Shell Midstream Partners, L.P.
Form 10-Q
August 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-36710

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.)

One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

(713) 241-6161

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The registrant had 75,167,376 common units and 67,475,068 subordinated units outstanding as of August 12, 2015.

SHELL MIDSTREAM PARTNERS, L.P.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SHELL MIDSTREAM PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
	(in millions of dollars)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 113.0	$ 150.2
Accounts receivable - third parties, net	14.7	16.3
Accounts receivable - related parties	7.7	10.3
Allowance oil	3.3	3.4
Prepaid expenses	1.4	3.6
Total current assets	140.1	183.8
Equity method investments	155.3	160.7
Property, plant and equipment, net	272.7	275.0
Other assets	6.9	4.2
Total assets	$ 575.0	$ 623.7
LIABILITIES		
Current liabilities		
Accounts payable - third parties	$ 0.5	$ —
Accounts payable - related parties	4.8	10.6
Debt payable - related party	70.8	—
Distribution payable to SPLC	—	11.9
Distribution payable to noncontrolling interest	15.8	—
Deferred revenue - third parties	17.8	15.3
Deferred revenue - related parties	9.3	4.7
Accrued liabilities - third parties	10.2	0.9
Accrued liabilities - related parties	1.3	1.4
Total current liabilities	130.5	44.8
Total liabilities	130.5	44.8
Commitments and Contingencies (Note 11)		
EQUITY		
Common unitholders - public (53,692,308 and 46,000,000 units issued and outstanding as of June 30, 2015 and December 31, 2014)	1,320.8	1,016.2
Common unitholder - SPLC (21,475,068 units issued and outstanding as of June 30, 2015 and December 31, 2014)	(137.8)	(140.3)
Subordinated unitholder - SPLC (67,475,068 units issued and outstanding as of June 30, 2015 and December 31, 2014)	(433.4)	(440.9)
General Partner - SPLC (2,911,070 and 2,754,084 units issued and	(404.1)	(18.0)

outstanding as of June 30, 2015 and December 31, 2014)		
Total partners' capital	345.5	417.0
Noncontrolling interest	99.0	161.9
Total equity	444.5	578.9
Total liabilities and equity	$ 575.0	$ 623.7

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

SHELL MIDSTREAM PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions of dollars, except per unit data)			
		Predecessor		Predecessor
Revenue				
Third parties	$46.5	$ 32.4	$87.8	$ 58.8
Related parties	11.1	11.0	21.5	20.7
Total revenue	57.6	43.4	109.3	79.5
Costs and expenses				
Operations and maintenance - third parties	7.7	5.6	14.6	14.2
Operations and maintenance - related parties	3.4	3.6	7.3	7.2
General and administrative - third parties	3.4	1.1	5.0	1.5
General and administrative - related parties	4.8	4.4	9.8	6.8
Depreciation	3.5	2.5	6.9	5.3
Property and other taxes	3.2	(0.2)	6.4	3.1
Total costs and expenses	26.0	17.0	50.0	38.1
Operating income	31.6	26.4	59.3	41.4
Income from equity investments	10.8	—	23.3	—
Dividend income from investment	2.3	—	3.9	—
Other income	1.0	—	1.0	—
Investment, dividend and other income	14.1	—	28.2	—
Interest expense, net	0.3	—	0.5	—
Income before income taxes	45.4	26.4	87.0	41.4
Income tax expense	0.1	—	0.3	—
Net income	45.3	$ 26.4	86.7	$ 41.4
Less: Net income attributable to noncontrolling interests	13.1		30.9	
Net income attributable to the Partnership	$32.2		$55.8	
General Partner's interest in net income attributable to the Partnership	$0.7		$1.2	
Limited Partners' interest in net income attributable to the Partnership	$31.5		$54.6	
Net income per Limited Partner Unit - Basic and Diluted (in dollars):				
Common	$0.22		$0.39	
Subordinated	0.22		0.39	
Weighted average Limited Partner Units outstanding - Basic and Diluted (in millions):				
Common units - public	53.7		49.8	
Common units - SPLC	21.5		21.5	
Subordinated units - SPLC	67.5		67.5	

