

NGL Energy Partners LP  
Form 10-Q  
November 08, 2018  
Table of Contents

---

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, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35172

NGL Energy Partners LP

(Exact Name of Registrant as Specified in Its Charter)

Delaware

27-3427920

(State or Other Jurisdiction of Incorporation or Organization)

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

6120 South Yale Avenue, Suite 805

74136

Tulsa, Oklahoma

(Address of Principal Executive Offices)

(Zip Code)

(918) 481-1119

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically 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

Edgar Filing: NGL Energy Partners LP - Form 10-Q

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

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

At November 2, 2018, there were 123,741,462 common units issued and outstanding.

---

---

Table of Contents

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Balance Sheets at September 30, 2018 and March 31, 2018</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months and six months ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statement of Changes in Equity for the six months ended September 30, 2018</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>54</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>86</u>
<u>Item 4. Controls and Procedures</u>	<u>87</u>

PART II - OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>88</u>
<u>Item</u>	
<u>1A. Risk Factors</u>	<u>88</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>88</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>88</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>88</u>
<u>Item 5. Other Information</u>	<u>88</u>
<u>Item 6. Exhibits</u>	<u>89</u>
<u>SIGNATURES</u>	<u>90</u>

Table of Contents

Forward-Looking Statements

This Quarterly Report on Form 10-Q (“Quarterly Report”) contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Certain words in this Quarterly Report such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “may,” “plan,” “project,” “will,” and similar expressions and statements regarding our objectives for future operations, identify forward-looking statements. Although we and our general partner believe such forward-looking statements are reasonable, neither we nor our general partner can assure they will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected. Among the key risk factors that may affect our consolidated financial position and results of operations are:

- the prices of crude oil, natural gas liquids, gasoline, diesel, ethanol, and biodiesel;
- energy prices generally;
- the general level of crude oil, natural gas, and natural gas liquids production;
- the general level of demand, and the availability of supply, for crude oil, natural gas liquids, gasoline, diesel, ethanol, and biodiesel;
- the level of crude oil and natural gas drilling and production in areas where we have water treatment and disposal facilities;
- the price of gasoline relative to the price of corn, which affects the price of ethanol;
- the ability to obtain adequate supplies of products if an interruption in supply or transportation occurs and the availability of capacity to transport products to market areas;
- actions taken by foreign oil and gas producing nations;
- the political and economic stability of foreign oil and gas producing nations;
- the effect of weather conditions on supply and demand for crude oil, natural gas liquids, gasoline, diesel, ethanol, and biodiesel;
- the effect of natural disasters, lightning strikes, or other significant weather events;
- the availability of local, intrastate, and interstate transportation infrastructure with respect to our truck, railcar, and barge transportation services;
- the availability, price, and marketing of competing fuels;
- the effect of energy conservation efforts on product demand;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
  - the effect of legislative and regulatory actions on hydraulic fracturing, wastewater disposal, and the treatment of flowback and produced water;
- hazards or operating risks related to transporting and distributing petroleum products that may not be fully covered by insurance;
- the maturity of the crude oil, natural gas liquids, and refined products industries and competition from other marketers;
- loss of key personnel;
- the ability to renew contracts with key customers;
- the ability to maintain or increase the margins we realize for our terminal, barging, trucking, wastewater disposal, recycling, and discharge services;
- the ability to renew leases for our leased equipment and storage facilities;
- the nonpayment or nonperformance by our counterparties;
- the availability and cost of capital and our ability to access certain capital sources;



Table of Contents

• a deterioration of the credit and capital markets;

• the ability to successfully identify and complete accretive acquisitions, and integrate acquired assets and businesses;

• changes in the volume of hydrocarbons recovered during the wastewater treatment process;

• changes in the financial condition and results of operations of entities in which we own noncontrolling equity interests;

• changes in applicable laws and regulations, including tax, environmental, transportation, and employment regulations, or new interpretations by regulatory agencies concerning such laws and regulations and the effect of such laws and regulations (now existing or in the future) on our business operations;

• the costs and effects of legal and administrative proceedings;

• any reduction or the elimination of the federal Renewable Fuel Standard; and

• changes in the jurisdictional characteristics of, or the applicable regulatory policies with respect to, our pipeline assets.

You should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this Quarterly Report. Except as may be required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks discussed under Part I, Item 1A—"Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Balance Sheets

(in Thousands, except unit amounts)

	September 30, 2018	March 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 36,374	\$22,094
Accounts receivable-trade, net of allowance for doubtful accounts of \$4,225 and \$4,201, respectively	1,366,597	1,026,764
Accounts receivable-affiliates	17,888	4,772
Inventories	679,125	551,303
Prepaid expenses and other current assets	159,617	128,742
Assets held for sale	—	517,604
Total current assets	2,259,601	2,251,279
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$388,557 and \$343,345, respectively	1,706,612	1,518,607
GOODWILL	1,271,648	1,204,607
INTANGIBLE ASSETS, net of accumulated amortization of \$481,691 and \$433,565, respectively	966,929	913,154
INVESTMENTS IN UNCONSOLIDATED ENTITIES	4,520	17,236
LOAN RECEIVABLE-AFFILIATE	—	1,200
OTHER NONCURRENT ASSETS	176,129	245,039
Total assets	\$ 6,385,439	\$6,151,122
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES AND REDEEMABLE NONCONTROLLING INTEREST:</b>		
Accounts payable-trade	\$ 1,045,415	\$852,839
Accounts payable-affiliates	42,798	1,254
Accrued expenses and other payables	267,296	223,504
Advance payments received from customers	29,658	8,374
Current maturities of long-term debt, net of debt issuance costs of \$4,874 and \$0, respectively	716,245	646
Liabilities and redeemable noncontrolling interest held for sale	—	42,580
Total current liabilities and redeemable noncontrolling interest	2,101,412	1,129,197
LONG-TERM DEBT, net of debt issuance costs of \$13,234 and \$20,645, respectively, and current maturities	1,815,855	2,679,740
OTHER NONCURRENT LIABILITIES	86,396	173,514
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
CLASS A 10.75% CONVERTIBLE PREFERRED UNITS, 19,942,169 and 19,942,169 preferred units issued and outstanding, respectively	104,362	82,576
EQUITY:	(50,613	) (50,819 )

Edgar Filing: NGL Energy Partners LP - Form 10-Q

General partner, representing a 0.1% interest, 123,865 and 121,594 notional units, respectively		
Limited partners, representing a 99.9% interest, 123,741,462 and 121,472,725 common units issued and outstanding, respectively	2,046,621	1,852,495
Class B preferred limited partners, 8,400,000 and 8,400,000 preferred units issued and outstanding, respectively	202,731	202,731
Accumulated other comprehensive loss	(270	) (1,815 )
Noncontrolling interests	78,945	83,503
Total equity	2,277,414	2,086,095
Total liabilities and equity	\$ 6,385,439	\$ 6,151,122

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



Table of Contents

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Operations

(in Thousands, except unit and per unit amounts)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
<b>REVENUES:</b>				
Crude Oil Logistics	\$860,054	\$437,022	\$1,643,884	\$941,937
Water Solutions	79,764	51,032	155,909	97,999
Liquids	550,442	411,170	1,010,339	705,195
Refined Products and Renewables	5,163,782	2,977,206	9,688,189	5,861,843
Other	592	246	747	407
Total Revenues	6,654,634	3,876,676	12,499,068	7,607,381
<b>COST OF SALES:</b>				
Crude Oil Logistics	792,735	401,170	1,540,980	870,640
Water Solutions	7,892	2,674	22,161	2,827
Liquids	520,944	395,616	961,459	682,901
Refined Products and Renewables	5,187,238	2,957,867	9,680,096	5,829,569
Other	718	121	987	194
Total Cost of Sales	6,509,527	3,757,448	12,205,683	7,386,131
<b>OPERATING COSTS AND EXPENSES:</b>				
Operating	60,309	47,792	116,571	95,628
General and administrative	39,369	21,158	61,759	43,543
Depreciation and amortization	52,750	53,595	104,795	106,012
Loss on disposal or impairment of assets, net	5,988	110,959	107,323	99,142
Revaluation of liabilities	—	5,600	800	5,600
Operating Loss	(13,309 )	(119,876 )	(97,863 )	(128,675 )
<b>OTHER INCOME (EXPENSE):</b>				
Equity in earnings of unconsolidated entities	379	2,170	598	4,089
Interest expense	(41,358 )	(50,118 )	(87,626 )	(99,222 )
Gain (loss) on early extinguishment of liabilities, net	—	1,943	(137 )	(1,338 )
Other income (expense), net	1,471	1,637	(32,298 )	3,370
Loss From Continuing Operations Before Income Taxes	(52,817 )	(164,244 )	(217,326 )	(221,776 )
<b>INCOME TAX EXPENSE</b>				
Loss From Continuing Operations	(53,508 )	(164,293 )	(218,668 )	(222,281 )
Income (Loss) From Discontinued Operations, net of Tax	408,447	(9,286 )	404,318	(15,005 )
Net Income (Loss)	354,939	(173,579 )	185,650	(237,286 )
<b>LESS: NET LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>				
LESS: NET LOSS ATTRIBUTABLE TO REDEEMABLE NONCONTROLLING INTERESTS	48	288	446	685
<b>NET INCOME (LOSS) ATTRIBUTABLE TO NGL ENERGY PARTNERS LP</b>	<b>\$355,505</b>	<b>\$(173,371 )</b>	<b>\$186,959</b>	<b>\$(236,733 )</b>
<b>NET LOSS FROM CONTINUING OPERATIONS ALLOCATED TO COMMON UNITHOLDERS (NOTE 3)</b>	<b>\$(76,925 )</b>	<b>\$(180,325 )</b>	<b>\$(261,746 )</b>	<b>\$(248,363 )</b>
<b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS ALLOCATED TO COMMON UNITHOLDERS (NOTE 3)</b>	<b>\$408,086</b>	<b>\$(8,990 )</b>	<b>\$404,359</b>	<b>\$(14,307 )</b>

Edgar Filing: NGL Energy Partners LP - Form 10-Q

NET INCOME (LOSS) ALLOCATED TO COMMON UNITHOLDERS	\$331,161	\$(189,315 )	\$142,613	\$(262,670 )
BASIC INCOME (LOSS) PER COMMON UNIT				
Loss From Continuing Operations	\$(0.63 )	\$(1.49 )	\$(2.15 )	\$(2.05 )
Income (Loss) From Discontinued Operations, net of Tax	3.33	(0.07 )	3.32	(0.12 )
Net Income (Loss)	\$2.70	\$(1.56 )	\$1.17	\$(2.17 )
DILUTED INCOME (LOSS) PER COMMON UNIT				
Loss From Continuing Operations	\$(0.63 )	\$(1.49 )	\$(2.15 )	\$(2.05 )
Income (Loss) From Discontinued Operations, net of Tax	3.33	(0.07 )	3.32	(0.12 )
Net Income (Loss)	\$2.70	\$(1.56 )	\$1.17	\$(2.17 )
BASIC WEIGHTED AVERAGE COMMON UNITS OUTSTANDING	122,380,197	21,314,636	121,964,593	120,927,400
DILUTED WEIGHTED AVERAGE COMMON UNITS OUTSTANDING	122,380,197	21,314,636	121,964,593	120,927,400

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

Table of Contents

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in Thousands)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income (loss)	\$354,939	\$(173,579)	\$185,650	\$(237,286)
Other comprehensive loss	(13 )	(59 )	(24 )	(434 )
Comprehensive income (loss)	\$354,926	\$(173,638)	\$185,626	\$(237,720)

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

Table of Contents

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statement of Changes in Equity

Six Months Ended September 30, 2018

(in Thousands, except unit amounts)

	Limited Partners				Accumulated Other Comprehensive (Income) Loss	Noncontrolling Interests	Total Equity	
	General Partner	Class B Preferred Units	Amount	Common Units				Amount
BALANCES AT MARCH 31, 2018	\$(50,819)	8,400,000	\$202,731	121,472,725	\$1,852,495	\$(1,815)	\$83,503	\$2,086,095
Distributions to general and common unit partners and preferred unitholders (Note 10)	(164)	—	—	—	(117,322)	—	—	(117,486)
Contributions	—	—	—	—	—	—	169	169
Sawtooth joint venture	—	—	—	—	(63)	—	63	—
Purchase of noncontrolling interest (Note 4)	—	—	—	—	(33)	—	(3,927)	(3,960)
Redeemable noncontrolling interest valuation adjustment (Note 2)	—	—	—	—	(3,349)	—	—	(3,349)
Repurchase of warrants (Note 10)	—	—	—	—	(14,988)	—	—	(14,988)
Common unit repurchases and cancellations (Note 10)	—	—	—	(4,661)	(54)	—	—	(54)
Equity issued pursuant to incentive compensation plan (Note 10)	21	—	—	2,044,601	27,372	—	—	27,393
Warrants exercised (Note 10)	—	—	—	228,797	2	—	—	2
Accretion of beneficial conversion feature of Class A convertible preferred units	—	—	—	—	(21,786)	—	—	(21,786)

Edgar Filing: NGL Energy Partners LP - Form 10-Q

(Note 10)								
Net income (loss)	212	—	—	—	186,747	—	(863 )	186,096
Other comprehensive loss	—	—	—	—	—	(24 )	—	(24 )
Cumulative effect adjustment for adoption of ASC 606 (Note 15)	139	—	—	—	139,167	—	—	139,306
Cumulative effect adjustment for adoption of ASU 2016-01 (Note 2)	(2 )	—	—	—	(1,567 )	1,569	—	—
<b>BALANCES AT SEPTEMBER 30, 2018</b>	<b>\$(50,613)</b>	<b>8,400,000</b>	<b>\$202,731</b>	<b>123,741,462</b>	<b>\$2,046,621</b>	<b>\$(270 )</b>	<b>\$78,945</b>	<b>\$2,277,414</b>

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

Table of Contents

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Cash Flows

(in Thousands)

	Six Months Ended	
	September 30,	
	2018	2017
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 185,650	\$(237,286)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
(Gain) loss from discontinued operations, net of tax	(404,318 )	15,005
Depreciation and amortization, including amortization of debt issuance costs	112,532	114,612
Loss on early extinguishment or revaluation of liabilities, net	937	6,938
Non-cash equity-based compensation expense	24,730	14,886
Loss on disposal or impairment of assets, net	107,323	99,142
Provision for doubtful accounts	163	705
Net adjustments to fair value of commodity derivatives	88,996	34,629
Equity in earnings of unconsolidated entities	(598 )	(4,089 )
Distributions of earnings from unconsolidated entities	—	2,777
Other	211	9,182
Changes in operating assets and liabilities, exclusive of acquisitions:		
Accounts receivable-trade and affiliates	(353,647 )	(59,741 )
Inventories	(127,409 )	(13,289 )
Other current and noncurrent assets	(3,888 )	(14,985 )
Accounts payable-trade and affiliates	196,777	(25,971 )
Other current and noncurrent liabilities	53,745	29,830
Net cash used in operating activities-continuing operations	(118,796 )	(27,655 )
Net cash provided by operating activities-discontinued operations	30,915	39,364
Net cash (used in) provided by operating activities	(87,881 )	11,709
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(193,519 )	(46,639 )
Acquisitions, net of cash acquired	(197,971 )	(19,897 )
Settlements of commodity derivatives	(94,879 )	(21,789 )
Proceeds from sales of assets	8,204	22,575
Proceeds from divestitures of businesses and investments	18,594	—
Investments in unconsolidated entities	(92 )	(14,150 )
Distributions of capital from unconsolidated entities	—	4,378
Repayments on loan for natural gas liquids facility	4,558	4,875
Loan to affiliate	(1,515 )	(960 )
Net cash used in investing activities-continuing operations	(456,620 )	(71,607 )
Net cash provided by (used in) investing activities-discontinued operations	845,779	(36,605 )
Net cash provided by (used in) investing activities	389,159	(108,212 )
<b>FINANCING ACTIVITIES:</b>		
Proceeds from borrowings under Revolving Credit Facility	2,008,000	814,500
Payments on Revolving Credit Facility	(2,153,500 )	(657,500 )
Repurchase of senior secured and senior unsecured notes	(5,069 )	(115,407 )
Payments on other long-term debt	(326 )	(552 )
Debt issuance costs	(780 )	(2,474 )

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Contributions from noncontrolling interest owners, net	169	23
Distributions to general and common unit partners and preferred unitholders	(117,486 )	(107,389 )
Distributions to noncontrolling interest owners	—	(3,082 )
Proceeds from sale of preferred units, net of offering costs	—	202,755
Repurchase of warrants	(14,988 )	(10,549 )
Common unit repurchases and cancellations	(54 )	(11,663 )
Payments for settlement and early extinguishment of liabilities	(2,639 )	(1,650 )
Net cash (used in) provided by financing activities-continuing operations	(286,673 )	107,012
Net cash used in financing activities-discontinued operations	(325 )	(2,611 )
Net cash (used in) provided by financing activities	(286,998 )	104,401
Net increase in cash and cash equivalents	14,280	7,898
Cash and cash equivalents, beginning of period	22,094	7,826
Cash and cash equivalents, end of period	\$36,374	\$15,724
Supplemental cash flow information:		
Cash interest paid	\$82,690	\$96,217
Income taxes paid (net of income tax refunds)	\$1,368	\$1,473
Supplemental non-cash investing and financing activities:		
Distributions declared but not paid to Class B preferred unitholders	\$4,725	\$5,670
Accrued capital expenditures	\$21,508	\$2,907

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

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1—Organization and Operations

NGL Energy Partners LP (“we,” “us,” “our,” or the “Partnership”) is a Delaware limited partnership. NGL Energy Holdings LLC serves as our general partner. At September 30, 2018, our operations included:

Our Crude Oil Logistics segment purchases crude oil from producers and transports it to refineries or for resale at pipeline injection stations, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs, and provides storage, terminaling, trucking, marine and pipeline transportation services through its owned assets. Our Water Solutions segment provides services for the treatment and disposal of wastewater generated from crude oil and natural gas production and for the disposal of solids such as tank bottoms, drilling fluids and drilling muds and performs truck and frac tank washouts. In addition, our Water Solutions segment sells the recovered hydrocarbons that result from performing these services and it also sells freshwater to producers for exploration and production activities.

Our Liquids segment supplies natural gas liquids to retailers, wholesalers, refiners, and petrochemical plants throughout the United States and in Canada using its leased underground storage and fleet of leased railcars, markets regionally through its 19 owned terminals throughout the United States, and provides terminaling and storage services at its salt dome storage facility joint venture in Utah.

Our Refined Products and Renewables segment conducts gasoline, diesel, ethanol, and biodiesel marketing operations, purchases refined petroleum and renewable products primarily in the Gulf Coast, Southeast and Midwest regions of the United States and schedules them for delivery at various locations throughout the country. In addition, in certain storage locations, our Refined Products and Renewables segment may also purchase unfinished gasoline blending components for subsequent blending into finished gasoline to supply our marketing business as well as third parties.

Recent Developments

On July 10, 2018, we completed the sale of virtually all of our Retail Propane segment to Superior Plus Corp. (“Superior”) for total consideration of \$896.5 million in cash after adjusting for estimated working capital. Accordingly, upon satisfaction of the significant closing conditions for this transaction during the month of June 2018, the assets, liabilities and redeemable noncontrolling interest of the Retail Propane segment were classified as held for sale in our unaudited condensed consolidated balance sheets. This sale included all three of the retail propane businesses we acquired during the three months ended June 30, 2018 (see Note 4). We retained our 50% ownership interest in Victory Propane, LLC (“Victory Propane”), which we subsequently sold on August 14, 2018 (see Note 2). This transaction, combined with the sale of a portion of our Retail Propane segment to DCC LPG (“DCC”) on March 30, 2018, represents a strategic shift in our operations and will have a significant effect on our operations and financial results going forward. Accordingly, the results of operations and cash flows related to the entire Retail Propane segment (including equity in earnings of Victory Propane) have been classified as discontinued operations for all periods presented and prior periods have been retrospectively adjusted in the unaudited condensed consolidated statements of operations and unaudited condensed consolidated statements of cash flows.

Note 2—Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include our accounts and those of our controlled subsidiaries. Intercompany transactions and account balances have been eliminated in consolidation. Investments we do not control, but can exercise significant influence over, are accounted for using the equity method



of accounting. We also own an undivided interest in a crude oil pipeline, and include our proportionate share of assets, liabilities, and expenses related to this pipeline in our unaudited condensed consolidated financial statements.

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim consolidated financial information in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, the unaudited condensed consolidated financial statements exclude certain information and notes required by GAAP for complete annual consolidated financial

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

statements. However, we believe that the disclosures made are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements include all adjustments that we consider necessary for a fair presentation of our consolidated financial position, results of operations and cash flows for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed in this Quarterly Report. The unaudited condensed consolidated balance sheet at March 31, 2018 was derived from our audited consolidated financial statements for the fiscal year ended March 31, 2018 included in our Annual Report on Form 10-K (“Annual Report”) filed with the SEC on May 30, 2018 and adjusted retrospectively for the Retail Propane segment disposition as previously described.

These interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report. Due to the seasonal nature of certain of our operations and other factors, the results of operations for interim periods are not necessarily indicative of the results of operations to be expected for future periods or for the full fiscal year ending March 31, 2019.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amount of assets and liabilities reported at the date of the consolidated financial statements and the amount of revenues and expenses reported during the periods presented.

Critical estimates we make in the preparation of our unaudited condensed consolidated financial statements include, among others, determining the fair value of assets and liabilities acquired in business combinations, the fair value of derivative instruments, the collectibility of accounts receivable, the recoverability of inventories, useful lives and recoverability of property, plant and equipment and amortizable intangible assets, the impairment of long-lived assets and goodwill, the fair value of asset retirement obligations, the value of equity-based compensation, accruals for environmental matters and estimating certain revenues. Although we believe these estimates are reasonable, actual results could differ from those estimates.

#### Significant Accounting Policies

Our significant accounting policies are consistent with those disclosed in Note 2 of our audited consolidated financial statements included in our Annual Report.

#### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value is based upon assumptions that market participants would use when pricing an asset or liability. We use the following fair value hierarchy, which prioritizes valuation technique inputs used to measure fair value into three broad levels:

• Level 1: Quoted prices in active markets for identical assets and liabilities that we have the ability to access at the measurement date.

• Level 2: Inputs (other than quoted prices included within Level 1) that are either directly or indirectly observable for the asset or liability, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in inactive markets, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived from observable market data by correlation or other means.

Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity

price swap and option contracts and forward commodity contracts. We determine the fair value of all of our derivative financial instruments utilizing pricing models for similar instruments. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

Level 3: Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

value hierarchy. The lowest level input that is significant to a fair value measurement determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to a fair value measurement requires judgment, considering factors specific to the asset or liability.

#### Derivative Financial Instruments

We record all derivative financial instrument contracts at fair value in our unaudited condensed consolidated balance sheets except for certain contracts that qualify for the normal purchase and normal sale election. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs.

We have not designated any financial instruments as hedges for accounting purposes. All changes in the fair value of our commodity derivative instruments that do not qualify as normal purchases and normal sales (whether cash transactions or non-cash mark-to-market adjustments) are reported within cost of sales in our unaudited condensed consolidated statements of operations, regardless of whether the contract is physically or financially settled.

We utilize various commodity derivative financial instrument contracts to attempt to reduce our exposure to price fluctuations. We do not enter into such contracts for trading purposes. Changes in assets and liabilities from commodity derivative financial instruments result primarily from changes in market prices, newly originated transactions, and the timing of settlements. We attempt to balance our contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on our assessment of anticipated market movements. Inherent in the resulting contractual portfolio are certain business risks, including commodity price risk and credit risk. Commodity price risk is the risk that the market value of crude oil, natural gas liquids, or refined and renewables products will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. Procedures and limits for managing commodity price risks and credit risks are specified in our market risk policy and credit policy, respectively. Open commodity positions and market price changes are monitored daily and are reported to senior management and to marketing operations personnel. Credit risk is monitored daily and exposure is minimized through customer deposits, restrictions on product liftings, letters of credit, and entering into master netting agreements that allow for offsetting counterparty receivable and payable balances for certain transactions.

#### Income Taxes

We qualify as a partnership for income tax purposes. As such, we generally do not pay United States federal income tax. Rather, each owner reports his or her share of our income or loss on his or her individual tax return. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined, as we do not have access to information regarding each partner's basis in the Partnership.

We have certain taxable corporate subsidiaries in Canada, and our operations in Texas are subject to a state franchise tax that is calculated based on revenues net of cost of sales.

