166,146 in the first nine months of 2019.

Item 6. Exhibits

The following documents are included as exhibits to this Quarterly Report on Form 10-Q. Those exhibits incorporated by reference are so indicated by the information supplied with respect thereto. Those exhibits which are not incorporated by reference are attached hereto.

		Incorporated by Reference					
Exhibit Number	Exhibit Description	Form	Exhibit	Filing Date	SEC File No.	Filed Herewith	Furnished Herewith
10.1	Revolving Loan Facility Agreement, dated as of August 6, 2019, between Zydeco Pipeline Company LLC, as the Borrower, and Shell Treasury Center (West) Inc., as the Lender	10-Q	10.3	8/2/2019	001-36710		
31.1	Certification of Chief Executive Officer pursuant to Rule 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934					X	
31.2	Certification of Chief Financial Officer pursuant to Rule 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934					X	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350						X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350						X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X	
101.SCH	Inline XBRL Taxonomy Extension Schema					X	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase					X	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase					X	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase					X	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase					X	
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					X	

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 1, 2019

SHELL MIDSTREAM PARTNERS, L.P.
By: SHELL MIDSTREAM PARTNERS GP LLC

By: /s/ Shawn J. Carsten
Shawn J. Carsten
Vice President and Chief Financial Officer
(principal financial officer and principal accounting officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Kevin M. Nichols, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shell Midstream Partners, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 1, 2019

/s/ Kevin M. Nichols

President and Chief Executive Officer
of Shell Midstream Partners GP LLC
(the general partner of Shell Midstream Partners, L.P.)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Shawn J. Carsten, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shell Midstream Partners, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2019	/s/ Shawn J. Carsten
	Vice President and Chief Financial Officer of Shell Midstream Partners GP LLC (the general partner of Shell Midstream Partners, L.P.)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Shell Midstream Partners, L.P. (the "Partnership") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin M. Nichols, Chief Executive Officer of Shell Midstream Partners GP LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 1, 2019

/s/ Kevin M. Nichols

President and Chief Executive Officer
of Shell Midstream Partners GP LLC
(the general partner of Shell Midstream Partners, L.P.)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Shell Midstream Partners, L.P. (the "Partnership") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shawn J. Carsten, Chief Financial Officer of Shell Midstream Partners GP LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 1, 2019

/s/ Shawn J. Carsten

Vice President and Chief Financial Officer
of Shell Midstream Partners GP LLC
(the general partner of Shell Midstream Partners, L.P.)