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

SHELL MIDSTREAM PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2015	2014
	(in millions of dollars)	
		Predecessor
Cash flows from operating activities		
Net income	$86.7	$ 41.4
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	6.9	5.3
Changes in operating assets and liabilities		
Accounts receivable	4.2	(1.1)
Allowance oil	0.1	(14.3)
Prepaid expenses	2.3	2.0
Accounts payable	(5.7)	0.9
Deferred revenue	7.1	15.1
Accrued liabilities	8.6	0.8
Net cash provided by operating activities	110.2	50.1
Cash flows from investing activities		
Capital expenditures	(3.6)	(46.3)
May 2015 Acquisition	(55.4)	—
Return of investment	5.4	—
Payment of pre-Offering distributions from investments to SPLC	(11.9)	—
Net cash used in investing activities	(65.5)	(46.3)
Cash flows from financing activities		
Borrowings under credit facilities	70.8	—
Net proceeds from Private Placement	297.7	—
Contribution from General Partner	6.1	—
Capital distribution to General Partner	(392.6)	—
Distributions to noncontrolling interest	(25.1)	—
Distributions to unitholders and General Partner	(38.5)	—
Credit facilities issuance costs	(0.3)	—
Net distributions to Predecessor	—	(3.8)
Net cash used in financing activities	(81.9)	(3.8)
Net decrease in cash and cash equivalents	(37.2)	—
Cash and cash equivalents at beginning of the period	150.2	—
Cash and cash equivalents at end of the period	$113.0	$ —
Supplemental Cash Flow Information		
Non-cash investing transactions		
Distribution payable to noncontrolling interest	$(15.8)	$ —
Change in accrued capital expenditures	$1.0	$ (15.2)

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

SHELL MIDSTREAM PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions of dollars)	Partnership Common Unitholders Public	Common Unitholder SPLC	Subordinated Unitholder SPLC	General Partner SPLC	Noncontrolling Interest	Total
Balance at December 31, 2014	$1,016.2	$(140.3)	$(440.9)	$(18.0)	$161.9	$578.9
Net income	19.7	8.5	26.4	1.2	30.9	86.7
Net proceeds from Private Placement	297.7	—	—	—	—	297.7
Contribution from General Partner	—	—	—	6.1	—	6.1
Distributions to noncontrolling interest	—	—	—	—	(40.9)	(40.9)
Distributions to unitholders and General Partner	(12.8)	(6.0)	(18.9)	(0.8)	—	(38.5)
Acquisition of noncontrolling interest	—	—	—	—	(52.9)	(52.9)
Capital distribution to General Partner	—	—	—	(392.6)	—	(392.6)
Balance at June 30, 2015	$1,320.8	$(137.8)	$(433.4)	$(404.1)	$99.0	$444.5

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

SHELL MIDSTREAM PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Except as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in millions of dollars.

1. Description of the Business and Basis of Presentation

Summary

Shell Midstream Partners, L.P. (“we,” “us,” “our” or “the Partnership”) is a Delaware limited partnership formed on March 19, 2014, to own and operate assets, including certain assets received from Shell Pipeline Company LP (“SPLC”). We conduct our operations through our wholly owned subsidiary Shell Midstream Operating, LLC (“Operating Company”). Our General Partner is Shell Midstream Partners GP LLC (“General Partner” or “GP”). References to “Shell” refer collectively to Royal Dutch Shell plc (“RDS”) and its controlled affiliates, other than us, our subsidiaries and our General Partner.

Description of the Business

We are a fee-based, growth-oriented master limited partnership recently formed by Shell to own, operate, develop and acquire pipelines and other midstream assets. Our assets consist of interests in entities that own crude oil and refined products pipelines serving as key infrastructure to transport growing onshore and offshore crude oil production to Gulf Coast refining markets and to deliver refined products from those markets to major demand centers. As of June 30, 2015, we own interests in two crude oil pipeline systems and two refined products systems. The crude oil pipeline systems, which are held by Zydeco Pipeline Company LLC (“Zydeco”) and Mars Oil Pipeline Company (“Mars”), are strategically located along the Texas and Louisiana Gulf Coast and offshore Louisiana. These systems link major onshore and offshore production areas with key refining markets. The refined products pipeline systems, which are held by Bengal Pipeline Company LLC (“Bengal”) and Colonial Pipeline Company (“Colonial”), connect Gulf Coast and southeastern U.S. refineries to major demand centers from Alabama to New York. On July 1, 2014, SPLC formed Zydeco as a wholly owned subsidiary. In anticipation of our initial public offering of common units by the Partnership, SPLC contributed the fixed assets and certain agreements of the crude oil pipeline system from Houston, Texas to Houma, Louisiana (“Ho-Ho”) and other related fixed assets of SPLC to Zydeco.