During the six months ended September 30, 2018, we recognized a deferred tax liability of \$22.4 million as a result of acquiring a corporation in connection with one of our acquisitions (see Note 4). The deferred tax liability is the tax effected cumulative temporary difference between the GAAP basis and tax basis of the acquired assets within the corporation. For GAAP purposes, certain of the acquired assets will be depreciated and amortized over time which will lower the GAAP basis. The deferred tax liability is included within other noncurrent liabilities in our unaudited

condensed consolidated balance sheet at September 30, 2018.

We evaluate uncertain tax positions for recognition and measurement in the unaudited condensed consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the unaudited condensed consolidated financial statements. We had no material uncertain tax positions that required recognition in our unaudited condensed consolidated financial statements at September 30, 2018 or March 31, 2018.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Inventories

Our inventories are valued at the lower of cost or net realizable value, with cost determined using either the weighted-average cost or the first in, first out (FIFO) methods, including the cost of transportation and storage, and with net realizable value defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. In performing this analysis, we consider fixed-price forward commitments.

Inventories consist of the following at the dates indicated:

	September 30, 2018	March 31, 2018
	(in thousands)	
Crude oil	\$46,366	\$77,351
Natural gas liquids:		
Propane	97,720	38,910
Butane	63,182	12,613
Other	11,016	6,515
Refined products:		
Gasoline	270,060	253,286
Diesel	131,614	113,939
Renewables:		
Ethanol	41,773	38,093
Biodiesel	17,394	10,596
Total	\$679,125	\$551,303

Amounts in the table above do not include inventory related to the Retail Propane segment, as these amounts have been classified as assets held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

## Investments in Unconsolidated Entities

Investments we do not control, but can exercise significant influence over, are accounted for using the equity method of accounting. Investments in partnerships and limited liability companies, unless our investment is considered to be minor, and investments in unincorporated joint ventures are also accounted for using the equity method of accounting. Under the equity method, we do not report the individual assets and liabilities of these entities on our unaudited condensed consolidated balance sheets; instead, our ownership interests are reported within investments in unconsolidated entities on our unaudited condensed consolidated balance sheets. Under the equity method, the investment is recorded at acquisition cost, increased by our proportionate share of any earnings and additional capital contributions and decreased by our proportionate share of any losses, distributions paid, and amortization of any excess investment. Excess investment is the amount by which our total investment exceeds our proportionate share of the net assets of the investee.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Our investments in unconsolidated entities consist of the following at the dates indicated:

Entity	Segment	Ownership Interest (1)	Date Acquired or Formed	September 30, 2018		March 31, 2018	
				(in thousands)	(in thousands)	(in thousands)	(in thousands)
Water treatment and disposal facility (2)	Water Solutions	50%	August 2015	\$2,124	\$2,094		
Water services company (3)	Water Solutions	50%	August 2018	2,396	—		
E Energy Adams, LLC (4)	Refined Products and Renewables	—%	December 2013	—	15,142		
Victory Propane, LLC (5)	Corporate and Other	—%	April 2015	—	—		
Total				\$4,520	\$17,236		

(1) Ownership interest percentages are at September 30, 2018.

(2) This is an investment in an unincorporated joint venture.

(3) This is an investment in an unincorporated joint venture that we acquired as part of an acquisition in August 2018.

(4) See Note 4 for a further discussion.

On May 3, 2018, we sold our previously held 20% interest in E Energy Adams, LLC for net proceeds of \$18.6 million and recorded a gain on disposal of \$3.0 million during the six months ended September 30, 2018 within loss on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations.

(5) On August 14, 2018, we sold our previously held 50% interest in Victory Propane. See Note 13 for a further discussion.

## Variable Interest Entity

Victory Propane was formed as a joint venture in April 2015 by us and an unrelated third party. The business purpose of Victory Propane is to acquire and/or develop retail propane operations in a defined geographic area. In conjunction with the formation of Victory Propane, we agreed to provide Victory Propane a revolving line of credit of \$5.0 million and have concluded that Victory Propane is a variable interest entity because the equity of Victory Propane is not sufficient to fund its activities without additional subordinated financial support. As discussed above and in Note 13, during the three months ended September 30, 2018, we sold our interest in Victory Propane.

## Other Noncurrent Assets

Other noncurrent assets consist of the following at the dates indicated:

	September 30, 2018		March 31, 2018	
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Loan receivable (1)	\$23,327	\$29,463		
Line fill (2)	33,437	34,897		
Tank bottoms (3)	44,148	42,044		
Minimum shipping fees - pipeline commitments (4)	23,494	88,757		
Other	51,723	49,878		
Total	\$176,129	\$245,039		

(1) Represents the noncurrent portion of a loan receivable associated with our financing of the construction of a natural gas liquids facility to be utilized by a third party.

(2)

Represents minimum volumes of product we are required to leave on certain third-party owned pipelines under long-term shipment commitments. At September 30, 2018, line fill consisted of 335,069 barrels of crude oil and 262,000 barrels of propane. At March 31, 2018, line fill consisted of 360,425 barrels of crude oil and 262,000 barrels of propane. Line fill held in pipelines we own is included within property, plant and equipment (see Note 5).

Tank bottoms, which are product volumes required for the operation of storage tanks, are recorded at historical (3) cost. We recover tank bottoms when the storage tanks are removed from service. At September 30, 2018 and March 31, 2018, tank bottoms held in third party



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

terminals consisted of 389,737 barrels and 366,212 barrels of refined products, respectively. Tank bottoms held in terminals we own are included within property, plant and equipment (see Note 5).

Represents the minimum shipping fees paid in excess of volumes shipped, or deficiency credits, for two contracts with crude oil pipeline operators. This amount can be recovered when volumes shipped exceed the minimum monthly volume commitment (see Note 9). During the three months ended June 30, 2018, we entered into a definitive agreement, as described further in Note 13, in which we agreed to provide the benefit of our deficiency credit under one of these contracts. As a result of providing this benefit to the third party, we wrote off \$67.7 million of these deficiency credits to loss on disposal or impairment of assets, net in our unaudited condensed consolidated statements of operation during the three months ended June 30, 2018. Under the remaining other contract for which we have the future benefit, we currently have 19 months in which to ship the excess volumes.

Amounts in the table above do not include other noncurrent assets related to the Retail Propane segment, as these amounts have been classified as assets held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

## Accrued Expenses and Other Payables

Accrued expenses and other payables consist of the following at the dates indicated:

	September 30, 2018	March 31, 2018
	(in thousands)	
Accrued compensation and benefits	\$15,148	\$18,033
Excise and other tax liabilities	33,521	40,829
Derivative liabilities	75,575	51,039
Accrued interest	40,066	39,947
Product exchange liabilities	30,394	11,842
Gavilon legal matter settlement (Note 9)	34,167	—
Deferred gain on sale of general partner interest in TLP (1)	—	30,113
Other	38,425	31,701
Total	\$267,296	\$223,504

(1) See Note 15 for a discussion of the accounting for the deferred gain upon adoption of ASU No. 2014-09 and ASU No. 2017-05.

Amounts in the table above do not include accrued expenses and other payables related to the Retail Propane segment, as these amounts have been classified as liabilities held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

## Noncontrolling Interests

Noncontrolling interests represent the portion of certain consolidated subsidiaries that are owned by third parties. Amounts are adjusted by the noncontrolling interest holder's proportionate share of the subsidiaries' earnings or losses each period and any distributions that are paid. Noncontrolling interests are reported as a component of equity, unless the noncontrolling interest is considered redeemable, in which case the noncontrolling interest is recorded between liabilities and equity (mezzanine or temporary equity) in our unaudited condensed consolidated balance sheet. The redeemable noncontrolling interest is adjusted at each balance sheet date to its maximum redemption value if the amount is greater than the carrying value. The redeemable noncontrolling interest is included in liabilities and

Edgar Filing: NGL Energy Partners LP - Form 10-Q

redeemable noncontrolling interest held for sale in our unaudited condensed consolidated balance sheets (see Note 14). The following table summarizes changes in our redeemable noncontrolling interest (in thousands):

Balance at March 31, 2018	\$9,927
Net loss attributable to redeemable noncontrolling interest	(446 )
Redeemable noncontrolling interest valuation adjustment	3,349
Disposal of redeemable noncontrolling interest	(12,830)
Balance at September 30, 2018	\$—

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Business Combination Measurement Period

We record the assets acquired and liabilities assumed in a business combination at their acquisition date fair values. Pursuant to GAAP, an entity is allowed a reasonable period of time (not to exceed one year) to obtain the information necessary to identify and measure the fair value of the assets acquired and liabilities assumed in a business combination. As discussed in Note 4, certain of our acquisitions are still within this measurement period, and as a result, the acquisition date fair values we have recorded for the assets acquired and liabilities assumed are subject to change.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments-Credit Losses.” The ASU requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected, which would include accounts receivable. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The ASU is effective for the Partnership beginning April 1, 2020, and requires a modified retrospective method of adoption, although early adoption is permitted. We are currently in the process of assessing the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” The ASU will replace previous lease accounting guidance in GAAP. The ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. The ASU retains a distinction between finance leases and operating leases. The ASU is effective for the Partnership beginning April 1, 2019. We are currently evaluating our current leases and other contracts that may be considered leases under the new standard and the impact on our internal controls, accounting policies and financial statements and disclosures. Our evaluation process includes compiling a database of our leases, implementing accounting software to assist with compliance and developing internal controls to ensure completeness and accuracy of our leases meeting the scope of this ASU. Upon adoption, we expect to recognize right of use assets and lease liabilities not previously recorded on our consolidated balance sheet. Due to the ongoing nature of our process, we cannot yet determine the quantitative impact of the adoption of this standard. We expect to elect the following transitional practical expedients, which will allow us to not evaluate land easements prior to April 1, 2019: use hindsight in determining the lease term; to not reassess whether current or expired contracts contain leases; to not reassess the lease classification for any expired or existing leases; and to not reassess initial costs. We also expect to elect the optional transition method to record the adoption impact through a cumulative effect adjustment to equity.

On April 1, 2018, we adopted ASU No. 2014-09, “Revenue from Contracts with Customers,” using a modified retrospective approach of adoption. ASU No. 2014-09 supersedes previous revenue recognition requirements in Topic 605, “Revenue Recognition,” and includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To achieve this core principle, more judgment and estimates are required within the revenue recognition process than required under Topic 605. In addition, ASU No. 2014-09 requires significantly expanded disclosures related to the nature, timing, amount and uncertainty of revenue and cash flows arising from contracts with customers. See Note 15 for a further discussion of the impact of adoption of ASU No. 2014-09 on our unaudited condensed consolidated financial statements and our revenue recognition policies.

On April 1, 2018, we adopted ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” One of the provisions of ASU No. 2016-01 was to supersede the guidance to classify equity securities with

readily determinable fair value into different categories (that is, trading or available-for-sale) and require equity securities to be measured at fair value with changes in fair value recognized through net income. As a result of the adoption, we recorded a cumulative effect adjustment of \$1.6 million, moving the unrealized loss from accumulated other comprehensive income to limited partners' equity.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Note 3—Income (Loss) Per Common Unit

The following table presents our calculation of basic and diluted weighted average common units outstanding for the periods indicated:

	Three Months Ended September 30, 2018		Six Months Ended September 30, 2018	
	2017	2018	2017	2018
Weighted average common units outstanding during the period:				
Common units - Basic	122,380,197	121,314,636	121,964,593	120,927,400
Common units - Diluted	122,380,197	121,314,636	121,964,593	120,927,400

For the three months ended September 30, 2018 and 2017, and the six months ended September 30, 2018 and 2017, the Performance Awards (as defined herein), warrants, Service Awards (as defined herein) and the Class A Preferred Units (as defined herein) were considered antidilutive.

Our income (loss) per common unit is as follows for the periods indicated:

	Three Months Ended September 30, 2018		Six Months Ended September 30, 2018	
	2017	2018	2017	2018
	(in thousands, except unit and per unit amounts)			
Loss from continuing operations	\$(53,508 )	\$(164,293 )	\$(218,668 )	\$(222,281 )
Less: Continuing operations loss (income) attributable to noncontrolling interests	518	(80 )	863	(132 )
Net loss from continuing operations attributable to NGL Energy Partners LP	(52,990 )	(164,373 )	(217,805 )	(222,413 )
Less: Distributions to preferred unitholders (1)	(23,977 )	(16,098 )	(44,134 )	(25,782 )
Less: Continuing operations loss allocated to general partner (2)	42	146	193	181
Less: Repurchase of warrants (3)	—	—	—	(349 )
Net loss from continuing operations allocated to common unitholders	\$(76,925 )	\$(180,325 )	\$(261,746 )	\$(248,363 )
Income (loss) from discontinued operations attributable to NGL Energy Partners LP, net of tax	\$408,447	\$(9,286 )	\$404,318	\$(15,005 )
Less: Discontinued operations loss attributable to redeemable noncontrolling interests	48	288	446	685
Less: Discontinued operations (income) loss allocated to general partner (2)	(409 )	8	(405 )	13
Net income (loss) from discontinued operations allocated to common unitholders	\$408,086	\$(8,990 )	\$404,359	\$(14,307 )
Net income (loss) allocated to common unitholders	\$331,161	\$(189,315 )	\$142,613	\$(262,670 )
Basic income (loss) per common unit				
Loss from continuing operations	\$(0.63 )	\$(1.49 )	\$(2.15 )	\$(2.05 )
Income (loss) from discontinued operations, net of tax	3.33	(0.07 )	3.32	(0.12 )
Net income (loss)	\$2.70	\$(1.56 )	\$1.17	\$(2.17 )
Diluted income (loss) per common unit				

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Loss from continuing operations	\$ (0.63 )	\$ (1.49 )	\$ (2.15 )	\$ (2.05 )
Income (loss) from discontinued operations, net of tax	3.33	(0.07 )	3.32	(0.12 )
Net income (loss)	\$ 2.70	\$ (1.56 )	\$ 1.17	\$ (2.17 )
Basic weighted average common units outstanding	122,380,197	121,314,636	121,964,593	120,927,400
Diluted weighted average common units outstanding	122,380,197	121,314,636	121,964,593	120,927,400

(1) This amount includes the distribution to preferred unitholders as well as the accretion for the beneficial conversion, as discussed further in Note 10.

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

- (2) Net (income) loss allocated to the general partner includes distributions to which it is entitled as the holder of incentive distribution rights.
- (3) This amount represents the excess of the repurchase price over the fair value of the warrants, as discussed further in Note 10.

Note 4—Acquisitions

The following summarizes our acquisitions during the six months ended September 30, 2018:

Water Pipeline Company

On April 24, 2018, we acquired the remaining 18.375% interest in NGL Water Pipelines, LLC operating in the Delaware Basin portion of the Permian Basin in West Texas for total consideration of approximately \$4.0 million. The acquisition of the remaining interest was accounted for as an equity transaction, no gain or loss was recorded, and the carrying value of the noncontrolling interest was adjusted to reflect the change in ownership interest of the subsidiary. As of the date of the transaction, the 18.375% interest had a carrying value of \$3.9 million.

Saltwater Water Solutions Facilities

During the six months ended September 30, 2018, we acquired six saltwater disposal facilities (including 15 wells) for total consideration of approximately \$116.0 million.

As part of these acquisitions, we recorded customer relationship and favorable contract intangible assets whereby we estimated the value of these intangible assets using the income approach, which uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

We assumed land leases with a royalty component as part of the acquisition of these facilities. The acquisition method of accounting requires that executory contracts with unfavorable terms relative to market conditions at the acquisition date be recorded as liabilities in the acquisition accounting. We recorded a liability to other noncurrent liabilities of \$1.1 million related to these leases due to the royalty terms being deemed unfavorable. We will amortize this liability based on the volumes processed by the facilities.

The agreements for these acquisitions contemplate post-closing payments for certain working capital items. We are accounting for these transactions as business combinations. The following table summarizes the preliminary estimates of the fair values as of September 30, 2018 for the assets acquired and liabilities assumed (in thousands):

Property, plant and equipment	\$33,202
Goodwill	58,751
Intangible assets	25,124
Other noncurrent liabilities	(1,127 )
Fair value of net assets acquired	\$115,950

As of September 30, 2018, the allocation of the purchase price is considered preliminary as we are continuing to gather additional information to (i) finalize the fair values of the property, plant and equipment and intangible assets and (ii) calculate additional asset retirement obligations.

Goodwill represents the excess of the consideration paid for the acquired businesses over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill represents a premium paid to expand the number of our disposal sites in an oilfield production basin currently serviced by us, thereby enhancing our competitive position as a provider of disposal services in this oilfield production basin. We expect that all of the goodwill will be deductible for federal income tax purposes.

The operations of these water solutions facilities have been included in our unaudited condensed consolidated statement of operations since their acquisition date. Our unaudited condensed consolidated statement of operations for the six months ended September 30, 2018 includes revenues of \$5.8 million and operating income of \$2.5 million that were generated



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

by the operations of these water solutions facilities. We incurred \$0.2 million of transaction costs related to these acquisitions during the six months ended September 30, 2018. These amounts are recorded within general and administrative expenses in our unaudited condensed consolidated statement of operations.

During the six months ended September 30, 2018, we also acquired two disposal wells for total consideration of \$9.1 million, which we are accounting for as an acquisition of assets.

## Freshwater Water Solutions Facilities

During the six months ended September 30, 2018, we acquired a ranch and four freshwater facilities (including 27 wells) and a right-of-way that can be used for pipelines for total consideration of approximately \$78.1 million.

As part of these acquisitions, we recorded customer relationship and favorable contract intangible assets, whereby we estimated the value of these intangible assets using the income approach, which uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

As part of one of these acquisitions, a book/tax difference was created and as a result, we have recorded a preliminary noncurrent deferred tax liability of \$22.4 million (see Note 2 for a further discussion).

We recorded a contingent consideration liability within accrued expenses and other payables and other noncurrent liabilities in our unaudited condensed consolidated balance sheet related to future royalty payments due to the seller. We estimated the contingent consideration based on the contracted royalty rate, which is a flat rate per barrel, multiplied by the expected volumes of freshwater sold. This amount was then discounted to present value using our weighted average cost of capital plus a premium representative of the uncertainty associated with the expected volumes. As of the acquisition date, we recorded a contingent liability of \$1.8 million.

We assumed land leases with a royalty component as part of the acquisition of certain of these facilities. The acquisition method of accounting requires that executory contracts with unfavorable terms relative to market conditions at the acquisition date be recorded as liabilities in the acquisition accounting. We recorded a liability within other noncurrent liabilities of \$0.5 million related to these leases due to the royalty terms being deemed unfavorable. We will amortize this liability based on the volumes processed by the facilities.

The agreements for these acquisitions contemplate post-closing payments for certain working capital items. We are accounting for these transactions as business combinations. The following table summarizes the preliminary estimates of the fair values as of September 30, 2018 for the assets acquired and liabilities assumed (in thousands):

Property, plant and equipment	\$23,787
Goodwill	8,290
Intangible assets	68,624
Investments in unconsolidated entities	2,060
Current liabilities	(173 )
Other noncurrent liabilities	(24,527 )
Fair value of net assets acquired	\$78,061

As of September 30, 2018, the allocation of the purchase price is considered preliminary as we are continuing to gather additional information to (i) finalize the fair values of land, other property, plant and equipment, other intangible assets, including water rights and customer relationships, and the investment in the unconsolidated entity

and (ii) calculate additional contingent consideration liabilities. We are also engaging a third party valuation firm to assist us in this effort. The noncurrent deferred tax liability is also considered preliminary and will be finalized once the fair value of the assets acquired has been finalized.

Goodwill represents the excess of the consideration paid for the acquired businesses over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill represents a premium paid to expand our service offerings in an oilfield production basin currently serviced by us, thereby enhancing our competitive position as a provider of disposal and other services in this oilfield production basin. We expect that all of the goodwill will be deductible for federal income tax purposes.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The operations of these water solutions facilities have been included in our unaudited condensed consolidated statement of operations since their acquisition date. Our unaudited condensed consolidated statement of operations for the six months ended September 30, 2018 includes revenues of \$1.2 million and operating income of \$0.8 million that were generated by the operations of these water solutions facilities. We incurred \$0.8 million of transaction costs related to these acquisitions during the six months ended September 30, 2018. These amounts are recorded within general and administrative expenses in our unaudited condensed consolidated statement of operations.

During the six months ended September 30, 2018, we also acquired an additional ranch (including 18 freshwater wells) for total consideration of \$28.4 million, which we are accounting for as an acquisition of assets.

## Retail Propane Businesses

During the three months ended June 30, 2018, we acquired three retail propane businesses for total consideration of approximately \$19.1 million. We accounted for these transactions as business combinations.

On July 9, 2018, and in conjunction with the sale of the Retail Propane segment (see Note 1), we acquired the remaining 40% interest in Atlantic Propane, LLC, which was part of our Retail Propane segment, for total consideration of approximately \$12.8 million. The acquisition of the remaining interest was accounted for as an equity transaction, no gain or loss was recorded, and the carrying value of the noncontrolling interest was adjusted to reflect the change in ownership interest of the subsidiary. Atlantic Propane, LLC was included in the sale to Superior (see Note 1).

The assets and liabilities of these retail propane transactions were included in the sale of virtually all of our Retail Propane segment on July 10, 2018 (see Note 14).

## Note 5—Property, Plant and Equipment

Our property, plant and equipment consists of the following at the dates indicated:

Description	Estimated Useful Lives	September 30, 2018	March 31, 2018
		(in thousands)	
Natural gas liquids terminal and storage assets	2–30 years	\$235,959	\$238,487
Pipeline and related facilities	30–40 years	244,127	243,616
Refined products terminal assets and equipment	15–25 years	6,736	6,736
Vehicles and railcars	3–25 years	123,614	121,159
Water treatment facilities and equipment	3–30 years	686,547	601,139
Crude oil tanks and related equipment	2–30 years	211,191	218,588
Barges and towboats	5–30 years	102,988	92,712
Information technology equipment	3–7 years	31,987	30,749
Buildings and leasehold improvements	3–40 years	149,605	147,442
Land		99,876	51,816
Tank bottoms and line fill (1)		20,113	20,118
Other	3–20 years	16,042	11,794
Construction in progress		166,384	77,596
		2,095,169	1,861,952
Accumulated depreciation		(388,557 )	(343,345 )
Net property, plant and equipment		\$1,706,612	\$1,518,607

Tank bottoms, which are product volumes required for the operation of storage tanks, are recorded at historical cost. We recover tank bottoms when the storage tanks are removed from service. Line fill, which represents our (1) portion of the product volume required for the operation of the proportionate share of a pipeline we own, is recorded at historical cost.

Amounts in the table above do not include property, plant and equipment and accumulated depreciation related to the Retail Propane segment, as these amounts have been classified as assets held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table summarizes depreciation expense and capitalized interest expense for the periods indicated:

	Three Months		Six Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Depreciation expense	\$25,984	\$26,142	\$50,713	\$50,924
Capitalized interest expense	\$173	\$—	\$322	\$—

The table above does not include amounts related to the Retail Propane segment, as these amounts have been classified within discontinued operations in our unaudited condensed consolidated statements of operations (see Note 14).

We record losses (gains) from the sales of property, plant and equipment and any write-downs in value due to impairment within loss on disposal or impairment of assets, net in our unaudited condensed consolidated statements of operations. The following table summarizes losses (gains) on the disposal or impairment of property, plant and equipment by segment for the periods indicated:

	Three Months		Six Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Crude Oil Logistics	\$3,367	\$(397)	\$1,326	\$(4,029)
Water Solutions	730	915	3,205	1,439
Liquids	1,004	852	994	852
Total	\$5,101	\$1,370	\$5,525	\$(1,738)

## Note 6—Goodwill

The following table summarizes changes in goodwill by segment during the six months ended September 30, 2018:

	Crude Oil Water		Liquids	Refined	
	Logistics	Solutions		Products and	Total
	(in thousands)				
Balances at March 31, 2018	\$579,846	\$424,465	\$149,169	\$ 51,127	\$1,204,607
Acquisitions (Note 4)	—	67,041	—	—	67,041
Balances at September 30, 2018	\$579,846	\$491,506	\$149,169	\$ 51,127	\$1,271,648

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Note 7—Intangible Assets

Our intangible assets consist of the following at the dates indicated:

Description	Amortizable Lives	September 30, 2018			March 31, 2018		
		Gross Carrying Amount (in thousands)	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<b>Amortizable:</b>							
Customer relationships	3–20 years	\$748,605	\$(354,021)	\$394,584	\$718,763	\$(328,666)	\$390,097
Customer commitments	10 years	310,000	(59,417)	250,583	310,000	(43,917)	266,083
Pipeline capacity rights	30 years	161,785	(19,741)	142,044	161,785	(17,045)	144,740
Rights-of-way and easements	1–40 years	66,861	(4,341)	62,520	63,995	(3,214)	60,781
Executory contracts and other agreements	3–30 years	45,730	(15,673)	30,057	42,919	(15,424)	27,495
Non-compete agreements	2–32 years	12,715	(1,487)	11,228	5,465	(706)	4,759
Debt issuance costs (1)	5 years	41,772	(27,011)	14,761	40,992	(24,593)	16,399
<b>Total amortizable</b>		<b>1,387,468</b>	<b>(481,691)</b>	<b>905,777</b>	<b>1,343,919</b>	<b>(433,565)</b>	<b>910,354</b>
<b>Non-amortizable:</b>							
Water rights		58,352	—	58,352	—	—	—
Trade names		2,800	—	2,800	2,800	—	2,800
<b>Total non-amortizable</b>		<b>61,152</b>	<b>—</b>	<b>61,152</b>	<b>2,800</b>	<b>—</b>	<b>2,800</b>
<b>Total</b>		<b>\$1,448,620</b>	<b>\$(481,691)</b>	<b>\$966,929</b>	<b>\$1,346,719</b>	<b>\$(433,565)</b>	<b>\$913,154</b>

(1) Includes debt issuance costs related to the Revolving Credit Facility (as defined herein). Debt issuance costs related to fixed-rate notes are reported as a reduction of the carrying amount of long-term debt.