As of June 30, 2015, we own a 62.5% interest in Zydeco, a 28.6% interest in Mars, a 49.0% interest in Bengal and a 3.0% interest in Colonial. Zydeco is consolidated within our condensed consolidated financial statements as a subsidiary. We obtained control of this affiliate via a voting agreement with SPLC through which we have voting power over the ownership interests retained by SPLC in Zydeco. The 37.5% ownership interest in Zydeco retained by SPLC is reflected as noncontrolling interest in our condensed consolidated financial statements. We account for each of our investments in Mars and Bengal using the equity method of accounting, and we account for our investment in Colonial using the cost method of accounting.

Effective July 1, 2015, we acquired a 36.0% interest in Poseidon Oil Pipeline Company, L.L.C. (“Poseidon”), an offshore crude oil pipeline system located in the central region of the Gulf of Mexico (the “July 2015 Acquisition”). See Note 12 — Subsequent Events for additional details.

We generate the majority of our revenue under long-term agreements by charging fees for the transportation of crude oil and refined products through our pipelines. We do not engage in the marketing and trading of any commodities. Our operations consist of one reportable segment.

Basis of Presentation

Our condensed consolidated financial statements include all majority owned and non-majority owned subsidiaries required to be consolidated under generally accepted accounting principles in the United States (“GAAP”). Our reporting currency is U.S. dollars, and all references to dollars are U.S. dollars. The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete annual financial statements. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. During interim periods, we follow the accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the United States Securities and Exchange Commission (“SEC”). The unaudited condensed consolidated financial statements for the three and six months ended June 30, 2015 and 2014 include all adjustments we believe are necessary for a fair statement of the results for the interim periods. These adjustments are of a normal recurring nature unless otherwise disclosed. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2015. These unaudited condensed consolidated financial statements and other information included in this Quarterly Report should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

The June 30, 2014 condensed consolidated financial statements were derived from the financial statements and accounting records of SPLC and Shell. References to the Partnership or other expressions defined above for time periods prior to November 3, 2014 refer to our predecessor for accounting purposes ("Predecessor").These statements reflect the condensed combined historical results of operations and cash flows of our Predecessor as if such business had been a separate entity for the three and six months ended June 30, 2014. The condensed consolidated statements of income also include expense allocations to our Predecessor prior to July 1, 2014 for certain functions historically performed by SPLC and Shell, including allocations of general corporate expenses related to finance, legal, information technology, human resources, communications, ethics and compliance, shared services, employee benefits and incentives, insurance, and share-based compensation. Personnel and operating costs incurred by SPLC and Shell on our Predecessor's behalf were charged to our Predecessor and are included in either general and administrative expenses or operations and maintenance expenses in the accompanying condensed consolidated statements of income, depending on the nature of the employee's role in our operations. These allocated corporate costs relate primarily to the wages and benefits of SPLC's and Shell's employees supporting our Predecessor's operations and have been allocated to our Predecessor on the basis of direct usage when identifiable, with the remainder allocated on the basis of fixed assets, headcount, labor or other measure. The expense allocations have been determined on a basis that we, SPLC and Shell consider to be a reasonable reflection of the utilization of services provided or the benefit received by our Predecessor during the periods presented. Nevertheless, the condensed consolidated financial statements may not include all of the expenses that would have been incurred as a separate, publicly-traded company during the three and six months ended June 30, 2014 and may not reflect our condensed consolidated statements of income and cash flows as a separate, publicly-traded company during the three and six months ended June 30, 2014. All employees performing services on behalf of our Predecessor's operations are employees of SPLC or Shell. Beginning from July 1, 2014, Zydeco, our Predecessor, entered into an operating and management agreement with SPLC under which SPLC provides general management and administrative services to us. Therefore, we no longer receive allocated corporate expenses from SPLC. We will continue to receive direct and allocated field and regional expenses from SPLC including payroll expenses not covered under the Zydeco operating and management agreement. See details of related party transactions in Note 3 — Related Party Transactions and Agreements.