Amounts in the table above do not include intangible assets and accumulated amortization related to the Retail Propane segment, as these amounts have been classified as assets held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

The weighted-average remaining amortization period for intangible assets is approximately 13.4 years.

Amortization expense is as follows for the periods indicated:

Recorded In	Three Months Ended		Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(in thousands)			
Depreciation and amortization	\$26,766	\$27,453	\$54,082	\$55,088
Cost of sales	1,384	1,506	2,849	3,091
Interest expense	1,225	1,154	2,418	2,240
<b>Total</b>	<b>\$29,375</b>	<b>\$30,113</b>	<b>\$59,349</b>	<b>\$60,419</b>

Amounts in the table above do not include amortization expense related to the Retail Propane segment, as these amounts have been classified within discontinued operations within our unaudited condensed consolidated statements of operations (see Note 14).



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Expected amortization of our intangible assets is as follows (in thousands):

Fiscal Year Ending March 31,	
2019 (six months)	\$59,490
2020	117,984
2021	105,797
2022	91,105
2023	80,339
Thereafter	451,062
Total	\$905,777

## Note 8—Long-Term Debt

Our long-term debt consists of the following at the dates indicated:

	September 30, 2018			March 31, 2018		
	Face Amount	Unamortized Debt Issuance Costs (1)	Book Value	Face Amount	Unamortized Debt Issuance Costs (1)	Book Value
	(in thousands)					
Revolving credit facility:						
Expansion capital borrowings	\$65,000	\$ —	\$65,000	\$—	\$ —	\$—
Working capital borrowings	759,000	—	759,000	969,500	—	969,500
Senior unsecured notes:						
5.125% Notes due 2019 (2)	353,424	(1,012 )	352,412	353,424	(1,653 )	351,771
6.875% Notes due 2021 (2)	367,048	(3,862 )	363,186	367,048	(4,499 )	362,549
7.500% Notes due 2023	610,947	(7,712 )	603,235	615,947	(8,542 )	607,405
6.125% Notes due 2025	389,135	(5,522 )	383,613	389,135	(5,951 )	383,184
Other long-term debt	5,654	—	5,654	5,977	—	5,977
	2,550,208	(18,108 )	2,532,100	2,701,031	(20,645 )	2,680,386
Less: Current maturities	721,119	(4,874 )	716,245	646	—	646
Long-term debt	\$1,829,089	\$ (13,234 )	\$1,815,855	\$2,700,385	\$ (20,645 )	\$2,679,740

(1) Debt issuance costs related to the Revolving Credit Facility are reported within intangible assets, rather than as a reduction of the carrying amount of long-term debt.

(2) Amounts are included in current maturities, as discussed further below.

Amounts in the table above do not include long-term debt related to the Retail Propane segment, as these amounts have been classified as liabilities held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

Amortization expense for debt issuance costs related to long-term debt in the table above was \$1.2 million and \$1.6 million during the three months ended September 30, 2018 and 2017, respectively, and \$2.5 million and \$3.3 million during the six months ended September 30, 2018 and 2017, respectively.



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Expected amortization of debt issuance costs is as follows (in thousands):

Fiscal Year Ending March 31,	
2019 (six months)	\$5,690
2020	2,749
2021	2,376
2022	2,376
2023	2,376
Thereafter	2,541
Total	\$18,108

## Credit Agreement

We are party to a \$1.765 billion credit agreement (as amended, the “Credit Agreement”) with a syndicate of banks. As of September 30, 2018, the Credit Agreement includes a revolving credit facility to fund working capital needs, which had a capacity of \$1.450 billion for cash borrowings and letters of credit (the “Working Capital Facility”), and a revolving credit facility to fund acquisitions and expansion projects, which had a capacity of \$315.0 million (the “Expansion Capital Facility,” and together with the Working Capital Facility, the “Revolving Credit Facility”). Our Revolving Credit Facility allows us to reallocate amounts between the Expansion Capital Facility and Working Capital Facility. During the three months ended September 30, 2018, we reallocated \$150.0 million from the Expansion Capital Facility to the Working Capital Facility. We had letters of credit of \$202.3 million on the Working Capital Facility at September 30, 2018.

At September 30, 2018, the borrowings under the Credit Agreement had a weighted average interest rate of 5.13%, calculated as the weighted average LIBOR rate of 2.17% plus a margin of 2.50% for LIBOR borrowings and the prime rate of 5.25% plus a margin of 1.50% on alternate base rate borrowings. At September 30, 2018, the interest rate in effect on letters of credit was 2.50%. Commitment fees were charged at a rate ranging from 0.375% to 0.50% on any unused capacity.

On July 5, 2018, we amended our Credit Agreement. In the amendment, the lenders consented to, subject to the consummation of the Retail Propane disposition, release NGL Propane, LLC and its wholly-owned subsidiaries from its guaranty and other obligations under the loan documents, among other things. In return, the Partnership agreed to use the net proceeds from the Retail Propane disposition to pay down existing indebtedness no later than five business days after the consummation of the Retail Propane disposition.

The following table summarizes the debt covenant levels specified in the Credit Agreement as of September 30, 2018:

Period Beginning	Senior Secured		Interest Coverage	Total Leverage
	Leverage Ratio (1)	Leverage Ratio (1)	Ratio (2)	Indebtedness Ratio (1)
September 30, 2018	4.75	3.25	2.50	—
December 31, 2018	4.75	3.25	2.75	—
March 31, 2019 and thereafter	4.50	3.25	2.75	6.50

(1) Represents the maximum ratio for the period presented.

(2) Represents the minimum ratio for the period presented.

Edgar Filing: NGL Energy Partners LP - Form 10-Q

At September 30, 2018, our leverage ratio was approximately 3.69 to 1, our senior secured leverage ratio was approximately 0.18 to 1 and our interest coverage ratio was approximately 2.67 to 1.

At September 30, 2018, we were in compliance with the covenants under the Credit Agreement.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Senior Unsecured Notes

## Repurchases

The following table summarizes repurchases of Senior Unsecured Notes for the periods indicated:

	Six Months Ended September 30, 2018 (in thousands)
2023 Notes	
Notes repurchased	\$ 5,000
Cash paid (excluding payments of accrued interest)	\$ 5,069
Loss on early extinguishment of debt (1)	\$ (137 )

Loss on the early extinguishment of debt for the 2023 Notes during the six months ended September 30, 2018 is (1) inclusive of the write off of debt issuance costs of \$0.1 million. The loss is reported within gain (loss) on early extinguishment of liabilities, net within our unaudited condensed consolidated statement of operations.

On October 16, 2018, we redeemed all of our outstanding 6.875% Senior Unsecured Notes that were due to mature on October 15, 2021. The registered holders received a redemption payment of 101.719% of the principal amount, plus accrued and unpaid interest, which equaled \$0.19 per \$1,000 of the redeemed notes. The final semiannual interest payment on the 6.875% Senior Unsecured Notes was made on October 15, 2018, to the holders of record at the close of business on October 1, 2018. We used amounts available under our Revolving Credit Facility to fund the redemption.

At September 30, 2018, we were in compliance with the covenants under the indentures for all of the Senior Unsecured Notes.

## Other Long-Term Debt

We have other notes payable related to equipment financing. The interest rates on these instruments range from 4.13% to 7.10% per year and have an aggregate principal balance of \$5.7 million at September 30, 2018.

## Debt Maturity Schedule

The scheduled maturities of our long-term debt are as follows at September 30, 2018:

Fiscal Year Ending March 31,	Revolving Senior Credit Facility	Senior Unsecured Notes	Other Long-Term Debt	Total
	(in thousands)			
2019 (six months)	\$—	\$367,048	\$ 323	\$367,371
2020	—	353,424	648	354,072
2021	—	—	4,683	4,683
2022	824,000	—	—	824,000
2023	—	—	—	—
Thereafter	—	1,000,082	—	1,000,082

Total	\$824,000	\$1,720,554	\$ 5,654	\$2,550,208
-------	-----------	-------------	----------	-------------

Note 9—Commitments and Contingencies

Legal Contingencies

In August 2015, LCT Capital, LLC (“LCT”) filed a lawsuit against NGL Energy Holdings LLC (the “GP”) and the Partnership seeking payment for investment banking services relating to the purchase of TransMontaigne Inc. and related assets

23

---

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

in July 2014. After pre-trial rulings, LCT was limited to pursuing claims of (i) quantum meruit (the value of the services rendered by LCT) and (ii) fraudulent misrepresentation against the defendants. Following a jury trial conducted in Delaware state court from July 23, 2018 through August 1, 2018, the jury returned a verdict consisting of an award of \$4.0 million for quantum meruit and \$29.0 million for fraudulent misrepresentation, subject to statutory interest. The GP and the Partnership contend that the jury verdict, at least in respect of fraudulent misrepresentation, is not supportable by either controlling law or the evidentiary record. Both defendants have a pending motion for judgment as a matter of law on the fraudulent misrepresentation claim and plan to file post-verdict motions as appropriate before the trial court, and, if need be, will file an appeal to the Delaware Supreme Court. It is our position that the awards, even if they each stand, are not cumulative. Any allocation of the ultimate verdict award between the GP and the Partnership will be made by the board of directors once all information is available to it and after the post-trial and any appellate process has run its course and the verdict is final as a matter of law. Because the Partnership is a named defendant in the lawsuit, and any judgment ultimately awarded would be joint and several with the GP, we have determined that it is probable that the Partnership could be liable for a portion of this judgment. At this time, we believe the amount that could be allocated to the Partnership would not be material as it is estimated to be less than \$4.0 million. As of September 30, 2018, we have accrued \$2.5 million related to this matter.

We are party to various other claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these other claims, legal actions, and complaints, after consideration of amounts accrued, insurance coverage, and other arrangements, is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain, and estimates of our liabilities may change materially as circumstances develop.

#### Environmental Matters

At September 30, 2018, we have an environmental liability, measured on an undiscounted basis, of \$2.4 million, which is recorded within accrued expenses and other payables in our unaudited condensed consolidated balance sheet. Our operations are subject to extensive federal, state, and local environmental laws and regulations. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in our business, and there can be no assurance that we will not incur significant costs. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs. Accordingly, we have adopted policies, practices, and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials designed to prevent material environmental or other damage, and to limit the financial liability that could result from such events. However, some risk of environmental or other damage is inherent in our business.

In 2015, as previously disclosed, the U.S. Environmental Protection Agency (“EPA”) informed NGL Crude Logistics, LLC, formerly known as Gavilon, LLC (“Gavilon Energy”), of alleged violations that occurred in 2011 by Gavilon Energy of the Clean Air Act’s renewable fuel standards regulations (prior to its acquisition by us in December 2013). On October 4, 2016, the U.S. Department of Justice, acting at the request of the EPA, filed a civil complaint in the Northern District of Iowa against Gavilon Energy and one of its then suppliers, Western Dubuque Biodiesel LLC (“Western Dubuque”). Consistent with the earlier allegations by the EPA, the civil complaint related to transactions between Gavilon Energy and Western Dubuque and the generation of biodiesel renewable identification numbers (“RINs”) sold by Western Dubuque to Gavilon Energy in 2011. On December 19, 2016, we filed a motion to dismiss the complaint. On January 9, 2017, the EPA filed an amended complaint. The amended complaint seeks an order declaring Western Dubuque’s RINs invalid and requiring the defendants to retire an equivalent number of valid RINs and that the defendants pay statutory civil penalties. On January 23, 2017, we filed a motion to dismiss the amended

complaint. On May 24, 2017, the court denied our motion to dismiss. Subsequently, the EPA filed a second amended complaint seeking an order declaring Western Dubuque's RINs invalid, an order requiring us to retire an equivalent number of valid RINs and an award against us of statutory civil penalties. In May 2018, the parties completed briefing on cross-motions for summary judgment concerning liability issues in the case. On July 3, 2018, the Court denied our summary judgment motion and largely granted the plaintiff's two summary judgment motions on liability. On July 19, 2018, Gavilon Energy reached an agreement in principle with the EPA regarding the terms of a settlement of the case, which was memorialized in a consent decree lodged to the Court on September 27, 2018. Such terms will result in Gavilon Energy paying cash of \$25.0 million and retiring 36 million renewable identification numbers, or RINs, over a twelve-month period. The consent decree was approved by the Court on November 8, 2018. The consent decree resolves all matters between Gavilon Energy and the EPA in connection with the above-described complaint. As of September 30, 2018, we have an accrual, which is

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

included within accrued expenses and other payables in our unaudited condensed consolidated balance sheet, of \$34.2 million. The change in the amount of the accrual as of June 30, 2018 was the result of declining RIN values.

## Asset Retirement Obligations

We have contractual and regulatory obligations at certain facilities for which we have to perform remediation, dismantlement, or removal activities when the assets are retired. Our liability for asset retirement obligations is discounted to present value. To calculate the liability, we make estimates and assumptions about the retirement cost and the timing of retirement. Changes in our assumptions and estimates may occur as a result of the passage of time and the occurrence of future events. The following table summarizes changes in our asset retirement obligation, which is reported within other noncurrent liabilities in our unaudited condensed consolidated balance sheets (in thousands):

Balance at March 31, 2018	\$9,133
Liabilities incurred	301
Liabilities assumed in acquisitions	28
Liabilities settled	(309 )
Accretion expense	305
Balance at September 30, 2018	\$9,458

In addition to the obligations described above, we may be obligated to remove facilities or perform other remediation upon retirement of certain other assets. However, the fair value of the asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminable. We will record an asset retirement obligation for these assets in the periods in which settlement dates are reasonably determinable.

## Operating Leases

We have executed various noncancelable operating lease agreements for product storage, office space, vehicles, real estate, railcars, and equipment. The following table summarizes future minimum lease payments under these agreements at September 30, 2018 (in thousands):

Fiscal Year Ending March 31,	
2019 (six months)	\$62,135
2020	118,248
2021	98,231
2022	72,286
2023	52,266
Thereafter	47,579
Total	\$450,745

Rental expense relating to operating leases was \$26.7 million and \$31.8 million during the three months ended September 30, 2018 and 2017, respectively, and \$54.6 million and \$62.5 million for the six months ended September 30, 2018 and 2017, respectively. Amounts do not include rental expense associated with the Retail Propane segment, as these amounts have been classified within discontinued operations within our unaudited condensed consolidated statements of operations (see Note 14).

## Pipeline Capacity Agreements

We have executed noncancelable agreements with crude oil pipeline operators, which guarantee us minimum monthly shipping capacity on the pipelines. As a result, we are required to pay the minimum shipping fees if actual shipments

are less than our allotted capacity. Under certain agreements we have the ability to recover minimum shipping fees previously paid if our shipping volumes exceed the minimum monthly shipping commitment during each month remaining under the agreement, with some contracts containing provisions that allow us to continue shipping up to six months after the maturity date of the contract in order to recapture previously paid minimum shipping delinquency fees. We currently have an asset recorded in other noncurrent assets in our unaudited condensed consolidated balance sheet for minimum shipping fees paid in both the current

25

---



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

and previous periods that are expected to be recovered in future periods by exceeding the minimum monthly volumes (see Note 2).

The following table summarizes future minimum throughput payments under these agreements at September 30, 2018 (in thousands):

Fiscal Year Ending March 31,	
2019 (six months)	\$27,043
2020	44,281
Total	\$71,324

Of the total future minimum throughput payments in the table above, a third party has agreed to assume all rights and privileges and to be fully responsible for any minimum shipping fees due for actual shipments that are less than our allotted capacity related to \$14.3 million of the fiscal year 2019 (six months) amount and \$28.7 million of the fiscal year 2020 amount under a definitive agreement we signed during the three months ended June 30, 2018 (see Note 13).

## Sales and Purchase Contracts

We have entered into product sales and purchase contracts for which we expect the parties to physically settle and deliver the inventory in future periods.

At September 30, 2018, we had the following commodity purchase commitments (in thousands):

	Crude Oil (1)		Natural Gas Liquids	
	Value	Volume (in barrels)	Value	Volume (in gallons)
Fixed-Price Commodity Purchase Commitments:				
2019 (six months)	\$73,144	1,073	\$20,549	24,477
2020	—	—	787	1,008
Total	\$73,144	1,073	\$21,336	25,485
Index-Price Commodity Purchase Commitments:				
2019 (six months)	\$1,011,839	14,838	\$635,900	579,243
2020	806,980	12,637	31,649	36,680
2021	559,574	9,324	—	—
2022	441,459	7,734	—	—
2023	303,144	5,482	—	—
Thereafter	220,893	4,110	—	—
Total	\$3,343,889	54,125	\$667,549	615,923

Our crude oil index-price purchase commitments exceed our crude oil index-price sales commitments (presented below) due primarily to our long-term purchase commitments for crude oil that we purchase and ship on the Grand (1) Mesa Pipeline. As these purchase commitments are deliver-or-pay contracts, we have not entered into corresponding long-term sales contracts for volumes we may not receive.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

At September 30, 2018, we had the following commodity sale commitments (in thousands):

	Crude Oil		Natural Gas Liquids	
	Value	Volume (in barrels)	Value	Volume (in gallons)
Fixed-Price Commodity Sale Commitments:				
2019 (six months)	\$74,074	1,073	\$161,906	152,611
2020	—	—	3,417	3,583
2021	—	—	90	90
Total	\$74,074	1,073	\$165,413	156,284
Index-Price Commodity Sale Commitments:				
2019 (six months)	\$1,218,344	16,863	\$856,476	671,254
2020	222,865	3,095	24,385	21,073
Total	\$1,441,209	19,958	\$880,861	692,327

We account for the contracts shown in the tables above using the normal purchase and normal sale election. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs. Contracts in the tables above may have offsetting derivative contracts (described in Note 11) or inventory positions (described in Note 2).

Certain other forward purchase and sale contracts do not qualify for the normal purchase and normal sale election. These contracts are recorded at fair value in our unaudited condensed consolidated balance sheet and are not included in the tables above. These contracts are included in the derivative disclosures in Note 11, and represent \$80.2 million of our prepaid expenses and other current assets and \$69.8 million of our accrued expenses and other payables at September 30, 2018.

## Note 10—Equity

## Partnership Equity

The Partnership's equity consists of a 0.1% general partner interest and a 99.9% limited partner interest, which consists of common units. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 0.1% general partner interest. Our general partner is not required to guarantee or pay any of our debts and obligations.

## General Partner Contributions

In connection with the issuance of common units for the vesting of restricted units and the warrants that were exercised for common units during the six months ended September 30, 2018, we issued 2,271 notional units to our general partner for less than \$0.1 million in order to maintain its 0.1% interest in us.

## Equity Issuances

On August 24, 2016, we entered into an equity distribution agreement in connection with an at-the-market program (the “ATM Program”) pursuant to which we may issue and sell up to \$200.0 million of common units. We did not issue any common units under the ATM Program during the six months ended September 30, 2018, and approximately \$134.7 million remained available for sale under the ATM Program at September 30, 2018.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Our Distributions

The following table summarizes distributions declared on our common units during the last three quarters:

Date Declared	Record Date	Payment Date	Amount Per Unit	Amount Paid/Payable to Limited Partners (in thousands)	Amount Paid/Payable to General Partner (in thousands)
April 24, 2018	May 7, 2018	May 15, 2018	\$0.3900	\$ 47,374	\$ 82
July 24, 2018	August 8, 2018	August 14, 2018	\$0.3900	\$ 47,600	\$ 82
October 23, 2018	November 8, 2018	November 14, 2018	\$0.3900	\$ 48,260	\$ 83

## Class A Convertible Preferred Units

On April 21, 2016, we received net proceeds of \$235.0 million (net of offering costs of \$5.0 million) in connection with the issuance of 19,942,169 Class A Convertible Preferred Units (“Class A Preferred Units”) and 4,375,112 warrants.

We allocated the net proceeds on a relative fair value basis to the Class A Preferred Units, which includes the value of a beneficial conversion feature, and warrants. Accretion for the beneficial conversion feature, recorded as a deemed distribution, was \$12.8 million and \$4.0 million during the three months ended September 30, 2018 and 2017, respectively, and \$21.8 million and \$7.2 million during the six months ended September 30, 2018 and 2017, respectively.

The holders of the warrants may exercise one-third of the warrants from and after the first anniversary of the original issue date, another one-third of the warrants from and after the second anniversary and the final one-third of the warrants from and after the third anniversary. The warrants have an exercise price of \$0.01 and an eight year term. We repurchased 1,229,575 unvested warrants for a total purchase price of \$15.0 million on April 26, 2018. During the six months ended September 30, 2018, 228,797 warrants were exercised for common units and we received proceeds of less than \$0.1 million. As of September 30, 2018, we had 1,458,371 warrants outstanding.

We pay a cumulative, quarterly distribution in arrears at an annual rate of 10.75% on the Class A Preferred Units to the extent declared by the board of directors of our general partner. The following table summarizes distributions declared on our Class A Preferred Units during the last three quarters:

Date Declared	Payment Date	Amount Paid/Payable to Class A Preferred Unitholders (in thousands)
April 24, 2018	May 15, 2018	\$ 6,449
July 24, 2018	August 14, 2018	\$ 6,449
October 23, 2018	November 14, 2018	\$ 6,449

## Class B Preferred Units

On June 13, 2017, we issued 8,400,000 of our 9.00% Class B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (“Class B Preferred Units”) representing limited partner interests at a price of \$25.00 per unit for net proceeds of \$202.7 million (net of the underwriters’ discount of \$6.6 million and offering costs of \$0.7 million).

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The current distribution rate for the Class B Preferred Units is 9.0% per year of the \$25.00 liquidation preference per unit (equal to \$2.25 per unit per year). The following table summarizes distributions declared on our Class B Preferred Units during the last three quarters:

Date Declared	Record Date	Payment Date	Amount Paid to Class B Preferred Unitholders (in thousands)
March 19, 2018	April 2, 2018	April 16, 2018	\$ 4,725
June 19, 2018	July 2, 2018	July 16, 2018	\$ 4,725
September 12, 2018	October 1, 2018	October 15, 2018	\$ 4,725

The distribution amount paid on October 15, 2018 is included in accrued expenses and other payables in our unaudited condensed consolidated balance sheet at September 30, 2018.

## Equity-Based Incentive Compensation

Our general partner has adopted a long-term incentive plan (“LTIP”), which allows for the issuance of equity-based compensation. Our general partner has granted certain restricted units to employees and directors, which vest in tranches, subject to the continued service of the recipients. The awards may also vest upon a change of control, at the discretion of the board of directors of our general partner. No distributions accrue to or are paid on the restricted units during the vesting period.

The restricted units include both awards that: (i) vest contingent on the continued service of the recipients through the vesting date (the “Service Awards”) and (ii) vest contingent both on the continued service of the recipients through the vesting date and also on the performance of our common units relative to other entities in the Alerian MLP Index (the “Index”) over specified periods of time (the “Performance Awards”).

The following table summarizes the Service Award activity during the six months ended September 30, 2018:

Unvested Service Award units at March 31, 2018	2,278,875
Units granted	1,820,176
Units vested and issued	(2,044,601)
Units forfeited	(179,500 )
Unvested Service Award units at September 30, 2018	1,874,950

In connection with the vesting of certain restricted units during the six months ended September 30, 2018, we canceled 4,661 of the newly-vested common units in satisfaction of \$0.1 million of employee tax liability paid by us. Pursuant to the terms of the LTIP, these canceled units are available for future grants under the LTIP.

The following table summarizes the scheduled vesting of our unvested Service Award units at September 30, 2018:

Fiscal Year Ending March 31,	
2019 (six months)	598,925
2020	919,475
2021	355,050
2022	1,500
Total	1,874,950

Service Awards are valued at the closing price as of the grant date less the present value of the expected distribution stream over the vesting period using a risk-free interest rate. We record the expense for each Service Award on a straight-line basis over the requisite period for the entire award (that is, over the requisite service period of the last separately vesting portion of the award), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date value of the award that is vested at that date.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

During the three months ended September 30, 2018 and 2017, we recorded compensation expense related to Service Award units of \$2.4 million and \$3.3 million, respectively. During the six months ended September 30, 2018 and 2017, we recorded compensation expense related to Service Awards units of \$5.1 million and \$8.6 million, respectively.

Of the restricted units granted and vested during the six months ended September 30, 2018, 1,745,801 units were granted as a bonus for performance during the fiscal year ended March 31, 2018. The total amount of these bonus payments were \$20.4 million, of which we had accrued \$6.3 million as of March 31, 2018.

The following table summarizes the estimated future expense we expect to record on the unvested Service Award units at September 30, 2018 (in thousands):

Fiscal Year Ending March 31,	
2019 (six months)	\$6,396
2020	6,199
2021	1,988
2022	7
Total	\$14,590

During April 2015, our general partner granted Performance Award units to certain employees. The number of Performance Award units that will vest is contingent on the performance of our common units relative to the performance of the other entities in the Index. Performance will be calculated based on the return on our common units (including changes in the market price of the common units and distributions paid during the performance period) relative to the returns on the common units of the other entities in the Index. As of September 30, 2018, performance will be measured over the following periods:

Vesting Date of Tranche	Performance Period for Tranche
July 1, 2019	July 1, 2016 through June 30, 2019
July 1, 2020	July 1, 2017 through June 30, 2020

The following table summarizes the Performance Award activity during the six months ended September 30, 2018:

Unvested Performance Award units at March 31, 2018	917,000
Units forfeited	(415,500)
Unvested Performance Award units at September 30, 2018	501,500

During the July 1, 2015 through June 30, 2018 performance period, the return on our common units was below the return of the 50th percentile of our peer companies in the Index. As a result, no Performance Award units vested on July 1, 2018 and performance units with the July 1, 2018 vesting date are considered to be forfeited.

The fair value of the Performance Awards is estimated using a Monte Carlo simulation at the grant date. We record the expense for each of the tranches of the Performance Awards on a straight-line basis over the period beginning with the grant date and ending with the vesting date of the tranche. Any Performance Awards that do not become earned Performance Awards will terminate, expire and otherwise be forfeited by the participants. During the three months ended September 30, 2018 and 2017, we recorded compensation expense related to Performance Award units of \$0.6 million and \$1.3 million, respectively. During the six months ended September 30, 2018 and 2017, we recorded compensation expense related to Performance Awards units of \$1.8 million and \$3.4 million, respectively.

The following table summarizes the estimated future expense we expect to record on the unvested Performance Award units at September 30, 2018 (in thousands):



Edgar Filing: NGL Energy Partners LP - Form 10-Q

Fiscal Year Ending March 31,	
2019 (six months)	\$1,565
2020	1,738
2021	345
Total	\$3,648

30

---

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The LTIP provides that units allocated to satisfy tax withholding obligations are not deemed to reduce availability for awards under the LTIP. Following a review of the LTIP, the Compensation Committee of the board of directors determined that units vested after July 1, 2016 were inadvertently counted as a reduction to the Partnership's LTIP reserve. Accordingly, after making the adjustments as provided for in the LTIP, as of September 30, 2018, there are approximately 3.1 million units remaining available for issuance under the LTIP.

## Note 11—Fair Value of Financial Instruments

Our cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current assets and liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair values due to their short-term nature.

## Commodity Derivatives

The following table summarizes the estimated fair values of our commodity derivative assets and liabilities reported in our unaudited condensed consolidated balance sheet at the dates indicated:

	September 30, 2018		March 31, 2018	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(in thousands)			
Level 1 measurements	\$ 11,524	\$(62,823 )	\$ 5,093	\$(20,186 )
Level 2 measurements	80,348	(76,979 )	48,752	(54,410 )
	91,872	(139,802 )	53,845	(74,596 )
Netting of counterparty contracts (1)	(11,524 )	11,524	(2,922 )	2,922
Net cash collateral (held) provided	(2,735 )	51,298	(1,762 )	17,263
Commodity derivatives	\$ 77,613	\$(76,980 )	\$ 49,161	\$(54,411 )

(1) Relates to commodity derivative assets and liabilities that are expected to be net settled on an exchange or through a netting arrangement with the counterparty.

The following table summarizes the accounts that include our commodity derivative assets and liabilities in our unaudited condensed consolidated balance sheets at the dates indicated:

	September 30, 2018	March 31, 2018
	(in thousands)	
Prepaid expenses and other current assets	\$ 77,613	\$ 49,161
Accrued expenses and other payables	(75,575 )	(51,039 )
Other noncurrent liabilities	(1,405 )	(3,372 )
Net commodity derivative asset (liability)	\$ 633	\$(5,250 )

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table summarizes our open commodity derivative contract positions at the dates indicated. We do not account for these derivatives as hedges.

Contracts	Settlement Period	Net Long (Short) Fair Value	
		Notional of Units	Net Assets (Liabilities)
		(in barrels)	(in thousands)
At September 30, 2018:			
Crude oil fixed-price (1)	October 2018–December 2020	(3,681)	\$ (30,661 )
Propane fixed-price (1)	October 2018–March 2020	676	5,606
Refined products fixed-price (1)	October 2018–January 2020	(4,595)	(24,225 )
Other	October 2018–March 2022		1,350
			(47,930 )
Net cash collateral provided			48,563
Net commodity derivative asset			\$ 633
At March 31, 2018:			
Cross-commodity (2)	April 2018–March 2019	155	\$ (430 )
Crude oil fixed-price (1)	April 2018–December 2019	(1,376)	(8,960 )
Crude oil index (1)	April 2018–April 2018	(10 )	(6 )
Propane fixed-price (1)	April 2018–February 2019	14	1,849
Refined products fixed-price (1)	April 2018–January 2020	(5,419)	(17,081 )
Refined products index (1)	April 2018–April 2018	(4 )	(17 )
Other	April 2018–March 2022		3,894
			(20,751 )
Net cash collateral provided			15,501
Net commodity derivative liability			\$ (5,250 )

We may have fixed price physical purchases, including inventory, offset by floating price physical sales or floating (1) price physical purchases offset by fixed price physical sales. These contracts are derivatives we have entered into as an economic hedge against the risk of mismatches between fixed and floating price physical obligations.

We may purchase or sell a physical commodity where the underlying contract pricing mechanisms are tied to (2) different commodity price indices. These contracts are derivatives we have entered into as an economic hedge against the risk of one commodity price moving relative to another commodity price.

Amounts in the table above do not include commodity derivative contract positions related to the Retail Propane segment, as these amounts have been classified as assets held for sale within our unaudited condensed consolidated balance sheets (see Note 14).

During the three months and six months ended September 30, 2018, we recorded net losses of \$36.3 million and \$89.0 million, respectively, from our commodity derivatives to cost of sales in our unaudited condensed consolidated statements of operations. During the three months and six months ended September 30, 2017, we recorded net losses of \$71.2 million and \$34.6 million, respectively, from our commodity derivatives to cost of sales in our unaudited condensed consolidated statements of operations.

Credit Risk

We have credit policies that we believe minimize our overall credit risk, including an evaluation of potential counterparties' financial condition (including credit ratings), collateral requirements under certain circumstances, and the use of industry standard master netting agreements, which allow for offsetting counterparty receivable and payable balances for certain transactions. At September 30, 2018, our primary counterparties were retailers, resellers, energy marketers, producers, refiners, and dealers. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively, as the counterparties may be similarly affected by changes in economic, regulatory or other conditions. If a

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

counterparty does not perform on a contract, we may not realize amounts that have been recorded in our unaudited condensed consolidated balance sheets and recognized in our net income.

Interest Rate Risk

Our Revolving Credit Facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. At September 30, 2018, we had \$0.8 billion of outstanding borrowings under our Revolving Credit Facility at a weighted average interest rate of 5.13%.

Fair Value of Fixed-Rate Notes

The following table provides fair value estimates of our fixed-rate notes at September 30, 2018 (in thousands):

Senior Unsecured Notes:

5.125% Notes due 2019	\$355,571
6.875% Notes due 2021	\$374,316
7.500% Notes due 2023	\$615,911
6.125% Notes due 2025	\$367,129

For the Senior Unsecured Notes, the fair value estimates were developed based on publicly traded quotes and would be classified as Level 1 in the fair value hierarchy.

Note 12—Segments

The following table summarizes revenues related to our segments. Revenues for reporting periods beginning after April 1, 2018 are presented under Topic 606 (see Note 15 for a further discussion), while prior periods are not adjusted and continue to be reported under the accounting standard in effect for those periods. Transactions between segments are recorded based on prices negotiated between the segments. The “Corporate and Other” category in the table below includes certain corporate expenses that are not allocated to the reportable segments. The table below does not include amounts related to the Retail Propane segment, as these amounts has been classified within discontinued operations in our unaudited condensed consolidated statements of operations (see Note 14).

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017 (1)	2018	2017 (1)
	(in thousands)			
Revenues:				
Crude Oil Logistics:				
Topic 606 revenues				
Crude oil sales	\$825,571	\$410,274	\$1,582,082	\$890,559
Crude oil transportation and other	38,483	29,315	67,029	56,301
Non-Topic 606 revenues	3,084	—	6,382	—
Elimination of intersegment sales	(7,084)	(2,567)	(11,609)	(4,923)
Total Crude Oil Logistics revenues	860,054	437,022	1,643,884	941,937
Water Solutions:				
Topic 606 revenues				
Disposal service fees	58,099	35,282	112,103	68,603
Sale of recovered hydrocarbons	18,348	10,446	38,726	20,406
Freshwater revenues	788	—	1,288	—
Other service revenues	2,516	5,304	3,767	8,990
Non-Topic 606 revenues	13	—	25	—
Total Water Solutions revenues	79,764	51,032	155,909	97,999
Liquids:				
Topic 606 revenues				
Propane sales	234,892	193,588	421,381	330,448
Butane sales	145,847	111,545	259,047	179,777
Other product sales	168,496	102,409	320,301	186,712
Service revenues	4,222	3,928	9,893	9,940
Non-Topic 606 revenues	5,795	—	10,192	—
Elimination of intersegment sales	(8,810)	(300)	(10,475)	(1,682)
Total Liquids revenues	550,442	411,170	1,010,339	705,195
Refined Products and Renewables:				
Topic 606 revenues				
Refined products sales	1,460,494	2,874,268	2,888,706	5,647,875
Renewables sales	—	102,964	—	213,930
Service fees and other revenues	—	50	—	168
Non-Topic 606 revenues	3,703,288	—	6,799,483	—
Elimination of intersegment sales	—	(76)	—	(130)
Total Refined Products and Renewables revenues	5,163,782	2,977,206	9,688,189	5,861,843
Corporate and Other:				
Non-Topic 606 revenues				
Elimination of intersegment sales	221	—	—	—
Total Corporate and Other revenues	592	246	747	407
Total revenues	\$6,654,634	\$3,876,676	\$12,499,068	\$7,607,381

(1) We adopted ASC 606 as of April 1, 2018. Revenue reported in fiscal year 2018 is recorded under the ASC 605 guidance.



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table summarizes depreciation and amortization expense and operating income (loss) by segment for the periods indicated.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Depreciation and Amortization:				
Crude Oil Logistics	\$18,870	\$20,958	\$38,099	\$41,793
Water Solutions	26,342	25,253	51,651	49,261
Liquids	6,459	6,141	12,927	12,471
Refined Products and Renewables	320	324	641	648
Corporate and Other	759	919	1,477	1,839
Total depreciation and amortization	\$52,750	\$53,595	\$104,795	\$106,012
Operating Income (Loss):				
Crude Oil Logistics	\$31,022	\$1,196	\$(68,716)	\$5,553
Water Solutions	9,770	(7,548)	10,739	(8,702)
Liquids	10,758	(118,107)	13,381	(126,879)
Refined Products and Renewables	(29,507)	21,042	(485)	35,538
Corporate and Other	(35,352)	(16,459)	(52,782)	(34,185)
Total operating loss	\$(13,309)	\$(119,876)	\$(97,863)	\$(128,675)

The following table summarizes additions to property, plant and equipment and intangible assets by segment for the periods indicated. This information has been prepared on the accrual basis, and includes property, plant and equipment and intangible assets acquired in acquisitions.

	Three Months		Six Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Crude Oil Logistics	\$7,150	\$4,663	\$15,532	\$11,721
Water Solutions	217,073	15,035	347,495	34,440
Liquids	389	1,138	1,381	1,680
Corporate and Other	267	440	598	709
Total	\$224,879	\$21,276	\$365,006	\$48,550

The following tables summarize long-lived assets (consisting of property, plant and equipment, intangible assets, and goodwill) and total assets by segment at the dates indicated:

	September 30,		March 31,	
	2018		2018	
	(in thousands)			
Long-lived assets, net:				
Crude Oil Logistics	\$1,608,946		\$1,638,558	
Water Solutions	1,615,443		1,256,143	
Liquids (1)	486,426		501,302	
Refined Products and Renewables	205,511		208,849	
Corporate and Other	28,863		31,516	



Total \$3,945,189 \$3,636,368

(1) Includes \$0.5 million and \$0.6 million of non-US long-lived assets at September 30, 2018 and March 31, 2018, respectively.

35

---

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	September 30, 2018	March 31, 2018
	(in thousands)	
Total assets:		
Crude Oil Logistics	\$2,280,061	\$2,285,813
Water Solutions	1,708,333	1,323,171
Liquids (1)	889,913	717,690
Refined Products and Renewables	1,415,931	1,204,633
Corporate and Other	91,201	102,211
Assets held for sale	—	517,604
Total	\$6,385,439	\$6,151,122

(1) Includes \$42.5 million and \$27.5 million of non-US total assets at September 30, 2018 and March 31, 2018, respectively.

## Note 13—Transactions with Affiliates

SemGroup Corporation (“SemGroup”) holds ownership interests in our general partner. We sell product to and purchase product from SemGroup, and these transactions are included within revenues and cost of sales, respectively, in our unaudited condensed consolidated statements of operations. We also lease crude oil storage from SemGroup.

We purchase ethanol from E Energy Adams, LLC, an equity method investee, in which we previously held an ownership interest. We sold our interest in E Energy Adams, LLC on May 3, 2018 (see Note 2). These transactions are reported within cost of sales in our unaudited condensed consolidated statements of operations.

The following table summarizes these related party transactions for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Sales to SemGroup	\$549	\$107	\$669	\$230
Purchases from SemGroup	\$317	\$1,911	\$1,337	\$2,928
Sales to equity method investees	\$—	\$98	\$—	\$196
Purchases from equity method investees	\$—	\$20,563	\$—	\$48,469
Sales to entities affiliated with management	\$10,136	\$57	\$15,416	\$140
Purchases from entities affiliated with management	\$82,599	\$1,150	\$159,133	\$1,347

Accounts receivable from affiliates consist of the following at the dates indicated:

	September 30, 2018	March 31, 2018
	(in thousands)	
Receivables from SemGroup	\$4,245	\$49
Receivables from NGL Energy Holdings LLC	7,300	4,693
Receivables from equity method investees	—	6
Receivables from entities affiliated with management	6,343	24
Total	\$17,888	\$4,772



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Accounts payable to affiliates consist of the following at the dates indicated:

	September 30, 2018	March 31, 2018
	(in thousands)	
Payables to SemGroup	\$4,155	\$ —
Payables to equity method investees	—	8
Payables to entities affiliated with management	38,643	1,246
Total	\$42,798	\$ 1,254

At March 31, 2018, we had a loan receivable from Victory Propane, an equity method investee (see Note 2), of \$1.2 million. See below for a further discussion regarding Victory Propane.

## Other Related Party Transactions

## Repurchase of Warrants

On April 26, 2018, we repurchased outstanding warrants, as discussed further in Note 10, from funds managed by Oaktree Capital Management, L.P., who are represented on the board of directors of our general partner.

## Agreement with WPX Energy Marketing, LLC (“WPX”)

During the three months ended June 30, 2018, we entered into a definitive agreement with WPX. Under this agreement, we agreed to provide WPX the benefit of our minimum shipping fees or deficiency credits (fees paid in previous periods that were in excess of the volumes actually shipped) totaling \$67.7 million at the time of the transaction (as discussed further in Note 2), which can be utilized for volumes shipped that exceed the minimum monthly volume commitment in subsequent periods. As a result, we wrote-off these minimum shipping fees included within other noncurrent assets in our unaudited condensed consolidated balance sheet (see Note 2) and recorded a loss within loss on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations. We also agreed that we would only ship crude oil that we are required to purchase from WPX in utilizing our allotted capacity on these pipelines and they agreed to be fully responsible to us for all deficiency payments (money due when our actual shipments are less than our allotted capacity) for the remaining term of our contract, which totals \$50.3 million (as discussed further in Note 9). As consideration for this transaction, we paid WPX a net \$35.3 million, which we have recorded as a loss within loss on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations. A member of the board of directors of our general partner is also an executive of WPX.

## Victory Propane

As the sale of virtually all of our Retail Propane business to Superior (see Note 1) included the Michigan assets we acquired from Victory Propane during the three months ended December 31, 2017, we were able to recognize our proportionate share of the gain recognized by Victory Propane. As a result, we were able to reverse our proportionate share of their losses that had been recorded against the balance of the loan receivable and write up the value of our investment in Victory Propane to \$0.8 million. On August 14, 2018, we sold our 50% interest in Victory Propane to Victory Propane LLC. As consideration, we received a promissory note in the amount of \$3.4 million, which encompassed the purchase price for our 50% interest plus the outstanding balance of the loan receivable of \$2.6 million as of the date of the transaction. The promissory note bears no interest and matures on July 31, 2023. We discounted the promissory note to its net present value of \$2.6 million, with the amount of the reduction in the value

of the promissory note recorded as a loss within loss on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations. This was the final transaction in exiting the retail propane business and was considered to be inconsequential by management. As a result of the sale, Victory Propane is no longer considered a related party.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Note 14—Assets, Liabilities and Redeemable Noncontrolling Interest Held for Sale and Discontinued Operations

As discussed in Note 1, as of June 30, 2018, we met the criteria for classifying the assets, liabilities and redeemable noncontrolling interest of our Retail Propane segment as held for sale and the operations as discontinued. On July 10, 2018, we completed the sale of virtually all of our Retail Propane segment to Superior and on August 14, 2018, we sold our previously held interest in Victory Propane, see Note 1 for a further discussion.

The following table summarizes the major classes of assets, liabilities and redeemable noncontrolling interest classified as held for sale at March 31, 2018 (in thousands):

Assets Held for Sale	
Cash and cash equivalents	\$4,113
Accounts receivable-trade, net	45,924
Inventories	13,250
Prepaid expenses and other current assets	2,796
Property, plant and equipment, net	201,340
Goodwill	107,951
Intangible assets, net	141,328
Other assets	902
Total assets held for sale	\$517,604
Liabilities and Redeemable Noncontrolling Interest Held for Sale	
Accounts payable-trade	\$7,790
Accrued expenses and other payables	6,583
Advance payments received from customers	12,842
Current maturities of long-term debt	2,550
Long-term debt, net	2,888
Redeemable noncontrolling interest	9,927
Total liabilities and redeemable noncontrolling interest held for sale	\$42,580

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table summarizes the results of operations from discontinued operations related to the Retail Propane segment for the periods indicated:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenues	\$4,186	\$64,723	\$70,859	\$131,803
Cost of sales	2,262	31,320	36,758	60,956
Operating expenses	2,327	28,201	27,168	56,842
General and administrative expense	193	2,322	2,589	4,928
Depreciation and amortization	—	11,613	8,706	23,075
(Gain) loss on disposal or impairment of assets, net (1)	(407,837 )	493	(407,383 )	1,096
Operating income (loss) from discontinued operations	407,241	(9,226 )	403,021	(15,094 )
Equity in earnings (loss) of unconsolidated entities	1,298	(142 )	1,183	(245 )
Interest expense	—	(115 )	(125 )	(237 )
Other income, net	33	259	364	636
Income (loss) from discontinued operations before taxes (2)	408,572	(9,224 )	404,443	(14,940 )
Income tax expense	(125 )	(62 )	(125 )	(65 )
Income (loss) from discontinued operations, net of tax	\$408,447	\$(9,286 )	\$404,318	\$(15,005 )

(1) Amounts for the three months and six months ended September 30, 2018 include a gain of \$408.6 million on the sale of virtually all of our remaining Retail Propane segment to Superior on July 10, 2018, partially offset by a loss of \$1.3 million on the sale of a portion of our Retail Propane segment to DCC on March 30, 2018 related to a working capital adjustment.

(2) Includes losses attributable to redeemable noncontrolling interest of less than \$0.1 million and \$0.3 million for the three months ended September 30, 2018 and 2017, respectively, and \$0.4 million and \$0.7 million for the six months ended September 30, 2018 and 2017, respectively.

## Continuing Involvement

We have commitments to sell up to 77.9 million gallons of propane, valued at \$88.7 million (based on the contract price) to Superior and DCC, the purchasers of the Retail Propane segment, through September 2019. During the three months and six months ended September 30, 2018, we received a combined \$12.7 million and \$15.7 million, respectively, from Superior and DCC for propane sold to them during the period.

## Note 15—Revenue from Contracts with Customers

## Impact of Adoption

We adopted Topic 606 on April 1, 2018, using the modified retrospective method. Revenues for reporting periods beginning after April 1, 2018 are presented under Topic 606, while prior periods are not adjusted and continue to be reported under the accounting standard in effect for those periods. We recorded an increase to the beginning balance of equity as of April 1, 2018, due to the cumulative impact of adopting the standard, as discussed further below.

Based on our evaluation, we anticipate that from time to time, differences in the timing of revenues earned and our right to invoice customers may create contract assets or liabilities. These differences in timing would be the result of contracts that contain minimum volume commitments and tiered pricing provisions, primarily within our Water

Solutions segment. In addition, we completed the process of implementing appropriate changes to our business processes, systems and controls to support recognition and disclosure under this standard. Furthermore, under this standard we made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that we collect from a customer.

As discussed previously, we deferred a portion of the gain related to the sale of our general partner interest in TransMontaigne Partners L.P., of which the current portion was recorded in accrued expenses and other payables and the long-term portion was recorded in other noncurrent liabilities at March 31, 2018 within our unaudited condensed consolidated balance sheet. As this transaction was accounted for under the real estate guidance in ASC 360-20, Property, Plant and



NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Equipment, we had been amortizing the gain over the life of the related lease agreements. Upon adoption of ASU No. 2014-09 and ASU No. 2017-05, we determined that this transaction should be accounted for under the guidance of ASC 810-10-40 and utilizing the modified retrospective approach of adoption, the deferred gain as of March 31, 2018 of \$139.3 million was recognized in the beginning balance of retained earnings as part of our cumulative effect adjustment at April 1, 2018.

The following tables summarize the impact of adoption on our unaudited condensed consolidated balance sheet at September 30, 2018 and our unaudited condensed consolidated statements of operations for the three months and six months ended September 30, 2018:

Unaudited Condensed Consolidated Balance Sheet			
September 30, 2018			
	Balances		
	Without	Effect of Change	
As Reported	Adoption of	Increase/(Decrease)	
	ASU No.		
	2014-09		
	(in thousands)		
Accrued expenses and other payables	\$267,296	\$30,113	\$ 237,183
Other noncurrent liabilities	\$86,396	\$94,137	\$ (7,741 )
Equity:			
General partner	\$(50,613 )	\$(50,737 )	\$ 124
Limited partners	\$2,046,621	\$1,922,495	\$ 124,126
Unaudited Condensed Consolidated Statement of Operations			
Three Months Ended September 30, 2018			
	Balances		
	Without	Effect of Change	
As Reported	Adoption of ASU	Increase/(Decrease)	
	No.		
	2014-09		
	(in thousands)		
Loss (gain) on disposal or impairment of assets, net	\$5,988	\$(1,540 )	\$ 7,528
Operating loss	\$(13,309 )	\$(5,781 )	\$ (7,528 )
Net income	\$354,939	\$362,467	\$ (7,528 )
Unaudited Condensed Consolidated Statement of Operations			
Six Months Ended September 30, 2018			
	Balances		
	Without	Effect of Change	
As Reported	Adoption of ASU	Increase/(Decrease)	
	No.		
	2014-09		
	(in thousands)		
Loss on disposal or impairment of assets, net	\$107,323	\$92,267	\$ 15,056

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Operating loss	\$ (97,863 )	\$ (82,807 )	\$ (15,056 )
Net income	\$ 185,650	\$ 200,706	\$ (15,056 )

Prior to April 1, 2018, we recognized revenue for services and products when all of the following criteria were met under Topic 605: (i) either services have been rendered or products have been delivered or sold; (ii) persuasive evidence of an arrangement existed; (iii) the price for services was fixed or determinable; and (iv) collectibility was reasonably assured. We recorded deferred revenue when we received amounts from our customers but had not yet met the criteria listed above. We recognized deferred revenue in our consolidated statement of operations when the criteria had been met and all services had been rendered.