Prior to the contribution of fixed assets and certain agreements on July 1, 2014, the cash generated and used by our operations was deposited to SPLC's centralized account which was comingled with the cash of other pipeline entities controlled by SPLC. SPLC funded our operating and investing activities as needed. Accordingly, we did not record any cash and cash equivalents held by SPLC on our behalf for any period prior to July 1, 2014. We reflected the cash generated by our operations and expenses paid by SPLC on behalf of our operations as "Net distributions to Parent" on the accompanying condensed consolidated statements of cash flows. On July 1, 2014, we established our own cash accounts for the funding of our operating and investing activities, with the exception of the capital expenditures incurred by SPLC on our behalf and then contributed to us.

All financial information presented represents the condensed consolidated statements of income, financial position and cash flows accordingly:

- Our condensed consolidated statements of income for the three and six months ended June 30, 2015 and condensed consolidated statement of cash flows for the six months ended June 30, 2015 consist of the consolidated results of the Partnership. Our condensed consolidated statements of income for the three and six months ended June 30, 2014 and condensed consolidated statement of cash flows for the six months ended June 30, 2014 consist entirely of the condensed combined results of our Predecessor.
-

Our condensed consolidated balance sheets at June 30, 2015 and December 31, 2014 consist of the consolidated balances of the Partnership.

- Our condensed consolidated statement of changes in equity for the six months ended June 30, 2015 consists of the consolidated results of the Partnership.

Partners' Capital and Accounting Periods

Post-Offering Periods

On November 3, 2014, we completed our initial public offering (the "Offering") of 46,000,000 common units (including 6,000,000 common units issued pursuant to the exercise of the underwriters' over-allotment option). At the completion of the Offering, SPLC owned 21,475,068 common units and 67,475,068 subordinated units, representing an aggregate 65.9% limited partner interest. SPLC also owned a 100% interest in our General Partner, which in turn owned 2,754,084 general partner units, representing a 2% general partner interest.

References to the Partnership or other expressions defined above for time periods beginning November 3, 2014 refer to the post-Offering accounting periods of Shell Midstream Partners, L.P.

On May 18, 2015 (the "Issuance Date"), the Partnership completed the sale of 7,692,308 common units representing limited partner interests (the "Common Units") to unaffiliated third parties in a private placement (the "Private Placement") for approximately $297.7 million net proceeds ($300.0 million of gross proceeds less $2.3 million of placement agent fees) and issued 156,986 general partner units (the "General Partner Units") to our General Partner for $6.1 million in order for our General Partner to maintain its 2.0% general partner interest. See Note 8 — Equity — Private Placement for additional detail.

Pre-Offering Periods

The Predecessor's financial results included in our condensed consolidated statements of income and condensed consolidated statements of cash flows contain the financial results of the following Predecessor entities for the time periods indicated.

For the accounting periods prior to June 30, 2014, the Predecessor's financial results are those of Ho-Ho, wholly owned by SPLC.

Summary of Significant Accounting Policies

The accounting policies are set forth in Note 2 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes to these policies during the six months ended June 30, 2015.

We account for equity and cost method investments acquired under common control prospectively from the date of acquisition consistent with our treatment of these investments in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements

For accounting pronouncements issued prior to 2015, refer to Note 2 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014.

In January 2015, the FASB issued accounting standards update, Subtopic 225-20, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." The adoption of this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance will not affect our current financial position or results of operations.

In February 2015, the FASB issued accounting standards update to topic 810, "Consolidation" to change the criteria for reporting entities that are required to evaluate whether they should consolidate certain legal entities. This standard update becomes effective prospectively for annual reporting periods beginning on or after December 15, 2015, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance will not affect our financial position or results of operations.

In April 2015, the FASB issued accounting standards update to Subtopic 835-30, "Interest – Imputation of Interest" to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented as a direct deduction from the carrying amount of that debt liability. These provisions are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance will not have a material effect on our financial position or results of operations.

In April 2015, the FASB issued an accounting standards update to topic 260, “Earnings Per Share” to clarify the presentation of historical earnings per unit for periods prior to the effective date of a transfer of a business to a master limited partnership from the general partner accounted for as an transaction between entities under common control. The amendments in this update specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the effective date of the transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the transaction occurs for purposes of computing earnings per unit under the two-class method are also required. These provisions are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. We have elected early adoption for the fiscal year and interim periods within 2015 as this method of calculating earnings per unit is currently in effect.

In July 2015, the FASB affirmed its earlier proposal to defer the effective date of the new revenue standard topic 606, “Revenue from Contracts with Customers,” for all entities by one year, to annual reporting periods beginning after December 15, 2017. The FASB also decided to permit early adoption, but not before the original public entity effective date of December 15, 2016. We are currently evaluating the effect that adopting this new standard will have on our consolidated financial statements and related disclosures.

2. Acquisition

On May 18, 2015, we acquired an additional 19.5% interest in Zydeco and an additional 1.388% interest in Colonial for $448.0 million in cash (the "May 2015 Acquisition"). The May 2015 Acquisition closed pursuant to a Purchase and Sale Agreement dated May 12, 2015 ("Purchase and Sale Agreement") among the Operating Company, the Partnership and SPLC and became effective on April 1, 2015, and is accounted for as a transaction between entities under common control. The Partnership funded the May 2015 Acquisition with net proceeds from the Private Placement, $80.0 million of cash on hand and $70.8 million in borrowings under our five year revolving credit facility ("Five Year Revolver") with Shell Treasury Center (West) Inc. ("STCW"), an affiliate of Shell. Total transaction costs of $0.5 million were incurred in association with the May 2015 Acquisition. The terms of the May 2015 Acquisition were approved by the Board of Directors of our General Partner (the "Board") and by the conflicts committee of the Board, which consists entirely of independent directors. The conflicts committee engaged an independent financial advisor and legal counsel. In accordance with the Purchase and Sale Agreement, SPLC has agreed to reimburse us for our proportionate share of certain costs and expenses incurred by Zydeco after April 1, 2015 with respect to 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. Such reimbursements will be treated as an additional capital contribution from the General Partner at the time of payment.

In connection with the May 2015 Acquisition we acquired book value of net assets under common control as follows:

Other assets (1)	$2.5
Partners' capital (2)	52.9
May 2015 Acquisition	$55.4

(1) Book value of 1.388% additional interest in Colonial contributed by SPLC.
(2) Book value of 19.5% additional interest in Zydeco from SPLC's noncontrolling interest.

We recognized $392.6 million of consideration in excess of the book value of net assets acquired as a capital distribution to our General Partner in accordance with our policy for common control transactions.

3. Related Party Transactions and Agreements

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

Purchase and Sale Agreement

See the description of the Purchase and Sale Agreement relating to the May 2015 Acquisition as further described in Note 2 — Acquisition.

Formation of Zydeco

In connection with the formation of Zydeco and the Offering, the Partnership and our Predecessor have entered into various agreements with SPLC and Shell.

On July 1, 2014, in conjunction with its formation, Zydeco entered into a contribution agreement (the “Contribution Agreement”) and an operating and management agreement (the “Management Agreement”) with SPLC. Pursuant to the Contribution Agreement, Zydeco reimburses SPLC for capital expenditures incurred by SPLC on behalf of Zydeco subsequent to November 3, 2014. The Management Agreement requires Zydeco to pay SPLC an annual management fee for general and administrative services.

Concurrent with the Offering, Zydeco also entered into a tax sharing agreement with an affiliate of Shell whereby Zydeco has agreed to reimburse Shell for state, local and franchise taxes attributable to Zydeco’s portion of the activity included in Shell’s combined returns for the respective taxing jurisdictions.

Formation of the Partnership

In conjunction with the Offering, on November 3, 2014, we entered into an omnibus agreement ("Omnibus Agreement") with SPLC and our General Partner providing for 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. Under the Omnibus Agreement certain costs are indemnified by SPLC. SPLC owns the noncontrolling interest in Zydeco. As of June 30, 2015 we have filed two claims for indemnification.