Effective April 1, 2018, we recognize revenue for services and products under revenue contracts as our obligations to either perform services or deliver or sell products under the contracts are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation in the contract and is recognized as revenue when, or as, the performance obligation is satisfied. Our revenue contracts in scope under ASU No. 2014-09 primarily have a single performance obligation. The evaluation of when performance obligations have been satisfied and the transaction price that is allocated to our performance obligations requires significant judgment and assumptions, including our evaluation of the timing of when control of the underlying good or service has transferred to our customers and the relative stand-alone selling price of goods and services provided to customers under contracts with multiple performance obligations. Actual results can vary from those judgments and assumptions. We do not have any material contracts with multiple performance obligations or under which we receive material amounts of non-cash

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

consideration at March 31, 2018. Our costs to obtain or fulfill our revenue contracts were not material as of September 30, 2018.

The majority of our revenue agreements are within scope under ASU No. 2014-09 and the remainder of our revenue comes from contracts that are accounted for as derivatives under ASC 815 or that contain nonmonetary exchanges or leases and are in scope under Topics 845 and 840, respectively. See Note 12 for a detail of disaggregated revenue.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to allow customers to secure the right to reserve the product or storage capacity to be received or used at a later date, not to receive financing from our customers or to provide customers with financing.

We report taxes collected from customers and remitted to taxing authorities, such as sales and use taxes, on a net basis. We include amounts billed to customers for shipping and handling costs in revenues in our unaudited condensed consolidated statements of operations.

#### Crude Oil Logistics Performance Obligations

Within the Crude Oil Logistics segment, revenue is disaggregated into two primary revenue streams that include revenue from the sale of commodities and service revenue. For sales of commodities, we are obligated to deliver a predetermined amount of product on a month-to-month basis to our customers. For these types of agreements, revenue is recognized at a point in time based on when the product is delivered and control is transferred to the customer.

For revenue received from services rendered, we are obligated to provide throughput services to move product via pipeline, truck, railcar, or marine vessel or to provide terminal maintenance services. In either case, the obligation is satisfied over time utilizing the output method based on each volume of product that is moved from the origination point to the final destination or based on the passage of time.

#### Water Solutions Performance Obligations

Within the Water Solutions segment, revenue is disaggregated into two primary revenue streams that include service revenue and commodity sales revenue. For contracts involving disposal services, we accept wastewater and solids for disposal at our facilities. In cases where we have agreed within a contract or are required by law to remove hydrocarbons from the wastewater, the skim oil will be valued as non-cash consideration. Ordinarily, it is required that the fair value of the skim oil is to be estimated at contract inception; however, due to variability of the form of the non-cash consideration, the amount and dollar value is unknown at the contract inception date. Accordingly, ASC 606-10-32-11 allows us to value the skim oil on the date in which the value becomes known.

The Water Solutions segment has certain disposal contracts that contain the following types of terms or pricing structures that involve significant judgment that impacts the determination and timing of revenue.

**Minimum volume commitments.** We receive a shortfall fee if the customer does not deliver a certain amount of volume of wastewater over a specified period of time. At each reporting period, we make a determination as to the likelihood of earning this fee. We recognize revenue from these contracts when (i) actual volumes are received; and (ii) when the likelihood of a customer exercising its remaining rights to make up the deficient volumes under minimum volume commitments becomes remote (also known as the breakage model).

Tiered pricing. For contracts with tiered pricing provisions, the period in which the tiers are earned and settled (i.e. the “reset period”) may vary from monthly to over a period of multiple months. If the tiered pricing is based on a month, we allocate the fee to the distinct daily service to which it relates. If the tiered pricing spans across multiple reporting periods, we estimate the total transaction price at the beginning of each reset period, based on the expected volumes. We revise our estimates of variable consideration at each reporting date throughout each reset period.

Volume discount pricing. Volume discount pricing is a form of variable consideration whereby the customer pays for the volumes delivered on a cumulative basis. Similar to tiered pricing, the period in which the cumulative volumes are earned and settled (i.e. the “reset period”) may vary from daily to over a period of multiple months. If the volume discount is based on a month, we allocate the fee to the distinct daily service to which it relates. If the volume discount period spans across multiple reporting periods, we estimate the total transaction price at the

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

beginning of each reset period, based on the expected volumes. We revise the estimate of variable consideration at each reporting date.

For all of our disposal contracts within the Water Solutions segment, revenue will be recognized over time utilizing the output method based on the volume of wastewater or solids we accept from the customer. For contracts that involve the sale of recovered hydrocarbons and freshwater, we will recognize revenue at a point in time, based on when control of the product is transferred to the customer.

Liquids Performance Obligations

Within the Liquids segment, revenue is disaggregated into two primary revenue streams that include revenue from the sale of commodities and providing services. For commodity sales, we are obligated to deliver a specified amount of product over a specified period of time. For these types of agreements, revenue is recognized at a point in time based on when the product is delivered and control is transferred to the customer. For revenue received from services rendered, we offer a variety of services which include: (i) storage services where product is commingled; (ii) railcar transportation services; (iii) transloading services; and (iv) logistics services. We are obligated to provide these services over a predetermined period of time. Revenue from service contracts is recognized at a point in time upon the transfer of control each month. All revenue from services is recognized over time utilizing the output method based on volumes stored or moved.

Refined Products and Renewables Performance Obligations

The Refined Products and Renewables segment has one distinct revenue stream, which is revenue from commodity sales. In these agreements, we are obligated to sell a predetermined amount of product over a specified period of time. Revenue for all commodity sales is recognized at a point in time once the customer has lifted the agreed-upon volumes.

Remaining Performance Obligations

Most of our service contracts are such that we have the right to consideration from a customer in an amount that corresponds directly with the value to the customer of our performance completed to date. Therefore, we are utilizing the practical expedient in ASC 606-10-55-18 under which we recognize revenue in the amount to which we have the right to invoice. Applying this practical expedient, we are not required to disclose the transaction price allocated to remaining performance obligations under these agreements. The following table summarizes the amount and timing of revenue recognition for such contracts at September 30, 2018 (in thousands):

Fiscal Year Ending March 31,	
2019 (six months)	\$95,504
2020	147,472
2021	115,403
2022	111,376
2023	110,013
Thereafter	335,065
Total	\$914,833

Many agreements are short-term in nature with a contract term of one year or less. For those contracts, we utilized the practical expedient in ASC 606-10-50 that exempts us from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of

one year or less. Additionally, for our product sales contracts, we have elected the practical expedient set out in ASC 606-10-50-14A, which states that we are not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these agreements, each unit of product represents a separate performance obligation and therefore future volumes are wholly unsatisfied and disclosure of transaction price allocated to remaining performance obligations is not required. Under product sales contracts, the variability arises as both volume and pricing (typically index-based) are not known until the product is delivered.

#### Contract Assets and Liabilities

Amounts owed from our customers under our revenue contracts are typically billed as the service is being provided on a monthly basis and are due within 1-30 days of billing, and are classified as accounts receivable-trade on our unaudited

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

condensed consolidated balance sheets. Under certain of our contracts, we recognize revenues in excess of billings, referred to as contract assets, within prepaid expenses and other current assets in our unaudited condensed consolidated balance sheets. Accounts receivable from contracts with customers are presented within accounts receivable-trade and accounts receivable-affiliates in our unaudited condensed consolidated balance sheets. Our contract asset balances primarily relate to our underground cavern storage contracts with multi-period contracts in which the fee escalates each year and the customer provides upfront payment at the beginning of the contract period. We did not record any contract assets during this period.

Under certain of our contracts we may be entitled to receive payments in advance of satisfying our performance obligations under the contract. We recognize a liability for these payments in excess of revenue recognized, referred to as deferred revenue or contract liabilities, within advance payments received from customers in our unaudited condensed consolidated balance sheets. Our deferred revenue primarily relates to:

**Prepayments.** Some revenue contracts contain prepayment provisions within our Liquids business segment. Revenue received related to our underground cavern storage services is received upfront at the beginning of the contract period and is deferred until services have been rendered. In some cases, we also receive prepayments from customers purchasing commodities, which allows the customer to secure the right to receive their requested volumes in a future period. Revenue from these contracts is initially deferred, thus creating a contract liability.

**Multi-period contract in which fee escalates each subsequent year of the contract.** Revenue from these contracts are recognized over time based on a weighted average of what is expected to be received over the life of the contract. As the actual amount billed and received from the customer differs from the amount of revenue recognized, a contract liability is recorded.

**Tiered pricing and volume discount pricing.** As described above, we revise our estimates of variable consideration at each reporting date throughout each reset period. As the actual amount billed and received from the customer differs from the amount of revenue recognized, a contract liability is recorded.

**Capital reimbursements.** Certain contracts in our Water Solutions segment require that our customers reimburse us for capital expenditures related to the construction of long-lived assets, such as water gathering pipelines and custody transfer points, utilized to provide services to them under the revenue contracts. Because we consider these amounts as consideration from customers associated with ongoing services to be provided to customers, we defer these upfront payments in deferred revenue and recognize the amounts in revenue over the life of the associated revenue contract as the performance obligations are satisfied under the contract.

Deferred revenue is included in advance payments received from customers on the unaudited condensed consolidated balance sheets as the performance obligations related to these revenues are expected to be satisfied within one year or less.

The following tables summarizes the balances of our contract assets and liabilities at the dates indicated:

	Balance at	
	April 1,	September 30,
	2018	2018
	(in thousands)	
Accounts receivable from contracts with customers	\$677,095	\$ 857,539
	2018	
	(in	
	thousands)	
Contract liabilities balance at April 1	\$ 8,374	
Payment received and deferred	49,920	

Payment recognized in revenue (28,762 )  
Contract liabilities balance at September 30 \$ 29,532



NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Note 16—Unaudited Condensed Consolidating Guarantor and Non-Guarantor Financial Information

Certain of our wholly owned subsidiaries have, jointly and severally, fully and unconditionally guaranteed the Senior Unsecured Notes (see Note 8). Pursuant to Rule 3-10 of Regulation S-X, we have presented in columnar format the unaudited condensed consolidating financial information for NGL Energy Partners LP (Parent), NGL Energy Finance Corp., the guarantor subsidiaries on a combined basis, and the non-guarantor subsidiaries on a combined basis in the tables below. NGL Energy Partners LP and NGL Energy Finance Corp. are co-issuers of the Senior Unsecured Notes. Since NGL Energy Partners LP received the proceeds from the issuance of the Senior Unsecured Notes, all activity has been reflected in the NGL Energy Partners LP (Parent) column in the tables below.

During the periods presented in the tables below, the status of certain subsidiaries changed, in that they either became guarantors of or ceased to be guarantors of the Senior Unsecured Notes. For purposes of the tables below, when the status of a subsidiary changes, all subsidiary activity is included in either the guarantor subsidiaries column or non-guarantor subsidiaries column based on the status of the subsidiary at the balance sheet date regardless of activity during the year.

There are no significant restrictions that prevent the parent or any of the guarantor subsidiaries from obtaining funds from their respective subsidiaries by dividend or loan. None of the assets of the guarantor subsidiaries (other than the investments in non-guarantor subsidiaries) are restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act of 1933, as amended.

For purposes of the tables below, (i) the unaudited condensed consolidating financial information is presented on a legal entity basis, (ii) investments in consolidated subsidiaries are accounted for as equity method investments, and (iii) contributions, distributions, and advances to (from) consolidated entities are reported on a net basis within net changes in advances with consolidated entities in the unaudited condensed consolidating statement of cash flow tables below.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Balance Sheet  
(in Thousands)

	September 30, 2018					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Subsidiaries	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$24,058	\$ —	—\$4,767	\$ 7,549	\$—	\$36,374
Accounts receivable-trade, net of allowance for doubtful accounts	—	—	1,366,535	62	—	1,366,597
Accounts receivable-affiliates	—	—	17,888	—	—	17,888
Inventories	—	—	678,705	420	—	679,125
Prepaid expenses and other current assets	—	—	158,970	647	—	159,617
Total current assets	24,058	—	2,226,865	8,678	—	2,259,601
<b>PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation</b>	—	—	1,576,003	130,609	—	1,706,612
<b>GOODWILL</b>	—	—	1,200,253	71,395	—	1,271,648
<b>INTANGIBLE ASSETS, net of accumulated amortization</b>	—	—	891,332	75,597	—	966,929
<b>INVESTMENTS IN UNCONSOLIDATED ENTITIES</b>	—	—	4,520	—	—	4,520
<b>NET INTERCOMPANY RECEIVABLES (PAYABLES)</b>	1,550,245	—	(1,565,621 )	15,376	—	—
<b>INVESTMENTS IN CONSOLIDATED SUBSIDIARIES</b>	2,471,919	—	214,692	—	(2,686,611 )	—
<b>OTHER NONCURRENT ASSETS</b>	—	—	176,129	—	—	176,129
Total assets	\$4,046,222	\$ —	—\$4,724,173	\$ 301,655	\$(2,686,611 )	\$6,385,439
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable-trade	\$(5 )	\$ —	—\$1,045,310	\$ 110	\$—	\$1,045,415
Accounts payable-affiliates	1	—	42,797	—	—	42,798
Accrued expenses and other payables	40,949	—	224,878	1,469	—	267,296
Advance payments received from customers	—	—	25,781	3,877	—	29,658
Current maturities of long-term debt, net of debt issuance costs	715,598	—	647	—	—	716,245
Total current liabilities	756,543	—	1,339,413	5,456	—	2,101,412
<b>LONG-TERM DEBT, net of debt issuance costs and current maturities</b>	986,848	—	829,007	—	—	1,815,855
<b>OTHER NONCURRENT LIABILITIES</b>	—	—	83,834	2,562	—	86,396
<b>CLASS A 10.75% CONVERTIBLE PREFERRED UNITS</b>	104,362	—	—	—	—	104,362

Edgar Filing: NGL Energy Partners LP - Form 10-Q

EQUITY:

Partners' equity	2,198,469	—	2,471,919	293,907	(2,765,556 )	2,198,739
Accumulated other comprehensive loss	—	—	—	(270 )	—	(270 )
Noncontrolling interests	—	—	—	—	78,945	78,945
Total equity	2,198,469	—	2,471,919	293,637	(2,686,611 )	2,277,414
Total liabilities and equity	\$4,046,222	\$	—\$4,724,173	\$ 301,655	\$(2,686,611 )	\$6,385,439

45

---

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Balance Sheet  
(in Thousands)

	March 31, 2018					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 16,915	\$ —	—\$3,329	\$ 1,850	\$—	\$22,094
Accounts receivable-trade, net of allowance for doubtful accounts	—	—	1,021,616	5,148	—	1,026,764
Accounts receivable-affiliates	—	—	4,772	—	—	4,772
Inventories	—	—	550,978	325	—	551,303
Prepaid expenses and other current assets	—	—	128,311	431	—	128,742
Assets held for sale	—	—	490,800	26,804	—	517,604
Total current assets	16,915	—	2,199,806	34,558	—	2,251,279
<b>PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation</b>	—	—	1,371,495	147,112	—	1,518,607
<b>GOODWILL</b>	—	—	1,127,347	77,260	—	1,204,607
<b>INTANGIBLE ASSETS, net of accumulated amortization</b>	—	—	829,449	83,705	—	913,154
<b>INVESTMENTS IN UNCONSOLIDATED ENTITIES</b>	—	—	17,236	—	—	17,236
<b>NET INTERCOMPANY RECEIVABLES (PAYABLES)</b>	2,110,940	—	(2,121,741 )	10,801	—	—
<b>INVESTMENTS IN CONSOLIDATED SUBSIDIARIES</b>	1,703,327	—	244,109	—	(1,947,436 )	—
<b>LOAN RECEIVABLE-AFFILIATE</b>	—	—	1,200	—	—	1,200
<b>OTHER NONCURRENT ASSETS</b>	—	—	245,039	—	—	245,039
Total assets	\$3,831,182	\$ —	—\$3,913,940	\$ 353,436	\$(1,947,436 )	\$6,151,122
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES AND REDEEMABLE</b>						
<b>NONCONTROLLING INTEREST:</b>						
Accounts payable-trade	\$—	\$ —	—\$850,607	\$ 2,232	\$—	\$852,839
Accounts payable-affiliates	1	—	1,253	—	—	1,254
Accrued expenses and other payables	41,104	—	181,115	1,285	—	223,504
Advance payments received from customers	—	—	4,507	3,867	—	8,374
Current maturities of long-term debt, net of debt issuance costs	—	—	646	—	—	646
Liabilities and redeemable noncontrolling interest held for sale	—	—	30,066	12,514	—	42,580
	41,105	—	1,068,194	19,898	—	1,129,197

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Total current liabilities and redeemable noncontrolling interest						
LONG-TERM DEBT, net of debt issuance costs and current maturities	1,704,909	—	974,831	—	—	2,679,740
OTHER NONCURRENT LIABILITIES	—	—	167,588	5,926	—	173,514
CLASS A 10.75% CONVERTIBLE PREFERRED UNITS	82,576	—	—	—	—	82,576
EQUITY:						
Partners' equity	2,002,592	—	1,704,896	327,858	(2,030,939 )	2,004,407
Accumulated other comprehensive loss	—	—	(1,569 )	(246 )	—	(1,815 )
Noncontrolling interests	—	—	—	—	83,503	83,503
Total equity	2,002,592	—	1,703,327	327,612	(1,947,436 )	2,086,095
Total liabilities and equity	\$3,831,182	\$	—\$3,913,940	\$ 353,436	\$(1,947,436 )	\$6,151,122

46

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Statement of Operations  
(in Thousands)

	Three Months Ended September 30, 2018					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Subsidiaries	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	\$—	\$—	\$6,653,716	\$ 1,789	\$(871)	\$6,654,634
COST OF SALES	—	—	6,510,385	13	(871)	6,509,527
OPERATING COSTS AND EXPENSES:						
Operating	—	—	58,269	2,040	—	60,309
General and administrative	—	—	39,180	189	—	39,369
Depreciation and amortization	—	—	50,543	2,207	—	52,750
Loss on disposal or impairment of assets, net	—	—	5,988	—	—	5,988
Revaluation of liabilities	—	—	800	(800)	) —	—
Operating Loss	—	—	(11,449)	(1,860)	) —	(13,309)
OTHER INCOME (EXPENSE):						
Equity in earnings of unconsolidated entities	—	—	379	—	—	379
Interest expense	(29,485)	) —	(11,874)	(11)	) 12	(41,358)
Other income, net	—	—	1,483	—	(12)	) 1,471
Loss From Continuing Operations Before Income Taxes	(29,485)	) —	(21,461)	(1,871)	) —	(52,817)
INCOME TAX EXPENSE	—	—	(691)	) —	—	(691)
EQUITY IN NET LOSS FROM CONTINUING OPERATIONS OF CONSOLIDATED SUBSIDIARIES	384,990	—	(1,373)	) —	(383,617)	) —
Income (Loss) From Continuing Operations	355,505	—	(23,525)	(1,871)	) (383,617)	) (53,508)
Income (Loss) From Discontinued Operations, Net of Tax	—	—	408,515	(68)	) —	408,447
Net Income (Loss)	355,505	—	384,990	(1,939)	) (383,617)	) 354,939
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS					518	518
LESS: NET LOSS ATTRIBUTABLE TO REDEEMABLE NONCONTROLLING INTERESTS					48	48
NET INCOME (LOSS) ATTRIBUTABLE TO NGL ENERGY PARTNERS LP	\$355,505	\$—	—\$384,990	\$ (1,939)	) \$(383,051)	) \$355,505

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Statement of Operations  
(in Thousands)

	Three Months Ended September 30, 2017					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	\$—	\$	—\$3,875,073	\$ 1,374	\$ 229	\$3,876,676
COST OF SALES	—	—	3,757,218	1	229	3,757,448
OPERATING COSTS AND EXPENSES:						
Operating	—	—	47,418	374	—	47,792
General and administrative	—	—	21,096	62	—	21,158
Depreciation and amortization	—	—	53,042	553	—	53,595
Loss on disposal or impairment of assets, net	—	—	110,959	—	—	110,959
Revaluation of liabilities	—	—	5,600	—	—	5,600
Operating (Loss) Income	—	—	(120,260 )	384	—	(119,876 )
OTHER INCOME (EXPENSE):						
Equity in earnings of unconsolidated entities	—	—	2,170	—	—	2,170
Interest expense	(37,219 )	—	(12,899 )	(12 )	12	(50,118 )
Gain on early extinguishment of liabilities, net	1,943	—	—	—	—	1,943
Other income, net	—	—	1,841	1	(205 )	1,637
(Loss) Income From Continuing Operations Before Income Taxes	(35,276 )	—	(129,148 )	373	(193 )	(164,244 )
INCOME TAX EXPENSE	—	—	(49 )	—	—	(49 )
EQUITY IN NET LOSS FROM CONTINUING OPERATIONS OF CONSOLIDATED SUBSIDIARIES	(138,095 )	—	(138 )	—	138,233	—
(Loss) Income From Continuing Operations	(173,371 )	—	(129,335 )	373	138,040	(164,293 )
Loss From Discontinued Operations, Net of Tax	—	—	(8,760 )	(719 )	193	(9,286 )
Net Loss	(173,371 )	—	(138,095 )	(346 )	138,233	(173,579 )
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS					(80 )	(80 )
LESS: NET LOSS ATTRIBUTABLE TO REDEEMABLE NONCONTROLLING INTERESTS					288	288
NET LOSS ATTRIBUTABLE TO NGL ENERGY PARTNERS LP	\$(173,371)	\$	—\$(138,095 )	\$ (346 )	\$ 138,441	\$(173,371 )





## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Statement of Operations  
(in Thousands)

	Six Months Ended September 30, 2018					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	\$—	\$—	—\$12,494,255	\$ 6,482	\$(1,669 )	\$12,499,068
COST OF SALES	—	—	12,207,375	(23 )	(1,669 )	12,205,683
OPERATING COSTS AND EXPENSES:						
Operating	—	—	112,441	4,130	—	116,571
General and administrative	—	—	61,228	531	—	61,759
Depreciation and amortization	—	—	99,674	5,121	—	104,795
Loss on disposal or impairment of assets, net	—	—	107,323	—	—	107,323
Revaluation of liabilities	—	—	800	—	—	800
Operating Loss	—	—	(94,586 )	(3,277 )	—	(97,863 )
OTHER INCOME (EXPENSE):						
Equity in earnings of unconsolidated entities	—	—	598	—	—	598
Interest expense	(58,985 )	—	(28,641 )	(23 )	23	(87,626 )
Loss on early extinguishment of liabilities, net	(137 )	—	—	—	—	(137 )
Other expense, net	—	—	(32,090 )	—	(208 )	(32,298 )
Loss From Continuing Operations Before Income Taxes	(59,122 )	—	(154,719 )	(3,300 )	(185 )	(217,326 )
INCOME TAX EXPENSE	—	—	(1,342 )	—	—	(1,342 )
EQUITY IN NET LOSS FROM CONTINUING OPERATIONS OF CONSOLIDATED SUBSIDIARIES	246,081	—	(3,020 )	—	(243,061 )	—
Income (Loss) From Continuing Operations	186,959	—	(159,081 )	(3,300 )	(243,246 )	(218,668 )
Income (Loss) From Discontinued Operations, Net of Tax	—	—	405,162	(1,029 )	185	404,318
Net Income (Loss)	186,959	—	246,081	(4,329 )	(243,061 )	185,650
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS					863	863
LESS: NET LOSS ATTRIBUTABLE TO REDEEMABLE NONCONTROLLING INTERESTS					446	446
NET INCOME (LOSS) ATTRIBUTABLE TO NGL ENERGY PARTNERS LP	\$186,959	\$—	—\$246,081	\$(4,329 )	\$(241,752 )	\$186,959



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Statement of Operations  
(in Thousands)

	Six Months Ended September 30, 2017					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
REVENUES	\$—	\$—	\$7,604,293	\$ 3,263	\$(175 )	\$7,607,381
COST OF SALES	—	—	7,386,305	1	(175 )	7,386,131
OPERATING COSTS AND EXPENSES:						
Operating	—	—	94,643	985	—	95,628
General and administrative	—	—	43,400	143	—	43,543
Depreciation and amortization	—	—	104,532	1,480	—	106,012
Loss on disposal or impairment of assets, net	—	—	99,142	—	—	99,142
Revaluation of liabilities	—	—	5,600	—	—	5,600
Operating (Loss) Income	—	—	(129,329 )	654	—	(128,675 )
OTHER INCOME (EXPENSE):						
Equity in earnings of unconsolidated entities	—	—	4,089	—	—	4,089
Interest expense	(75,590 )	—	(23,632 )	(23 )	23	(99,222 )
Loss on early extinguishment of liabilities, net	(1,338 )	—	—	—	—	(1,338 )
Other income, net	—	—	3,759	19	(408 )	3,370
(Loss) Income From Continuing Operations Before Income Taxes	(76,928 )	—	(145,113 )	650	(385 )	(221,776 )
INCOME TAX EXPENSE	—	—	(505 )	—	—	(505 )
EQUITY IN NET LOSS FROM CONTINUING OPERATIONS OF CONSOLIDATED SUBSIDIARIES	(159,805 )	—	(509 )	—	160,314	—
(Loss) Income From Continuing Operations	(236,733 )	—	(146,127 )	650	159,929	(222,281 )
Loss From Discontinued Operations, Net of Tax	—	—	(13,678 )	(1,712 )	385	(15,005 )
Net Loss	(236,733 )	—	(159,805 )	(1,062 )	160,314	(237,286 )
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS					(132 )	(132 )
LESS: NET LOSS ATTRIBUTABLE TO REDEEMABLE NONCONTROLLING INTERESTS					685	685
NET LOSS ATTRIBUTABLE TO NGL ENERGY PARTNERS LP	\$(236,733 )	\$—	\$(159,805 )	\$(1,062 )	\$160,867	\$(236,733 )



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

## Unaudited Condensed Consolidating Statements of Comprehensive Income (Loss)

(in Thousands)

	Three Months Ended September 30, 2018					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$355,505	\$	—\$ 384,990	\$ (1,939 )	\$ (383,617 )	\$ 354,939
Other comprehensive loss	—	—	—	(13 )	—	(13 )
Comprehensive income (loss)	\$355,505	\$	—\$ 384,990	\$ (1,952 )	\$ (383,617 )	\$ 354,926

	Three Months Ended September 30, 2017					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net loss	\$(173,371)	\$	—\$(138,095 )	\$ (346 )	\$ 138,233	\$(173,579 )
Other comprehensive loss	—	—	(48 )	(11 )	—	(59 )
Comprehensive loss	\$(173,371)	\$	—\$(138,143 )	\$ (357 )	\$ 138,233	\$(173,638 )

	Six Months Ended September 30, 2018					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	\$186,959	\$	—\$ 246,081	\$ (4,329 )	\$ (243,061 )	\$ 185,650
Other comprehensive loss	—	—	(1 )	(23 )	—	(24 )
Comprehensive income (loss)	\$186,959	\$	—\$ 246,080	\$ (4,352 )	\$ (243,061 )	\$ 185,626

	Six Months Ended September 30, 2017					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net loss	\$(236,733)	\$	—\$(159,805 )	\$ (1,062 )	\$ 160,314	\$(237,286 )
Other comprehensive loss	—	—	(412 )	(22 )	—	(434 )
Comprehensive loss	\$(236,733)	\$	—\$(160,217 )	\$ (1,084 )	\$ 160,314	\$(237,720 )

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Statement of Cash Flows  
(in Thousands)

	Six Months Ended September 30, 2018					Consolidated
	NGL Energy Partners LP (Parent)	NGL Energy Finance Subsidiaries	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	
<b>OPERATING ACTIVITIES:</b>						
Net cash (used in) provided by operating activities-continuing operations	\$(56,673)	\$ —	—\$(64,217 )	\$ 2,279	\$ (185 )	\$(118,796 )
Net cash provided by operating activities-discontinued operations	—	—	24,345	6,570	—	30,915
Net cash (used in) provided by operating activities	(56,673 )	—	(39,872 )	8,849	(185 )	(87,881 )
<b>INVESTING ACTIVITIES:</b>						
Capital expenditures	—	—	(191,559 )	(1,960 )	—	(193,519 )
Acquisitions, net of cash acquired	—	—	(194,044 )	(3,927 )	—	(197,971 )
Settlements of commodity derivatives	—	—	(94,879 )	—	—	(94,879 )
Proceeds from sales of assets	—	—	8,204	—	—	8,204
Proceeds from divestitures of businesses and investments	—	—	18,594	—	—	18,594
Investments in unconsolidated entities	—	—	(92 )	—	—	(92 )
Repayments on loan for natural gas liquids facility	—	—	4,558	—	—	4,558
Loan to affiliate	—	—	(1,515 )	—	—	(1,515 )
Net cash used in investing activities-continuing operations	—	—	(450,733 )	(5,887 )	—	(456,620 )
Net cash provided by investing activities-discontinued operations	—	—	838,797	6,982	—	845,779
Net cash provided by investing activities	—	—	388,064	1,095	—	389,159
<b>FINANCING ACTIVITIES:</b>						
Proceeds from borrowings under Revolving Credit Facility	—	—	2,008,000	—	—	2,008,000
Payments on Revolving Credit Facility	—	—	(2,153,500)	—	—	(2,153,500 )
Repurchase of senior unsecured notes	(5,069 )	—	—	—	—	(5,069 )
Payments on other long-term debt	—	—	(326 )	—	—	(326 )
Debt issuance costs	—	—	(780 )	—	—	(780 )
Contributions from noncontrolling interest owners, net	—	—	—	169	—	169
Distributions to general and common unit partners and preferred unitholders	(117,486 )	—	—	—	—	(117,486 )
Repurchase of warrants	(14,988 )	—	—	—	—	(14,988 )
Common unit repurchases and cancellations	(54 )	—	—	—	—	(54 )
Payments for settlement and early extinguishment of liabilities	—	—	(2,639 )	—	—	(2,639 )
Net changes in advances with consolidated entities	201,413	—	(197,214 )	(4,384 )	185	—

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Net cash provided by (used in) financing activities-continuing operations	63,816	—	(346,459 )	(4,215 )	185	(286,673 )
Net cash used in financing activities-discontinued operations	—	—	(295 )	(30 )	—	(325 )
Net cash provided by (used in) financing activities	63,816	—	(346,754 )	(4,245 )	185	(286,998 )
Net increase in cash and cash equivalents	7,143	—	1,438	5,699	—	14,280
Cash and cash equivalents, beginning of period	16,915	—	3,329	1,850	—	22,094
Cash and cash equivalents, end of period	\$24,058	\$	—\$4,767	\$ 7,549	\$ —	\$36,374

52

---

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidating Statement of Cash Flows  
(in Thousands)

	Six Months Ended September 30, 2017					
	NGL Energy Partners LP (Parent)	NGL Energy Finance Corp (Sub)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>OPERATING ACTIVITIES:</b>						
Net cash provided by (used in) operating activities-continuing operations	\$43,235	\$ —	—\$(104,796 )	\$ 34,291	\$ (385 )	\$(27,655 )
Net cash provided by operating activities-discontinued operations	—	—	37,948	1,416	—	39,364
Net cash provided by (used in) operating activities	43,235	—	(66,848 )	35,707	(385 )	11,709
<b>INVESTING ACTIVITIES:</b>						
Capital expenditures	—	—	(46,017 )	(622 )	—	(46,639 )
Acquisitions, net of cash acquired	—	—	(19,897 )	—	—	(19,897 )
Settlements of commodity derivatives	—	—	(21,789 )	—	—	(21,789 )
Proceeds from sales of assets	—	—	22,575	—	—	22,575
Investments in unconsolidated entities	—	—	(14,150 )	—	—	(14,150 )
Distributions of capital from unconsolidated entities	—	—	4,378	—	—	4,378
Repayments on loan for natural gas liquids facility	—	—	4,875	—	—	4,875
Loan to affiliate	—	—	(960 )	—	—	(960 )
Net cash used in investing activities-continuing operations	—	—	(70,985 )	(622 )	—	(71,607 )
Net cash used in investing activities-discontinued operations	—	—	(36,025 )	(580 )	—	(36,605 )
Net cash used in investing activities	—	—	(107,010 )	(1,202 )	—	(108,212 )
<b>FINANCING ACTIVITIES:</b>						
Proceeds from borrowings under Revolving Credit Facility	—	—	814,500	—	—	814,500
Payments on Revolving Credit Facility	—	—	(657,500 )	—	—	(657,500 )
Repurchase of senior secured and senior unsecured notes	(115,407)	—	—	—	—	(115,407 )
Payments on other long-term debt	—	—	(552 )	—	—	(552 )
Debt issuance costs	(670 )	—	(1,804 )	—	—	(2,474 )
Contributions from noncontrolling interest owners, net	—	—	—	23	—	23
Distributions to general and common unit partners and preferred unitholders	(107,389)	—	—	—	—	(107,389 )
Distributions to noncontrolling interest owners	—	—	—	(3,082 )	—	(3,082 )
Proceeds from sale of preferred units, net of offering costs	202,755	—	—	—	—	202,755
Repurchase of warrants	(10,549 )	—	—	—	—	(10,549 )



Edgar Filing: NGL Energy Partners LP - Form 10-Q

Common unit repurchases and cancellations	(11,663 )	—	—	—	(11,663 )
Payments for settlement and early extinguishment of liabilities	—	—	(1,650 )	—	(1,650 )
Net changes in advances with consolidated entities	—	—	31,526	(31,911 )	385
Net cash (used in) provided by financing activities-continuing operations	(42,923 )	—	184,520	(34,970 )	385
Net cash used in financing activities-discontinued operations	—	—	(2,421 )	(190 )	—
Net cash (used in) provided by financing activities	(42,923 )	—	182,099	(35,160 )	385
Net increase (decrease) in cash and cash equivalents	312	—	8,241	(655 )	—
Cash and cash equivalents, beginning of period	6,257	—	73	1,496	—
Cash and cash equivalents, end of period	\$6,569	\$	—\$8,314	\$ 841	\$ —

Table of Contents

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

The following is a discussion of NGL Energy Partners LP's ("we," "us," "our," or the "Partnership") financial condition and results of operations as of and for the three months and six months ended September 30, 2018. The discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q ("Quarterly Report"), as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 ("Annual Report") filed with the Securities and Exchange Commission on May 30, 2018.

Overview

We are a Delaware limited partnership. NGL Energy Holdings LLC serves as our general partner. At September 30, 2018, our operations included:

Our Crude Oil Logistics segment purchases crude oil from producers and transports it to refineries or for resale at pipeline injection stations, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs, and provides storage, terminaling, trucking, marine and pipeline transportation services through its owned assets. Our Water Solutions segment provides services for the treatment and disposal of wastewater generated from crude oil and natural gas production and for the disposal of solids such as tank bottoms, drilling fluids and drilling muds and performs truck and frac tank washouts. In addition, our Water Solutions segment sells the recovered hydrocarbons that result from performing these services and it also sells freshwater to producers for exploration and production activities.

Our Liquids segment supplies natural gas liquids to retailers, wholesalers, refiners, and petrochemical plants throughout the United States and in Canada using its leased underground storage and fleet of leased railcars, markets regionally through its 19 owned terminals throughout the United States, and provides terminaling and storage services at its salt dome storage facility joint venture in Utah.

Our Refined Products and Renewables segment conducts gasoline, diesel, ethanol, and biodiesel marketing operations, purchases refined petroleum and renewable products primarily in the Gulf Coast, Southeast and Midwest regions of the United States and schedules them for delivery at various locations throughout the country. In addition, in certain storage locations, our Refined Products and Renewables segment may also purchase unfinished gasoline blending components for subsequent blending into finished gasoline to supply our marketing business as well as third parties.

On July 10, 2018, we completed the sale of virtually all of our Retail Propane segment to Superior Plus Corp. ("Superior"). See Note 1 and Note 14 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion of the transaction.

As discussed in Note 1 to our unaudited condensed consolidated financial statements included in this Quarterly Report, we have classified the assets, liabilities and redeemable noncontrolling interest of the Retail Propane segment as held for sale and the operations as discontinued in our unaudited condensed consolidated financial statements. Accordingly, the results of operations and cash flows related to the entire Retail Propane segment (both the portion sold to DCC LPG in March 2018 and the remaining business sold to Superior as well as equity in earnings of Victory Propane, LLC) have been classified as discontinued operations for all periods presented (prior periods have been retrospectively adjusted) in the unaudited condensed consolidated statements of operations and unaudited condensed consolidated statements of cash flows.



Table of Contents

## Consolidated Results of Operations

The following table summarizes our unaudited condensed consolidated statements of operations for the periods indicated:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Total revenues	\$6,654,634	\$3,876,676	\$12,499,068	\$7,607,381
Total cost of sales	6,509,527	3,757,448	12,205,683	7,386,131
Operating expenses	60,309	47,792	116,571	95,628
General and administrative expense	39,369	21,158	61,759	43,543
Depreciation and amortization	52,750	53,595	104,795	106,012
Loss on disposal or impairment of assets, net	5,988	110,959	107,323	99,142
Revaluation of liabilities	—	5,600	800	5,600
Operating loss	(13,309)	(119,876)	(97,863)	(128,675)
Equity in earnings of unconsolidated entities	379	2,170	598	4,089
Interest expense	(41,358)	(50,118)	(87,626)	(99,222)
Gain (loss) on early extinguishment of liabilities, net	—	1,943	(137)	(1,338)
Other income (expense), net	1,471	1,637	(32,298)	3,370
Loss from continuing operations before income taxes	(52,817)	(164,244)	(217,326)	(221,776)
Income tax expense	(691)	(49)	(1,342)	(505)
Loss from continuing operations	(53,508)	(164,293)	(218,668)	(222,281)
Income (loss) from discontinued operations, net of tax	408,447	(9,286)	404,318	(15,005)
Net income (loss)	354,939	(173,579)	185,650	(237,286)
Less: Net loss (income) attributable to noncontrolling interests	518	(80)	863	(132)
Less: Net loss attributable to redeemable noncontrolling interests	48	288	446	685
Net income (loss) attributable to NGL Energy Partners LP	\$355,505	\$(173,371)	\$186,959	\$(236,733)

## Items Impacting the Comparability of Our Financial Results

Our current and future results of operations may not be comparable to our historical results of operations for the periods presented due to business combinations, disposals and other transactions. Our results of operations for the three months and six months ended September 30, 2018 are not necessarily indicative of the results of operations to be expected for future periods or for the full fiscal year ending March 31, 2019.

## Recent Developments

## Acquisitions

As discussed below, we completed numerous acquisitions during the fiscal year ended March 31, 2018 and the six months ended September 30, 2018. These acquisitions impact the comparability of our results of operations between our current and prior fiscal years.

During the six months ended September 30, 2018, in our Water Solutions segment, we acquired the remaining 18.375% interest in NGL Water Pipelines, LLC, six saltwater disposal facilities (including 17 wells), two ranches and four freshwater facilities (including 45 freshwater wells).

In our Retail Propane segment, we acquired three retail propane businesses and the remaining 40% interest in Atlantic Propane, LLC. The assets and liabilities of these retail propane businesses and Atlantic Propane, LLC were included in the sale of virtually all of our Retail Propane segment on July 10, 2018 and the operations have been classified as discontinued.

55

---

Table of Contents

During the year ended March 31, 2018, in our Water Solutions segment, we acquired the remaining 50% ownership interest in NGL Solids Solutions, LLC, and in our Retail Propane segment, we acquired seven retail propane businesses and certain assets from an equity method investee, of which the operations have been classified as discontinued.

See Note 4 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion of our acquisitions made during the six months ended September 30, 2018.

## Dispositions

On July 10, 2018, we completed the sale of virtually all of our Retail Propane segment for total consideration of \$896.5 million in cash after adjusting for estimated working capital and recorded a gain of \$408.6 million. See Note 14 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

## Subsequent Events

On October 16, 2018, we redeemed all of our outstanding 6.875% Senior Unsecured Notes that were due to mature on October 15, 2021. The registered holders received a redemption payment of 101.719% of the principal amount, plus accrued and unpaid interest, which equaled \$0.19 per \$1,000 of the redeemed notes. The final semiannual interest payment on the 6.875% Senior Unsecured Notes was made on October 15, 2018, to the holders of record at the close of business on October 1, 2018. We used amounts available under our Revolving Credit Facility to fund the redemption.

## Segment Operating Results for the Three Months Ended September 30, 2018 and 2017

## Crude Oil Logistics

The following table summarizes the operating results of our Crude Oil Logistics segment for the periods indicated:

	Three Months Ended		
	September 30,		
	2018	2017	Change
	(in thousands, except per barrel amounts)		
Revenues:			
Crude oil sales	\$825,571	\$410,274	\$415,297
Crude oil transportation and other	41,567	29,315	12,252
Total revenues (1)	867,138	439,589	427,549
Expenses:			
Cost of sales-excluding impact of derivatives	799,377	401,371	398,006
Cost of sales-derivative loss	422	2,366	(1,944 )
Operating expenses	12,444	12,198	246
General and administrative expenses	1,636	1,657	(21 )
Depreciation and amortization expense	18,870	20,958	(2,088 )
Loss (gain) on disposal or impairment of assets, net	3,367	(157 )	3,524
Total expenses	836,116	438,393	397,723
Segment operating income	\$31,022	\$1,196	\$29,826

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Crude oil sold (barrels)	11,891	8,562	3,329
Crude oil transported on owned pipelines (barrels)	9,578	8,182	1,396
Crude oil storage capacity - owned and leased (barrels) (2)	7,287	6,159	1,128
Crude oil storage capacity leased to third parties (barrels) (2)	—	700	(700 )
Crude oil inventory (barrels) (2)	681	1,682	(1,001 )
Crude oil sold (\$/barrel)	\$69.428	\$47.918	\$21.510
Cost per crude oil sold (\$/barrel)	\$67.261	\$47.155	\$20.106
Crude oil product margin (\$/barrel)	\$2.167	\$0.763	\$1.404

(1) Revenues include \$7.1 million and \$2.6 million of intersegment sales during the three months ended September 30, 2018 and 2017, respectively, that are eliminated in our unaudited condensed consolidated statements of operations.

Table of Contents

(2) Information is presented as of September 30, 2018 and September 30, 2017, respectively.

**Crude Oil Sales Revenues.** The increase was due primarily to an increase in crude oil prices and sales volumes during the three months ended September 30, 2018, compared to the three months ended September 30, 2017. The increase in crude oil prices has led to an increase in production volumes for us to market. We continue to market crude oil volumes in the majority of the basins across the United States, to support our various pipeline, terminal and transportation assets.

**Crude Oil Transportation and Other Revenues.** The increase was due to our Grand Mesa Pipeline which increased revenues by \$5.5 million during the three months ended September 30, 2018, compared to the three months ended September 30, 2017, primarily due to increased production growth in the DJ Basin. During the three months ended September 30, 2018, approximately 9.6 million barrels of crude oil were transported on the Grand Mesa Pipeline, which averaged approximately 104,000 barrels per day and financial volumes averaged approximately 109,000 barrels per day (volume amounts are from both internal and external parties). In addition, during the three months ended September 30, 2018, a new crude marketing contract increased revenues by \$5.4 million.

**Cost of Sales-Excluding Impact of Derivatives.** The increase was due primarily to an increase in crude oil prices and increased volumes during the three months ended September 30, 2018, compared to the three months ended September 30, 2017.

**Cost of Sales-Derivatives.** Our cost of sales during the three months ended September 30, 2018 included \$6.6 million of net realized losses on derivatives and \$6.2 million of net unrealized gains on derivatives. Our cost of sales during the three months ended September 30, 2017 included \$0.2 million of net realized losses on derivatives and \$2.2 million of net unrealized losses on derivatives.

**Operating and General and Administrative Expenses.** The increase was due to utilities related to the higher volumes on Grand Mesa.

**Depreciation and Amortization Expense.** The decrease was due primarily to downsizing our fleet of crude transportation assets, which decreased depreciation and amortization expense by \$1.3 million during the three months ended September 30, 2018, compared to the three months ended September 30, 2017. The decrease was also due to certain intangible assets being fully amortized in prior periods.

**Loss (Gain) on Disposal or Impairment of Assets, Net.** During the three months ended September 30, 2018, we recorded a net loss of \$3.4 million primarily related to the sale of a terminal. During the three months ended September 30, 2017, we recorded a net gain of \$0.2 million on the sales of excess pipe and certain other assets.



Table of Contents

## Water Solutions

The following table summarizes the operating results of our Water Solutions segment for the periods indicated:

	Three Months Ended September 30,		
	2018	2017	Change
	(in thousands, except per barrel and per day amounts)		
<b>Revenues:</b>			
Disposal service fees	\$52,105	\$35,282	\$16,823
Recovered hydrocarbons	18,262	10,446	7,816
Other service revenues	9,397	5,304	4,093
Total revenues	79,764	51,032	28,732
<b>Expenses:</b>			
Cost of sales-excluding impact of derivatives	780	434	346
Cost of sales-derivative loss	7,112	2,240	4,872
Operating expenses	34,229	23,488	10,741
General and administrative expenses	801	650	151
Depreciation and amortization expense	26,342	25,253	1,089
Loss on disposal or impairment of assets, net	730	915	(185 )
Revaluation of liabilities	—	5,600	(5,600 )
Total expenses	69,994	58,580	11,414
Segment operating income (loss)	\$9,770	\$(7,548 )	\$17,318
<b>Wastewater processed (barrels per day)</b>			
Eagle Ford Basin	271,059	209,792	61,267
Permian Basin	489,861	273,290	216,571
DJ Basin	166,152	108,952	57,200
Other Basins	80,577	63,443	17,134
Total	1,007,649	655,477	352,172
Solids processed (barrels per day)	6,995	5,794	1,201
Skim oil sold (barrels per day)	3,326	2,618	708
Service fees for wastewater processed (\$/barrel)	\$0.56	\$0.59	\$(0.03 )
Recovered hydrocarbons for wastewater processed (\$/barrel)	\$0.20	\$0.17	\$0.03
Operating expenses for wastewater processed (\$/barrel)	\$0.37	\$0.39	\$(0.02 )

**Disposal Service Fee Revenues.** The increase was due primarily to an increase in the volume of wastewater processed at existing facilities as well as facilities acquired from acquisitions. We continue to benefit from the increased rig counts as compared to the prior year in the basins in which we operate, particularly in the Permian Basin.

**Recovered Hydrocarbon Revenues.** The increase was due primarily to an increase in the volume of wastewater processed at existing facilities as well as facilities acquired from acquisitions and an increase in crude oil prices.

**Other Service Revenues.** Other service revenues primarily include solids disposal revenues, water pipeline revenues and freshwater revenues, all of which increased during the three months ended September 30, 2018 due to increased volumes as well as acquisitions.

Cost of Sales-Excluding Impact of Derivatives. The increase was due primarily to an increase in expenses to bring wastewater to certain of our water solutions facilities.

Cost of Sales-Derivatives. We enter into derivatives in our Water Solutions segment to protect against the risk of a decline in the market price of the hydrocarbons we expect to recover when processing the wastewater and selling the skim oil. Our cost of sales during the three months ended September 30, 2018 included \$1.8 million of net unrealized losses on derivatives and \$5.3 million of net realized losses on derivatives. Our cost of sales during the three months ended

Table of Contents

September 30, 2017 included \$0.8 million of net realized gains on derivatives and \$3.0 million of net unrealized losses on derivatives.

Operating and General and Administrative Expenses. The increase was due primarily to higher costs of operations of water disposal wells due to higher volumes processed at existing facilities as well as facilities acquired from acquisitions, partially offset by cost reduction efforts. Due to the higher volumes processed, our cost per barrel has decreased, as shown in the table above.

Depreciation and Amortization Expense. The increase was due primarily to acquisitions and developed facilities, partially offset by certain intangible assets being fully amortized during the fiscal year ended March 31, 2018 and six months ended September 30, 2018.

Loss on Disposal or Impairment of Assets, Net. During the three months ended September 30, 2018, we recorded a net loss of \$0.7 million on the disposals of certain assets. During the three months ended September 30, 2017, we recorded a net loss of \$0.9 million on the sales of certain assets.

Revaluation of Liabilities. The revaluation of liabilities represents the change in the valuation of our contingent consideration liabilities related to royalty agreements acquired as part of certain business combinations during the fiscal year ended March 31, 2017.