Mars has incurred maintenance expense for an underground cavern integrity project including inspections, plug and abandonment, installations and integrity tests to return the Mars cavern 4 to service. During both the three and six months ended June 30, 2015 we recognized $1.0 million in Other income and as a related party receivable related to the indemnification for the Partnership's share of these expenses.

Zydeco has incurred general and administrative expenses including expert fees related to a legal matter regarding the Federal Energy Regulatory Commission, or FERC, tariff rates and has also recognized an estimated settlement provision. Refer to Note 11 – Commitments and Contingencies – Legal Proceedings for additional information. During both the three and six months ended June 30, 2015 we recognized $1.0 million in general and administrative expense reimbursements and as a related party receivable related to the indemnification by SPLC for the Partnership's share of these expenses.

Other Related Party Balances

Other related party balances consist of the following:

	June 30, 2015	December 31, 2014
Accounts receivable (1)	$7.7	$ 10.3
Prepaid expenses	0.7	1.8
Other assets	0.7	0.5
Total assets	$9.1	$ 12.6
Accounts payable (2)	$4.8	$ 10.6
Debt payable	70.8	—
Distribution payable to SPLC	—	11.9
Distribution payable to noncontrolling interest	15.8	—
Deferred revenue	9.3	4.7
Accrued liabilities	1.3	1.4
Total liabilities	$102.0	$ 28.6

(1) Accounts receivable includes reimbursements from SPLC related to the indemnification for the Partnership's share of expenses related to the FERC rate case and the Mars cavern repair.

(2) Accounts payable reflects amounts owed to SPLC for reimbursement of third-party expenses incurred by SPLC for our benefit.

Related Party Revolving Credit Facilities

As of June 30, 2015 and December 31, 2014 we had $70.8 million and zero outstanding borrowings, respectively, on our Five Year Revolver. As of June 30, 2015 and December 31, 2014 Zydeco had no outstanding borrowings on its senior unsecured revolving credit facility agreement (the “Zydeco Revolver”) with STCW.

On June 29, 2015, in connection with the July 2015 Acquisition, the Partnership entered into a $100.0 million 364 day revolving credit facility agreement (“364 Day Revolver”) with STCW, as lender. The 364 Day Revolver will mature on June 29, 2016. As of June 30, 2015, we had no borrowings outstanding.

For additional information regarding these credit facilities, see Note 7 — Debt.

Related Party Revenues and Expenses

We provide crude oil transportation and storage services to related parties under long-term contracts. We entered into these contracts in the normal course of our business and the services are based on the same terms as those provided to third parties. Our transportation services revenue from related parties was $10.5 million and $20.3 million for the three and six months ended June 30, 2015, respectively, and $10.1 million and $18.8 million for the three and six months ended June 30, 2014, respectively. Revenues related to storage services from related parties were $0.6 million and $1.2 million for the three and six months ended June 30, 2015, respectively, and $0.9 million and $1.9 million for the three and six months ended June 30, 2014, respectively.

During the three month period ended June 30, 2015, Zydeco, Mars, Bengal and Colonial declared or paid cash distributions to the Partnership of $41.6 million, of which $26.3 million related to Zydeco. During the six month period ended June 30, 2015, Zydeco, Mars, Bengal and Colonial declared or paid cash distributions to the Partnership of $77.8 million, of which $45.2 million related to Zydeco.

For a discussion of services performed by SPLC and Shell on our behalf, see Note 1 – Description of the Business and Basis of Presentation – Basis of Presentation. During the three and six months ended June 30, 2014, we were allocated $4.4 million and $6.8 million, respectively, of indirect general corporate expenses incurred by SPLC and Shell which are included within general and administrative expenses in the accompanying condensed consolidated statements of income.

Beginning July 1, 2014, we entered into the Management Agreement with SPLC under which SPLC provides general management and administrative services to us. We no longer receive allocated corporate expenses from SPLC or Shell. We will continue to receive direct and allocated field and regional expenses, including payroll expenses not covered under the Management Agreement. These expenses are primarily allocated to us on the basis of headcount, labor or other measure. These expense allocations have been determined on a basis that both SPLC and we consider to be a reasonable reflection of the utilization of services provided or the benefit received by us during the periods presented.

Prior to the Offering, we were covered by the insurance policies of SPLC. Subsequent to the Offering, the majority of our coverage is provided by Shell with the remaining coverage by third-party insurers. The related party portion of insurance expense for the three and six months ended June 30, 2015 was $0.5 million and $1.0 million, respectively.

The following table shows related party expenses, including personnel costs described above, incurred by Shell and SPLC on our behalf that are reflected in the accompanying condensed consolidated statements of income for the indicated periods:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014 Predecessor	2015	2014 Predecessor
Operations and maintenance - related parties	$3.4	$ 3.6	$7.3	$ 7.2
General and administrative - related parties (1)	4.8	4.4	9.8	6.8

(1) For the three and six months ended June 30, 2015, we incurred $1.8 million and $3.6 million, respectively, under the Management Agreement and $2.2 million and $4.3 million, respectively, under the Omnibus Agreement for general and administrative services.

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 six months ended June 30, 2015 was $0.9 million and $1.8 million, respectively, and for the three and six months ended June 30, 2014 was $1.1 million and $2.2 million, respectively. Our share of defined contribution benefit plan costs for the three and six months ended June 30, 2015 was $0.1 million and $0.3 million, respectively, and for the three and six month periods ended June 30, 2014 was $0.2 million and $0.4 million, respectively. Pension and defined contribution benefit plan expenses are included in either general and administrative expenses or operations and maintenance expenses in the accompanying condensed consolidated statements of income, depending on the nature of the employee's role in our operations.

Share-based Compensation

Shell's incentive compensation programs primarily consist of share awards, restricted share awards or cash awards (any of which may be a performance award). The Performance Share Plan ("PSP") was introduced in 2005 by Shell. Conditional awards of RDS shares are made under the terms of the PSP to some 15,000 employees each year. The extent to which the awards vest is determined over a three-year performance period. Half of the award is linked to the key performance indicators, averaged over the period. For the PSP awards made prior to 2010, the other half of the award was linked to the relative total shareholder return over the period compared with four main competitors of RDS. For awards made in 2010 and onwards, the other half of the award is linked to a comparison with four main competitors of RDS over the period on the basis of four relative performance measures. All shares that vest are increased by an amount equal to the notional dividends accrued on those shares during the period from the award date to the vesting date. None of the awards result in beneficial ownership until the shares are delivered.

Under the PSP, awards are made on a highly selective basis to senior personnel. Shares are awarded subject to a three-year vesting period.

Certain SPLC and Shell employees supporting our operations as well as other Shell operations were historically granted these types of awards. These share-based compensation costs have been allocated to us as part of the cost allocations from Shell prior to June 30, 2014 and have been immaterial. Beginning July 1, 2014, we did not receive any allocated share-based compensation. Share-based compensation expense is included in general and administrative expenses in the accompanying condensed consolidated statements of income. These costs totaled less than $0.1 million and $0.1 million for the three and six months ended June 30, 2014, respectively.

Equity and Cost Method Investments

We have equity and cost method investments in entities that own certain of our assets, including Mars, Bengal and Colonial. SPLC also owns interests in these entities. In some cases we may be required to make capital contributions or other payments to these entities. For information regarding the equity method investments, see Note 4 – Equity Method Investments for additional details.

4. Equity Method Investments

The equity method investment balances as of June 30, 2015 for Mars and Bengal are $81.7 million and $73.6 million, respectively. The income earned from equity method investments for the three and six months ended June 30, 2015 for Mars are $5.7 million and $13.1 million, respectively, and for Bengal are $5.1 million and $10.2 million, respectively. The cash distributions received for the three and six months ended June 30, 2015 from Mars are $8.6 million and $17.2 million, respectively, and from Bengal are $4.4 million and $11.5 million, respectively.