Table of Contents

## Liquids

The following table summarizes the operating results of our Liquids segment for the periods indicated:

	Three Months Ended September 30,		
	2018	2017	Change
	(in thousands, except per gallon amounts)		
Propane sales:			
Revenues (1)	\$236,319	\$193,588	\$42,731
Cost of sales-excluding impact of derivatives	222,355	182,121	40,234
Cost of sales-derivative gain	(1,574 )	(5,758 )	4,184
Product margin	15,538	17,225	(1,687 )
Butane sales:			
Revenues (1)	146,951	111,545	35,406
Cost of sales-excluding impact of derivatives	142,962	107,430	35,532
Cost of sales-derivative loss	4,092	17,555	(13,463 )
Product loss	(103 )	(13,440 )	13,337
Other product sales:			
Revenues (1)	171,099	102,409	68,690
Cost of sales-excluding impact of derivatives	161,970	93,746	68,224
Cost of sales-derivative (gain) loss	(665 )	138	(803 )
Product margin	9,794	8,525	1,269
Service revenues:			
Revenues (1)	4,883	3,928	955
Cost of sales	614	684	(70 )
Product margin	4,269	3,244	1,025
Expenses:			
Operating expenses	9,888	8,510	1,378
General and administrative expenses	1,389	1,281	108
Depreciation and amortization expense	6,459	6,141	318
Loss on disposal or impairment of assets, net	1,004	117,729	(116,725 )
Total expenses	18,740	133,661	(114,921 )
Segment operating income (loss)	\$10,758	\$(118,107)	\$128,865
Liquids storage capacity - owned and leased (gallons) (2)	399,967	453,971	(54,004 )
Propane sold (gallons)	266,654	257,775	8,879
Propane sold (\$/gallon)	\$0.886	\$0.751	\$0.135
Cost per propane sold (\$/gallon)	\$0.828	\$0.684	\$0.144
Propane product margin (\$/gallon)	\$0.058	\$0.067	\$(0.009 )
Propane inventory (gallons) (2)	117,206	136,980	(19,774 )
Propane storage capacity leased to third parties (gallons) (2)	30,440	33,495	(3,055 )

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Butane sold (gallons)	131,424	125,419	6,005
Butane sold (\$/gallon)	\$1.118	\$0.889	\$0.229
Cost per butane sold (\$/gallon)	\$1.119	\$0.997	\$0.122
Butane product loss (\$/gallon)	\$(0.001 )	\$(0.108 )	\$0.107
Butane inventory (gallons) (2)	67,448	111,632	(44,184 )
Butane storage capacity leased to third parties (gallons) (2)	59,220	80,346	(21,126 )
Other products sold (gallons)	124,935	102,009	22,926
Other products sold (\$/gallon)	\$1.370	\$1.004	\$0.366
Cost per other products sold (\$/gallon)	\$1.291	\$0.920	\$0.371
Other products product margin (\$/gallon)	\$0.079	\$0.084	\$(0.005 )
Other products inventory (gallons) (2)	7,658	8,810	(1,152 )

60

---

Table of Contents

(1) Revenues include \$8.8 million and \$0.3 million of intersegment sales during the three months ended September 30, 2018 and 2017, respectively, that are eliminated in our unaudited condensed consolidated statements of operations.  
(2) Information is presented as of September 30, 2018 and September 30, 2017, respectively.

**Propane Sales and Cost of Sales-Excluding Impact of Derivatives.** The increases in revenues and cost of sales excluding the impact of derivatives were due primarily to higher commodity prices and increased volumes moved by railcar due primarily to third party pipeline infrastructure issues.

**Cost of Sales-Derivatives.** Our cost of wholesale propane sales included \$2.4 million of net unrealized gains on derivatives and \$0.8 million of net realized losses on derivatives during the three months ended September 30, 2018. During the three months ended September 30, 2017, our cost of wholesale propane sales included \$5.8 million of net unrealized gains on derivatives and less than \$0.1 million of net realized losses on derivatives.

Product margins excluding the impact of derivatives increased due to our ability to sell our excess product in certain areas where the product cost was lower.

**Butane Sales and Cost of Sales-Excluding Impact of Derivatives.** The increases in revenues and cost of sales excluding the impact of derivatives were due primarily to higher commodity prices and increased volumes. Due to favorable pricing, we were able to sell into the spot market rather than putting the product into storage.

**Cost of Sales-Derivatives.** Our cost of butane sales during the three months ended September 30, 2018 included \$5.0 million of net unrealized losses on derivatives and \$0.9 million of net realized gains on derivatives. Our cost of butane sales included \$18.2 million of net unrealized losses on derivatives and \$0.6 million of net realized gains on derivatives during the three months ended September 30, 2017.

Product margins per gallon of butane increased for the current quarter versus the prior year quarter due to a strong pricing market and generally strong demand.

**Other Products Sales and Cost of Sales-Excluding Impact of Derivatives.** The increase in the volume of other products was primarily facilitated by a price arbitrage allowing for product to be sold across markets.

**Cost of Sales-Derivatives.** Our cost of sales of other products included \$0.5 million of net realized gains on derivatives and \$0.2 million net unrealized gains on derivatives during the three months ended September 30, 2018. Our cost of sales of other products during the three months ended September 30, 2017 included \$0.3 million of net unrealized losses on derivatives and \$0.1 million of net realized gains on derivatives.

Product margins during the three months ended September 30, 2018 were higher due primarily to a strong pricing environment and higher than anticipated production.

**Service Revenues.** This revenue includes storage, terminaling and transportation services income. The increase was primarily due to prior period adjustments recorded during the three months ended September 30, 2017.

**Operating and General and Administrative Expenses.** Expenses for the current quarter were higher due to an increase in consultant fees, compensation and fees related to our Sawtooth joint venture. Also during the three months ended September 30, 2017, Sawtooth had a credit for ad valorem taxes.

**Depreciation and Amortization Expense.** Expense for the current quarter was consistent with the prior year quarter.

Loss on Disposal or Impairment of Assets, Net. During the three months ended September 30, 2018, we recorded a net loss of \$1.0 million related to the retirement of assets. During the three months ended September 30, 2017, we recorded a goodwill impairment charge of \$116.9 million within our natural gas liquids salt cavern storage reporting unit due to the decreased demand for natural gas liquid storage. In addition, during the three months ended September 30, 2017, we recorded a loss of \$0.9 million related to the retirement of certain assets.

Table of Contents

## Refined Products and Renewables

The following table summarizes the operating results of our Refined Products and Renewables segment for the periods indicated:

	Three Months Ended		
	September 30,		
	2018	2017	Change
	(in thousands, except per barrel amounts)		
Refined products sales:			
Revenues (1)	\$5,093,689	\$2,874,268	\$2,219,421
Cost of sales-excluding impact of derivatives	5,091,844	2,797,389	2,294,455
Cost of sales-derivative loss	26,644	57,518	(30,874 )
Product (loss) margin	(24,799 )	19,361	(44,160 )
Renewables sales:			
Revenues	66,386	102,964	(36,578 )
Cost of sales-excluding impact of derivatives	68,471	105,940	(37,469 )
Cost of sales-derivative loss (gain)	279	(2,904 )	3,183
Product loss	(2,364 )	(72 )	(2,292 )
Service fees and other revenues	3,707	50	3,657
Expenses:			
Operating expenses	3,446	3,338	108
General and administrative expenses	2,285	2,163	122
Depreciation and amortization expense	320	324	(4 )
Gain on disposal or impairment of assets, net	—	(7,528 )	7,528
Total expense (income), net	6,051	(1,703 )	7,754
Segment operating (loss) income	\$(29,507 )	\$21,042	\$(50,549 )
Gasoline sold (barrels)	47,067	26,459	20,608
Diesel sold (barrels)	12,057	14,990	(2,933 )
Ethanol sold (barrels)	621	978	(357 )
Biodiesel sold (barrels)	250	568	(318 )
Refined products and renewables storage capacity - leased (barrels) (2)	10,037	9,070	967
Refined products and renewables storage capacity sub-leased to third parties (barrels) (2)	293	1,043	(750 )
Gasoline inventory (barrels) (2)	3,187	1,862	1,325
Diesel inventory (barrels) (2)	1,428	1,148	280
Ethanol inventory (barrels) (2)	1,072	513	559
Biodiesel inventory (barrels) (2)	942	375	567
Refined products sold (\$/barrel)	\$86.153	\$69.345	\$16.808
Cost per refined products sold (\$/barrel)	\$86.572	\$68.878	\$17.694
Refined products product (loss) margin (\$/barrel)	\$(0.419 )	\$0.467	\$(0.886 )
Renewable products sold (\$/barrel)	\$76.218	\$66.600	\$9.618
Cost per renewable products sold (\$/barrel)	\$78.932	\$66.647	\$12.285
Renewable products product loss (\$/barrel)	\$(2.714 )	\$(0.047 )	\$(2.667 )



- (1) Revenues include \$0.1 million of intersegment sales during the three months ended September 30, 2017 that are eliminated in our unaudited condensed consolidated statements of operations.
- (2) Information is presented as of September 30, 2018 and September 30, 2017, respectively.

Table of Contents

Refined Products Revenues and Cost of Sales-Excluding Impact of Derivatives. The increases in revenues and cost of sales-excluding impact of derivatives were due to an increase in refined products prices and increased volumes. The increase in prices was due primarily to supply and demand for refined fuels at our wholesale locations. The increased volumes were due primarily to an expansion of our refined products operations and the continued demand for motor fuels. During the three months ended September 30, 2018, Gulf Coast prices increased and experienced significant volatility as well as minor supply disruptions, which negatively affected our margins-excluding impact of derivatives. During the three months ended September 30, 2017, Gulf Coast prices were relatively stable, with the exception of Gulf Coast prices increasing significantly at the end of August 2017 because of a supply disruption, which favorably impacted our margins-excluding impact of derivatives.

Refined Products Cost of Sales-Derivatives. Our cost of sales during the three months ended September 30, 2018 included a loss of \$26.6 million from our risk management activities due primarily to NYMEX futures prices increasing on our short future positions. Our cost of sales during the three months ended September 30, 2017 included a loss of \$57.5 million from our risk management activities due primarily to NYMEX futures prices increasing on our short future positions.

Renewables Revenues and Cost of Sales-Excluding Impact of Derivatives. The decreases in revenues and cost of sales-excluding impact of derivatives were due primarily to decreased volumes from the loss of a marketing contract with E Energy Adams, LLC in December 2017, partially offset by an increase in renewables prices due primarily to supply and demand for renewable fuels.

Renewables Cost of Sales-Derivatives. Our cost of sales during the three months ended September 30, 2018 included a loss of \$0.3 million from our risk management activities due primarily to NYMEX futures prices increasing on our short future positions. Our cost of sales during the three months ended September 30, 2017 included a gain of \$2.9 million from our risk management activities due primarily to unrealized gains on our open forward positions.

Service Fees and Other Revenues. The increase was due primarily to the reclassification of sublease revenue to Service Fees and Other Revenues beginning April 1, 2018 in conjunction with the adoption of ASC 606. See Note 15 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

Operating and General and Administrative Expenses. The increase was due primarily to an expansion of our refined products operations during the three months ended September 30, 2018.

Depreciation and Amortization Expense. Depreciation and amortization expense for the current quarter was consistent with the prior year.

Gain on Disposal or Impairment of Assets, Net. During the three months ended September 30, 2017, we recorded \$7.5 million of the deferred gain from the sale of the general partner interest in TransMontaigne Partners L.P. ("TLP") in February 2016. See Note 15 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion of the reasons for the realization of the deferred gain.

Table of Contents

## Corporate and Other

The operating loss within “Corporate and Other” includes the following components for the periods indicated:

	Three Months Ended		
	2018	2017	Change
	(in thousands)		
Other revenues			
Revenues (1)	\$371	\$246	\$125
Cost of sales	497	121	376
(Loss) margin	(126 )	125	(251 )
Expenses:			
Operating expenses	322	258	64
General and administrative expenses	33,258	15,407	17,851
Depreciation and amortization expense	759	919	(160 )
Loss on disposal or impairment of assets, net	887	—	887
Total expenses	35,226	16,584	18,642
Operating loss	\$(35,352)	\$(16,459)	\$(18,893)

- (1) Revenues include \$(0.2) million of intersegment revenues during the three months ended September 30, 2018 that are eliminated in our unaudited condensed consolidated statement of operations.

General and Administrative Expenses. The increase during the three months ended September 30, 2018 was due primarily to higher equity-based compensation expense. During the three months ended September 30, 2018, equity-based compensation expense was \$19.2 million, compared to \$6.1 million during the three months ended September 30, 2017. The increase is primarily due to an increase in annual bonuses paid in common units of approximately \$14.8 million. In addition, the increase is due to the \$2.5 million accrual recorded during the three months ended September 30, 2018 related to the LCT Capital, LLC (“LCT”) matter as well as an increase in legal expenses. For a further discussion of the LCT matter, see Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

## Equity in Earnings of Unconsolidated Entities

The decrease of \$1.8 million during the three months ended September 30, 2018 was due primarily to the sale of our investments in Glass Mountain Pipeline, LLC (“Glass Mountain”) and E Energy Adams, LLC. On December 22, 2017, we sold our previously held 50% interest in Glass Mountain and on May 3, 2018, we sold our previously held 20% interest in E Energy Adams, LLC. These decreases were partially offset by earnings from our 50% interest in a water services company that we acquired as part of an acquisition in August 2018. See Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

## Interest Expense

Interest expense includes interest expense on our Revolving Credit Facility (as defined herein) and senior notes, amortization of debt issuance costs, letter of credit fees, interest on equipment financing notes, and accretion of interest on non-interest bearing debt obligations. The decrease of \$8.8 million during the three months ended September 30, 2018 was partially due to the repurchase of all senior secured notes in the prior year. The decrease is

also associated with our repurchase of \$84.1 million of the 7.5% Senior Notes due 2023 and \$110.9 million of the 6.125% Senior Notes due 2025 during our fiscal year ended March 31, 2018.

Gain on Early Extinguishment of Liabilities, Net

During the three months ended September 30, 2017, the net gain (inclusive of debt issuance costs written off) relates to the early extinguishment of a portion of the senior unsecured notes.

Table of Contents

## Other Income, Net

The following table summarizes the components of other income, net for the periods indicated:

	Three Months Ended September 30, 2018 2017 (in thousands)	
Interest income (1)	\$ 1,383	\$ 1,621
Other	88	16
Other income, net	\$ 1,471	\$ 1,637

(1) Relates primarily to a loan receivable associated with our financing of the construction of a natural gas liquids facility to be utilized by a third party.

## Income Tax Expense

Income tax expense was \$0.7 million during the three months ended September 30, 2018, compared to income tax expense of less than \$0.1 million during the three months ended September 30, 2017. See Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

## Noncontrolling Interests - Redeemable and Non-redeemable

Noncontrolling interests represent the portion of certain consolidated subsidiaries that are owned by third parties. The increase of \$0.4 million during the three months ended September 30, 2018 was due primarily to a loss from operations of the Sawtooth joint venture, in which we sold a 28.5% interest in March 2018.

Table of Contents

## Segment Operating Results for the Six Months Ended September 30, 2018 and 2017

## Crude Oil Logistics

The following table summarizes the operating results of our Crude Oil Logistics segment for the periods indicated:

	Six Months Ended September 30,		
	2018	2017	Change
	(in thousands, except per barrel amounts)		
<b>Revenues:</b>			
Crude oil sales	\$ 1,582,082	\$ 890,559	\$ 691,523
Crude oil transportation and other	73,411	56,301	17,110
Total revenues (1)	1,655,493	946,860	708,633
<b>Expenses:</b>			
Cost of sales-excluding impact of derivatives	1,540,887	878,259	662,628
Cost of sales-derivative loss (gain)	11,680	(2,696 )	14,376
Operating expenses	25,039	24,367	672
General and administrative expenses	3,243	3,300	(57 )
Depreciation and amortization expense	38,099	41,793	(3,694 )
Loss (gain) on disposal or impairment of assets, net	105,261	(3,716 )	108,977
Total expenses	1,724,209	941,307	782,902
Segment operating (loss) income	\$(68,716 )	\$5,553	\$(74,269 )
<b>Crude Oil Sold and Capacity:</b>			
Crude oil sold (barrels)	23,116	18,582	4,534
Crude oil transported on owned pipelines (barrels)	19,565	14,948	4,617
Crude oil storage capacity - owned and leased (barrels) (2)	7,287	6,159	1,128
Crude oil storage capacity leased to third parties (barrels) (2)	—	700	(700 )
Crude oil inventory (barrels) (2)	681	1,682	(1,001 )
Crude oil sold (\$/barrel)	\$68.441	\$47.926	\$20.515
Cost per crude oil sold (\$/barrel)	\$67.164	\$47.119	\$20.045
Crude oil product margin (\$/barrel)	\$1.277	\$0.807	\$0.470

(1) Revenues include \$11.6 million and \$4.9 million of intersegment sales during the six months ended September 30, 2018 and 2017, respectively, that are eliminated in our unaudited condensed consolidated statements of operations.  
(2) Information is presented as of September 30, 2018 and September 30, 2017, respectively.

**Crude Oil Sales Revenues.** The increase was due primarily to an increase in crude oil prices and sales volumes during the six months ended September 30, 2018, compared to the six months ended September 30, 2017. The increase in crude oil prices has led to an increase in production volumes for us to market. We continue to market crude oil volumes in the majority of the basins across the United States, to support our various pipeline, terminal and transportation assets.

**Crude Oil Transportation and Other Revenues.** The increase was due to our Grand Mesa Pipeline which increased revenues by \$9.0 million during the six months ended September 30, 2018, compared to the six months ended September 30, 2017, primarily due to increased production growth in the DJ Basin. During the six months ended September 30, 2018, approximately 19.6 million barrels of crude oil were transported on the Grand Mesa Pipeline, which averaged approximately 107,000 barrels per day and financial volumes averaged approximately 111,000 barrels

per day (volume amounts are from both internal and external parties). In addition, during the six months ended September 30, 2018, a new crude marketing contract increased revenues by \$5.4 million.

**Cost of Sales-Excluding Impact of Derivatives.** The increase was due primarily to an increase in crude oil prices and increased volumes during the six months ended September 30, 2018, compared to the six months ended September 30, 2017.

**Cost of Sales-Derivatives.** Our cost of sales during the six months ended September 30, 2018 included \$10.4 million of net realized losses on derivatives and \$1.3 million of net unrealized losses on derivatives. Our cost of sales during the six

Table of Contents

months ended September 30, 2017 included \$4.2 million of net realized gains on derivatives and \$1.5 million of net unrealized losses on derivatives.

Operating and General and Administrative Expenses. The increase was due primarily to our Grand Mesa Pipeline which increased utility expenses by \$0.8 million due to higher volumes.

Depreciation and Amortization Expense. The decrease was due primarily to downsizing our fleet of crude transportation assets, which decreased depreciation and amortization expense by \$2.6 million during the six months ended September 30, 2018, compared to the six months ended September 30, 2017. The decrease was also due to certain intangible assets being fully amortized in prior periods.

Loss (Gain) on Disposal or Impairment of Assets, Net. During the six months ended September 30, 2018, we recorded a net loss of \$105.3 million, which included a loss of \$105.0 million on our transaction with a third party in which they agreed to be fully responsible for our future minimum volume commitment in exchange for \$67.7 million of deficiency credits on a contract with a crude oil pipeline operator and \$35.3 million in cash (see Note 2 and Note 13 to our unaudited condensed consolidated financial statements included in this Quarterly Report). The loss also includes additional costs related to this transaction of \$2.0 million. In addition, we also recorded a loss of \$1.3 million primarily related to the sale of two terminals. During the six months ended September 30, 2017, we recorded a net gain of \$3.7 million on the sales of excess pipe and certain other assets.

## Water Solutions

The following table summarizes the operating results of our Water Solutions segment for the periods indicated:

	Six Months Ended		
	September 30,		
	2018	2017	Change
	(in thousands, except per barrel and per day amounts)		
Revenues:			
Disposal service fees	\$ 100,757	\$ 68,603	\$ 32,154
Recovered hydrocarbons	38,489	20,406	18,083
Other service revenues	16,663	8,990	7,673
Total revenues	155,909	97,999	57,910
Expenses:			
Cost of sales-excluding impact of derivatives	1,369	779	590
Cost of sales-derivative loss	20,792	2,048	18,744
Operating expenses	65,753	47,529	18,224
General and administrative expenses	1,600	1,299	301
Depreciation and amortization expense	51,651	49,261	2,390
Loss on disposal or impairment of assets, net	3,205	185	3,020
Revaluation of liabilities	800	5,600	(4,800 )
Total expenses	145,170	106,701	38,469
Segment operating income (loss)	\$ 10,739	\$ (8,702 )	\$ 19,441
Wastewater processed (barrels per day)			
Eagle Ford Basin	275,099	215,156	59,943
Permian Basin	455,885	252,810	203,075
DJ Basin	151,216	110,685	40,531



Edgar Filing: NGL Energy Partners LP - Form 10-Q

Other Basins	81,801	61,223	20,578
Total	964,001	639,874	324,127
Solids processed (barrels per day)	6,450	4,986	1,464
Skim oil sold (barrels per day)	3,470	2,572	898
Service fees for wastewater processed (\$/barrel)	\$0.57	\$0.59	\$(0.02 )
Recovered hydrocarbons for wastewater processed (\$/barrel)	\$0.22	\$0.17	\$0.05
Operating expenses for wastewater processed (\$/barrel)	\$0.37	\$0.41	\$(0.04 )

67

---

Table of Contents

Disposal Service Fee Revenues. The increase was due primarily to an increase in the volume of wastewater processed at existing facilities as well as facilities acquired from acquisitions. We continue to benefit from the increased rig counts as compared to the prior year in the basins in which we operate, particularly in the Permian Basin.

Recovered Hydrocarbon Revenues. The increase was due primarily to an increase in the volume of wastewater processed at existing facilities as well as facilities acquired from acquisitions and an increase in crude oil prices.

Other Service Revenues. The increase was due primarily to an increase in volumes for solids disposal, water pipeline and freshwater businesses as well as acquisitions.

Cost of Sales-Excluding Impact of Derivatives. The increase was due primarily to an increase in expenses to bring wastewater to certain of our water solutions facilities.

Cost of Sales-Derivatives. We enter into derivatives in our Water Solutions segment to protect against the risk of a decline in the market price of the hydrocarbons we expect to recover when processing the wastewater and selling the skim oil. Our cost of sales during the six months ended September 30, 2018 included \$10.9 million of net unrealized losses on derivatives and \$9.9 million of net realized losses on derivatives. Our cost of sales during the six months ended September 30, 2017 included \$1.0 million of net realized gains on derivatives and \$3.0 million of net unrealized losses on derivatives.

Operating and General and Administrative Expenses. The increase was due primarily to higher costs of operations of water disposal wells due to higher volumes processed at existing facilities as well as facilities acquired from acquisitions, partially offset by cost reduction efforts. Due to the higher volumes processed, our cost per barrel has decreased, as shown in the table above.

Depreciation and Amortization Expense. The increase was due primarily to acquisitions and developed facilities, partially offset by certain intangible assets being fully amortized during the fiscal year ended March 31, 2018 and six months ended September 30, 2018.

Loss on Disposal or Impairment of Assets, Net. During the six months ended September 30, 2018, we recorded a net loss of \$3.2 million on the disposals of certain assets. During the six months ended September 30, 2017, we recorded a net loss of \$1.5 million on the sales of certain assets, partially offset by a gain of \$1.3 million for the termination of a non-compete agreement, which included the carrying value of the corresponding intangible asset that was written off.

Revaluation of Liabilities. The revaluation of liabilities represents the change in the valuation of our contingent consideration liabilities related to royalty agreements acquired as part of certain business combinations during the fiscal year ended March 31, 2017. The expense during the six months ended September 30, 2018 and 2017 was due primarily to higher actual and expected production from new customers, resulting in an increase to the expected future royalty payment.