Summarized Financial Information

The following tables present aggregated selected unaudited income statement data for our equity method investments in Mars and Bengal (on a 100% basis):

Mars	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Statements of Income		
Total revenues	$ 46.9	$ 91.9
Total operating expenses	26.3	43.8
Operating income	$ 20.6	$ 48.1
Net income	$ 20.7	$ 48.2

Bengal	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Statements of Income		
Total revenues	$ 17.3	$ 33.6
Total operating expenses	6.9	13.0
Operating income	$ 10.4	$ 20.6

Net income	$ 10.4	$ 20.5

5. Property, Plant and Equipment

Property, plant and equipment consist of the following as of June 30, 2015 and December 31, 2014:

	Depreciable Life	June 30, 2015	December 31, 2014
Land	—	$1.4	$ 1.1
Building and improvements	10 - 40 years	10.5	10.5
Pipeline and equipment	10 - 30 years	320.1	313.6
Other	5 - 25 years	5.5	5.5
		337.5	330.7
Accumulated depreciation		(73.4)	(66.5)
		264.1	264.2
Construction in progress		8.6	10.8
Property, plant and equipment, net		$272.7	$ 275.0

6. Accrued Liabilities

Third-party accrued liabilities consist of the following as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Transportation, project engineering	$ 1.1	$ 0.6
Property taxes	5.8	0.2
Other accrued liabilities	3.3	0.1
Accrued liabilities - third parties	$ 10.2	$ 0.9

7. Debt

Revolving Credit Facility Agreements

On May 12, 2015, the Partnership and STCW amended and restated the Five Year Revolver to increase the borrowing capacity amount from $300.0 million to $400.0 million. Loans advanced under the amended and restated Five Year Revolver have up to a one-year term. In connection with the amendment and restatement of the Five Year Revolver, the Partnership agreed to pay an issuance fee of $0.2 million. The Five Year Revolver maturity date of October 31, 2019 and all other terms and conditions of the agreement were unchanged. During the three months ended June 30, 2015, we borrowed $70.8 million to partially fund the May 2015 Acquisition. Outstanding borrowings as of June 30, 2015 and December 31, 2014 were $70.8 million and zero, respectively.

On June 29, 2015, in connection with the July 2015 Acquisition, the Partnership entered into a second revolving credit facility with STCW as lender. The 364 Day Revolver has $100.0 million borrowing capacity and will mature on June 29, 2016. All other terms and conditions are materially the same as those of the Five Year Revolver. The Partnership agreed to pay an issuance fee of $0.1 million. As of June 30, 2015, we had no borrowings outstanding.

Zydeco Revolving Credit Facility Agreement

On August 6, 2014, Zydeco entered into a senior unsecured revolving credit facility agreement with STCW as the lender. The Zydeco Revolver matures on August 6, 2019 and has a borrowing capacity of $30.0 million. Loans advanced under the agreement have up to a six-month term. There were no outstanding borrowings as of June 30, 2015 and December 31, 2014.

As of June 30, 2015, we were in compliance with the covenants contained in the Five Year Revolver, the 364 Day Revolver, and the Zydeco Revolver.

8. Equity

Private Placement

On the Issuance Date, the Partnership completed the sale of the Common Units in the Private Placement for approximately $297.7 million net proceeds ($300.0 million gross proceeds, or $39.00 per Common Unit, less $2.3 million of placement agent fees). In connection with the issuance of the Common Units, the Partnership issued the General Partner Units to the GP for consideration of approximately $6.1 million in cash. The GP purchased the

General Partner Units in order to maintain its 2.0% general partner interest in the Partnership pursuant to the Partnership's First Amended and Restated Agreement of Limited Partnership, dated as of November 3, 2014 (the "Partnership Agreement"). The Partnership used the net proceeds of the Private Placement to partially fund the May 2015 Acquisition. See Note 2 — Acquisition for additional detail.

Registration Rights Agreement

In connection with the Private Placement, the Partnership entered into a Registration Rights Agreement with the investors, which granted them certain rights, including a requirement for us to file a shelf registration statement under the Securities Act with the SEC for the resale of the Common Units. See Note 12 — Subsequent Events, regarding the timely filing and effectiveness of the registration statement.

Units Outstanding

As of June 30, 2015, we had 75,167,376 common units outstanding. SPLC owned 21,475,068 common units and 67,475,068 subordinated units, representing an aggregate 62.4% limited partner interest, all of the incentive distribution rights, and 2,911,070 general partner units, representing a 2.0% general partner interest the Partnership.

The changes in the number of units outstanding from December 31, 2014 through June 30, 2015 are as follows:

(in units)	Common