Table of Contents

## Liquids

The following table summarizes the operating results of our Liquids segment for the periods indicated:

	Six Months Ended September 30,		
	2018	2017	Change
	(in thousands, except per gallon amounts)		
Propane sales:			
Revenues (1)	\$424,710	\$330,448	\$94,262
Cost of sales-excluding impact of derivatives	402,900	319,774	83,126
Cost of sales-derivative gain	(1,222 )	(5,500 )	4,278
Product margin	23,032	16,174	6,858
Butane sales:			
Revenues (1)	261,174	179,777	81,397
Cost of sales-excluding impact of derivatives	254,405	175,557	78,848
Cost of sales-derivative loss	6,658	15,690	(9,032 )
Product margin (loss)	111	(11,470 )	11,581
Other product sales:			
Revenues (1)	324,417	186,712	137,705
Cost of sales-excluding impact of derivatives	309,649	177,425	132,224
Cost of sales-derivative (gain) loss	(1,735 )	115	(1,850 )
Product margin	16,503	9,172	7,331
Service revenues:			
Revenues (1)	10,513	9,940	573
Cost of sales	1,279	1,522	(243 )
Product margin	9,234	8,418	816
Expenses:			
Operating expenses	18,715	16,352	2,363
General and administrative expenses	2,863	2,621	242
Depreciation and amortization expense	12,927	12,471	456
Loss on disposal or impairment of assets, net	994	117,729	(116,735 )
Total expenses	35,499	149,173	(113,674 )
Segment operating income (loss)	\$13,381	\$(126,879)	\$140,260
Liquids storage capacity - owned and leased (gallons) (2)	399,967	453,971	(54,004 )
Propane sold (gallons)	500,440	482,508	17,932
Propane sold (\$/gallon)	\$0.849	\$0.685	\$0.164
Cost per propane sold (\$/gallon)	\$0.803	\$0.651	\$0.152
Propane product margin (\$/gallon)	\$0.046	\$0.034	\$0.012
Propane inventory (gallons) (2)	117,206	136,980	(19,774 )
Propane storage capacity leased to third parties (gallons) (2)	30,440	33,495	(3,055 )

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Butane sold (gallons)	244,449	216,936	27,513
Butane sold (\$/gallon)	\$1.068	\$0.829	\$0.239
Cost per butane sold (\$/gallon)	\$1.068	\$0.882	\$0.186
Butane product loss (\$/gallon)	\$—	\$(0.053)	\$0.053
Butane inventory (gallons) (2)	67,448	111,632	(44,184 )
Butane storage capacity leased to third parties (gallons) (2)	59,220	80,346	(21,126 )
Other products sold (gallons)	241,920	192,620	49,300
Other products sold (\$/gallon)	\$1.341	\$0.969	\$0.372
Cost per other products sold (\$/gallon)	\$1.273	\$0.922	\$0.351
Other products product margin (\$/gallon)	\$0.068	\$0.047	\$0.021
Other products inventory (gallons) (2)	7,658	8,810	(1,152 )

Table of Contents

- (1) Revenues include \$10.5 million and \$1.7 million of intersegment sales during the six months ended September 30, 2018 and 2017, respectively, that are eliminated in our unaudited condensed consolidated statements of operations.
- (2) Information is presented as of September 30, 2018 and September 30, 2017, respectively.

**Propane Sales and Cost of Sales-Excluding Impact of Derivatives.** The increases in revenues and cost of sales excluding the impact of derivatives were due primarily to higher commodity prices and increased volumes moved by railcar due primarily to third party pipeline infrastructure issues.

**Cost of Sales-Derivatives.** Our cost of wholesale propane sales included \$2.0 million of net unrealized gains on derivatives and \$0.8 million of net realized losses on derivatives during the six months ended September 30, 2018. During the six months ended September 30, 2017, our cost of wholesale propane sales included \$5.5 million of net unrealized gains on derivatives and \$0.1 million of net realized gains on derivatives.

Product margins per gallon of propane sold were higher during the six months ended September 30, 2018 than during the six months ended September 30, 2017. Product margins have improved due to the increase in commodity prices outpacing rising inventory values.

**Butane Sales and Cost of Sales-Excluding Impact of Derivatives.** The increase in revenues and cost of sales was due primarily to higher commodity prices. Volumes increased due to favorable market conditions.

**Cost of Sales-Derivatives.** Our cost of butane sales during the six months ended September 30, 2018 included \$7.5 million of net unrealized losses on derivatives and \$0.8 million of net realized gains on derivatives. Our cost of butane sales included \$16.5 million of net unrealized losses on derivatives and \$0.8 million of net realized gains on derivatives during the six months ended September 30, 2017.

Product margin per gallon of butane sold were higher during the six months ended September 30, 2018 than during the six months ended September 30, 2017 due primarily to a strong pricing market and generally strong demand.

**Other Products Sales and Cost of Sales-Excluding Impact of Derivatives.** Other product volumes increase was facilitated by a price arbitrage allowing for products to be sold across markets.

**Cost of Sales-Derivatives.** Our cost of sales of other products included \$0.6 million of net unrealized gains on derivatives and \$1.1 million of net realized gains on derivatives during the six months ended September 30, 2018. Our cost of sales of other products during the six months ended September 30, 2017 included \$0.3 million of net unrealized losses on derivatives and \$0.1 million of net realized gains on derivatives.

Product margins during the six months ended September 30, 2018 were primarily higher due to a strong pricing environment and higher than anticipated production.

**Service Revenues.** This revenue includes storage, terminaling and transportation services income. The increase during the six months ended September 30, 2018 was primarily related to an increase at our Port Hudson terminal as well as an increase in our rail car hauling revenue.

**Operating and General and Administrative Expenses.** Expenses were higher due to an increase in employee commissions resulting from increased profit margins, increased expenses related to the Sawtooth Joint Venture and a credit in the prior year for ad valorem taxes.

Depreciation and Amortization Expense. Expense for the current period was consistent with the prior year period.

Loss on Disposal or Impairment of Assets, Net. During the six months ended September 30, 2018 and 2017, we recorded a net loss of \$1.0 million and \$0.9 million, respectively, related to the retirement of assets. During the six months ended September 30, 2017, we recorded a goodwill impairment charge of \$116.9 million within our natural gas liquids salt cavern storage reporting unit due to the decreased demand for natural gas liquid storage and resulting decline in revenues and earnings as compared to actual and projected results of prior and future periods.

Table of Contents

## Refined Products and Renewables

The following table summarizes the operating results of our Refined Products and Renewables segment for the periods indicated:

	Six Months Ended		
	September 30,		
	2018	2017	Change
	(in thousands, except per barrel amounts)		
Refined products sales:			
Revenues (1)	\$9,547,613	\$5,647,875	\$3,899,738
Cost of sales-excluding impact of derivatives	9,493,525	5,586,140	3,907,385
Cost of sales-derivative loss	51,753	29,839	21,914
Product margin	2,335	31,896	(29,561 )
Renewables sales:			
Revenues	131,470	213,930	(82,460 )
Cost of sales-excluding impact of derivatives	133,749	218,587	(84,838 )
Cost of sales-derivative loss (gain)	1,069	(4,867 )	5,936
Product (loss) margin	(3,348 )	210	(3,558 )
Service fees and other revenues	9,106	168	8,938
Expenses:			
Operating expenses	6,383	6,889	(506 )
General and administrative expenses	4,580	4,255	325
Depreciation and amortization expense	641	648	(7 )
Gain on disposal or impairment of assets, net	(3,026 )	(15,056 )	12,030
Total expense (income), net	8,578	(3,264 )	11,842
Segment operating (loss) income	\$(485 )	\$35,538	\$(36,023 )
Gasoline sold (barrels)	87,805	54,975	32,830
Diesel sold (barrels)	23,834	28,788	(4,954 )
Ethanol sold (barrels)	1,165	1,992	(827 )
Biodiesel sold (barrels)	578	1,195	(617 )
Refined products and renewables storage capacity - leased (barrels) (2)	10,037	9,070	967
Refined products and renewables storage capacity sub-leased to third parties (barrels) (2)	293	1,043	(750 )
Gasoline inventory (barrels) (2)	3,187	1,862	1,325
Diesel inventory (barrels) (2)	1,428	1,148	280
Ethanol inventory (barrels) (2)	1,072	513	559
Biodiesel inventory (barrels) (2)	942	375	567
Refined products sold (\$/barrel)	\$85.522	\$67.427	\$18.095
Cost per refined products sold (\$/barrel)	\$85.501	\$67.046	\$18.455
Refined products product margin (\$/barrel)	\$0.021	\$0.381	\$(0.360 )
Renewable products sold (\$/barrel)	\$75.427	\$67.126	\$8.301
Cost per renewable products sold (\$/barrel)	\$77.348	\$67.060	\$10.288
Renewable products product (loss) margin (\$/barrel)	\$(1.921 )	\$0.066	\$(1.987 )

- Revenues include \$0.1 million of intersegment sales during the six months ended September 30, 2017 that are
- (1) eliminated in our unaudited condensed consolidated statements of operations.
  - (2) Information is presented as of September 30, 2018 and September 30, 2017, respectively.



Table of Contents

Refined Products Revenues and Cost of Sales-Excluding Impact of Derivatives. The increases in revenues and cost of sales-excluding impact of derivatives were due to an increase in refined products prices and increased volumes. The increase in prices was due primarily to supply and demand for refined fuels at our wholesale locations. The increased volumes were due primarily to an expansion of our refined products operations and the continued demand for motor fuels. During the six months ended September 30, 2018, Gulf Coast prices increased and experienced significant volatility as well as minor supply disruptions, which negatively affected our margins-excluding impact of derivatives. During the six months ended September 30, 2017, Gulf Coast prices were relatively stable, with the exception of Gulf Coast prices increasing significantly at the end of August 2017 because of a supply disruption, which favorably impacted our margins-excluding impact of derivatives.

Refined Products Cost of Sales-Derivatives. Our cost of sales during the six months ended September 30, 2018 included a loss of \$51.8 million from our risk management activities due primarily to NYMEX futures prices increasing on our short future positions. Our cost of sales during the six months ended September 30, 2017 included a loss of \$29.8 million from our risk management activities due primarily to unrealized losses on our open forward positions and NYMEX futures prices increasing on our short future positions.

Renewables Revenues and Cost of Sales-Excluding Impact of Derivatives. The decreases in revenues and cost of sales-excluding impact of derivatives were due primarily to decreased volumes from the loss of a marketing contract with E Energy Adams, LLC in December 2017, partially offset by an increase in renewables prices due primarily to supply and demand for renewable fuels.

Renewables Cost of Sales-Derivatives. Our cost of sales during the six months ended September 30, 2018 included a loss of \$1.1 million from our risk management activities due primarily to NYMEX futures prices increasing on our short future positions. Our cost of sales during the six months ended September 30, 2017 included a gain of \$4.9 million from our risk management activities due primarily to unrealized gains on our open forward positions.

Service Fees and Other Revenues. The increase was due primarily to an early termination settlement for one our sublease agreements during the three months ended June 30, 2018 and the reclassification of sublease revenue to Service Fees and Other Revenues beginning April 1, 2018 in conjunction with the adoption of ASC 606. See Note 15 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

Operating and General and Administrative Expenses. The decrease was due primarily to lower environmental expense during the six months ended September 30, 2018 from an insurance recovery received during the three months ended June 30, 2018 related to a historical environmental indemnification agreement, partially offset by expansion of our refined products operations.

Depreciation and Amortization Expense. Depreciation and amortization expense for the current year was consistent with the prior year.

Gain on Disposal or Impairment of Assets, Net. During the six months ended September 30, 2018, we recorded a gain of \$3.0 million on the sale of our previously held 20% interest in E Energy Adams, LLC (see Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report). During the six months ended September 30, 2017, we recorded \$15.1 million of the deferred gain from the sale of the general partner interest in TLP in February 2016. See Note 15 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion of the reasons for the realization of the deferred gain.



Table of Contents

## Corporate and Other

The operating loss within “Corporate and Other” includes the following components for the periods indicated:

	Six Months Ended		
	September 30,		
	2018	2017	Change
	(in thousands)		
Other revenues			
Revenues	\$747	\$407	\$340
Cost of sales	987	194	793
(Loss) margin	(240	) 213	(453 )
Expenses:			
Operating expenses	703	491	212
General and administrative expenses	49,473	32,068	17,405
Depreciation and amortization expense	1,477	1,839	(362 )
Loss on disposal or impairment of assets, net	889	—	889
Total expenses	52,542	34,398	18,144
Operating loss	\$(52,782)	\$(34,185)	\$(18,597)

General and Administrative Expenses. The increase during the six months ended September 30, 2018 was due primarily to higher equity-based compensation expense. During the six months ended September 30, 2018, equity-based compensation expense was \$24.7 million, compared to \$14.9 million during the six months ended September 30, 2017. The increase is primarily due to an increase in annual bonuses paid in common units of approximately \$14.8 million. This increase was partially offset by a decrease specifically related to our Service and Performance Awards of approximately \$5.0 million. The decrease in expense related to the Service and Performance Awards was primarily due to an overall lower number of Performance Awards outstanding at the end of the current period compared to the prior period and the vesting of awards with higher grant date fair values. For a further discussion of the Service and Performance Awards see Note 10 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

Other drivers contributing to the overall increase in General and Administrative Expenses include the accrual recorded of \$2.5 million during the six months ended September 30, 2018 related to the LCT matter as well as increased legal expenses. For a further discussion of the LCT matter, see Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

## Equity in Earnings of Unconsolidated Entities

The decrease of \$3.5 million during the six months ended September 30, 2018 was due primarily to the sale of our investments in Glass Mountain and E Energy Adams, LLC. On December 22, 2017, we sold our previously held 50% interest in Glass Mountain and on May 3, 2018, we sold our previously held 20% interest in E Energy Adams, LLC. These decreases were partially offset by earnings from our 50% interest in a water services company that we acquired as part of an acquisition in August 2018. See Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

## Interest Expense

## Edgar Filing: NGL Energy Partners LP - Form 10-Q

The decrease of \$11.6 million during the six months ended September 30, 2018 was partially due to the repurchase of all senior secured notes on December 29, 2017. We also repurchased \$194.9 million of the 7.5% Senior Notes due 2023 and the 6.125% Senior Notes due 2025 during our fiscal year ended March 31, 2018. This was offset by higher interest expense on our revolving credit facility due to higher interest rates on approximately the same average balance outstanding. Our weighted average interest rate at September 30, 2018 was 5.13% compared to 4.50% at September 30, 2017.

### Loss on Early Extinguishment of Liabilities, Net

During the six months ended September 30, 2018, the net losses (inclusive of debt issuance costs written off) relate to the early extinguishment of a portion of the outstanding senior unsecured notes. During the six months ended September 30,

73

---

Table of Contents

2017, the net losses (inclusive of debt issuance costs written off) relate to the early extinguishment of a portion of the senior secured notes and senior unsecured notes. See Note 8 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

## Other (Expense) Income, Net

The following table summarizes the components of other (expense) income, net for the periods indicated:

	Six Months Ended	
	September 30,	
	2018	2017
	(in thousands)	
Interest income (1)	\$2,772	\$3,322
Gavilon legal matter settlement (2)	(35,000 )	—
Other	(70 )	48
Other (expense) income, net	\$(32,298)	\$3,370

(1) Relates primarily to a loan receivable associated with our financing of the construction of a natural gas liquids facility to be utilized by a third party.

(2) Represents the accrual for the estimated cost of the settlement of the Gavilon legal matter (see Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion).

## Income Tax Expense

Income tax expense was \$1.3 million during the six months ended September 30, 2018, compared to income tax expense of \$0.5 million during the six months ended September 30, 2017. See Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion.

## Noncontrolling Interests - Redeemable and Non-redeemable

Noncontrolling interests represent the portion of certain consolidated subsidiaries that are owned by third parties. The increase of \$0.8 million during the six months ended September 30, 2018 was due primarily to a loss from operations of the Sawtooth joint venture, in which we sold a 28.5% interest in March 2018.

## Non-GAAP Financial Measures

In addition to financial results reported in accordance with accounting principles generally accepted in the United States (“GAAP”), we have provided the non-GAAP financial measures of EBITDA and Adjusted EBITDA. These non-GAAP financial measures are not intended to be a substitute for those reported in accordance with GAAP. These measures may be different from non-GAAP financial measures used by other entities, even when similar terms are used to identify such measures.

We define EBITDA as net income (loss) attributable to NGL Energy Partners LP, plus interest expense, income tax expense (benefit), and depreciation and amortization expense. We define Adjusted EBITDA as EBITDA excluding net unrealized gains and losses on derivatives, lower of cost or market adjustments, gains and losses on disposal or impairment of assets, gains and losses on early extinguishment of liabilities, equity-based compensation expense, acquisition expense, revaluation of liabilities, certain legal settlements and other. We also include in Adjusted EBITDA certain inventory valuation adjustments related to our Refined Products and Renewables segment, as discussed below. EBITDA and Adjusted EBITDA should not be considered alternatives to net income (loss), loss

from continuing operations before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with GAAP, as those items are used to measure operating performance, liquidity or the ability to service debt obligations. We believe that EBITDA provides additional information to investors for evaluating our ability to make quarterly distributions to our unitholders and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information to investors for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. Further, EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA, Adjusted EBITDA, or similarly titled measures used by other entities.

Table of Contents

Other than for our Refined Products and Renewables segment, for purposes of our Adjusted EBITDA calculation, we make a distinction between realized and unrealized gains and losses on derivatives. During the period when a derivative contract is open, we record changes in the fair value of the derivative as an unrealized gain or loss. When a derivative contract matures or is settled, we reverse the previously recorded unrealized gain or loss and record a realized gain or loss. We do not draw such a distinction between realized and unrealized gains and losses on derivatives of our Refined Products and Renewables segment. The primary hedging strategy of our Refined Products and Renewables segment is to hedge against the risk of declines in the value of inventory over the course of the contract cycle, and many of the hedges are six months to one year in duration at inception. The “inventory valuation adjustment” row in the reconciliation table reflects the difference between the market value of the inventory of our Refined Products and Renewables segment at the balance sheet date and its cost, adjusted for the impact of seasonal market movements related to our base inventory and the related hedge. We include this in Adjusted EBITDA because the unrealized gains and losses associated with derivative contracts associated with the inventory of this segment, which are intended primarily to hedge inventory holding risk and are included in net income, also affect Adjusted EBITDA.

The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income (loss)	\$354,939	\$(173,579)	\$185,650	\$(237,286)
Less: Net loss (income) attributable to noncontrolling interests	518	(80)	863	(132)
Less: Net loss attributable to redeemable noncontrolling interests	48	288	446	685
Net income (loss) attributable to NGL Energy Partners LP	355,505	(173,371)	186,959	(236,733)
Interest expense	41,367	50,288	87,779	99,566
Income tax expense	815	111	1,466	570
Depreciation and amortization	53,507	69,426	115,082	137,489
EBITDA	451,194	(53,546)	391,286	892
Net unrealized (gains) losses on derivatives	(1,893)	18,077	17,060	16,076
Inventory valuation adjustment (1)	25,770	(2,165)	1,168	(21,347)
Lower of cost or market adjustments	—	5,333	(413)	9,411
(Gain) loss on disposal or impairment of assets, net	(403,185)	111,451	(301,418)	100,238
(Gain) loss on early extinguishment of liabilities, net	—	(1,943)	137	1,338
Equity-based compensation expense (2)	19,219	6,065	24,730	14,886
Acquisition expense (3)	2,863	264	4,115	(54)
Revaluation of liabilities (4)	—	5,600	800	5,600
Gavilon legal matter settlement (5)	—	—	35,000	—
Other (6)	1,402	1,616	3,219	2,641
Adjusted EBITDA	\$95,370	\$90,752	\$175,684	\$129,681

Amount reflects the difference between the market value of the inventory of our Refined Products and Renewables (1) segment at the balance sheet date and its cost, adjusted for the impact of seasonal market movements related to our base inventory and the related hedge. See “Non-GAAP Financial Measures” section above for a further discussion. Equity-based compensation expense in the table above may differ from equity-based compensation expense reported in Note 10 to our unaudited condensed consolidated financial statements included in this Quarterly (2) Report. Amounts reported in the table above include expense accruals for bonuses expected to be paid in common units, whereas the amounts reported in Note 10 to our unaudited condensed consolidated financial statements only include expenses associated with equity-based awards that have been formally granted.

- Amounts represent expenses we incurred related to legal and advisory costs associated with acquisitions, including amounts accrued related to the LCT Capital, LLC legal matter (see Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion), partially offset by reimbursement for certain legal costs incurred in prior periods.
- (3)
- (4) Amounts represent the non-cash valuation adjustment of contingent consideration liabilities, offset by the cash payments, related to royalty agreements acquired as part of acquisitions in our Water Solutions segment.



Table of Contents

Represents the accrual for the estimated cost of the settlement of the Gavilon legal matter (see Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion).  
 (5) We have excluded this amount from Adjusted EBITDA as it relates to transactions that occurred prior to our acquisition of Gavilon LLC in December 2013.

Amounts for the three months and six months ended September 30, 2018 represent non-cash operating expenses related to our Grand Mesa Pipeline, unrealized loss on marketable securities and accretion expense for asset retirement obligations. Amounts for the three months and six months ended September 30, 2017 represent non-cash operating expenses related to our Grand Mesa Pipeline and accretion expense for asset retirement obligations.

The following tables reconcile depreciation and amortization amounts per the EBITDA table above to depreciation and amortization amounts reported in our unaudited condensed consolidated statements of operations and unaudited condensed consolidated statements of cash flows for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Reconciliation to unaudited condensed consolidated statements of operations:				
Depreciation and amortization per EBITDA table	\$53,507	\$69,426	\$115,082	\$137,489
Intangible asset amortization recorded to cost of sales	(1,384 )	(1,506 )	(2,849 )	(3,091 )
Depreciation and amortization of unconsolidated entities	(45 )	(2,931 )	(234 )	(5,843 )
Depreciation and amortization attributable to noncontrolling interests	722	110	1,456	302
Depreciation and amortization attributable to discontinued operations	(50 )	(11,504 )	(8,660 )	(22,845 )
Depreciation and amortization per unaudited condensed consolidated statements of operations	\$52,750	\$53,595	\$104,795	\$106,012

	Six Months Ended September 30,	
	2018	2017
	(in thousands)	
Reconciliation to unaudited condensed consolidated statements of cash flows:		
Depreciation and amortization per EBITDA table	\$115,082	\$137,489
Amortization of debt issuance costs recorded to interest expense	4,888	5,509
Depreciation and amortization of unconsolidated entities	(234 )	(5,843 )
Depreciation and amortization attributable to noncontrolling interests	1,456	302
Depreciation and amortization attributable to discontinued operations	(8,660 )	(22,845 )
Depreciation and amortization per unaudited condensed consolidated statements of cash flows	\$112,532	\$114,612

The following table reconciles interest expense per the EBITDA table above to interest expense reported in our unaudited condensed consolidated statements of operations for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Interest expense per EBITDA table	\$41,367	\$50,288	\$87,779	\$99,566

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Interest expense attributable to unconsolidated entities	—	(38	)	(14	)	(75	)	
Interest expense attributable to discontinued operations	(9	)	(132	)	(139	)	(269	)
Interest expense per unaudited condensed consolidated statements of operations	\$41,358	\$50,118	\$87,626	\$99,222				

76

---

Table of Contents

The following table summarizes additional amounts attributable to discontinued operations in the EBITDA table above for the periods indicated:

	Three Months Ended September 30, 2018		Six Months Ended September 30, 2017	
	2018	2017	2018	2017
	(in thousands)			
Income tax expense	\$125	\$63	\$125	\$66
Net unrealized (gains) losses on derivatives	\$(16 )	\$203	\$78	\$230
(Gain) loss on disposal or impairment of assets, net	\$(409,173)	\$493	\$(408,740)	\$1,097

The following tables reconcile operating income (loss) to Adjusted EBITDA by segment for the periods indicated. We have revised certain prior period information to be consistent with the calculation method used in the current fiscal year.

	Three Months Ended September 30, 2018						
	Crude Oil Logistics	Water Solutions	Liquids	Refined Products and Renewables	Corporate and Other	Discontinued Operations	Consolidated
	(in thousands)						
Operating income (loss)	\$31,022	\$9,770	\$10,758	\$(29,507 )	\$(35,352)	\$ —	\$(13,309 )
Depreciation and amortization	18,870	26,342	6,459	320	759	—	52,750
Amortization recorded to cost of sales	—	—	36	1,348	—	—	1,384
Net unrealized (gains) losses on derivatives	(6,142 )	1,788	2,476	—	—	—	(1,878 )
Inventory valuation adjustment	—	—	—	25,770	—	—	25,770
Loss on disposal or impairment of assets, net	3,367	730	1,004	—	887	—	5,988
Equity-based compensation expense	—	—	—	—	19,219	—	19,219
Acquisition expense	—	—	1	—	2,864	—	2,865
Other income (expense), net	9	(370 )	9	263	1,560	—	1,471
Adjusted EBITDA attributable to unconsolidated entities	—	423	—	—	—	—	423
Adjusted EBITDA attributable to noncontrolling interest	—	26	(229 )	—	—	—	(203 )
Other	1,351	104	16	(70 )	—	—	1,401
Discontinued operations	—	—	—	—	—	(511 )	(511 )
Adjusted EBITDA	\$48,477	\$38,813	\$20,530	\$(1,876 )	\$(10,063)	\$(511 )	\$95,370

Table of Contents

	Three Months Ended September 30, 2017						
	Crude Oil Logistics	Water Solutions	Liquids	Refined Products and Renewables	Corporate and Other	Discontinued Operations	Consolidated
	(in thousands)						
Operating income (loss)	\$1,196	\$(7,548 )	\$(118,107)	\$21,042	\$(16,459)	\$ —	\$(119,876 )
Depreciation and amortization	20,958	25,253	6,141	324	919	—	53,595
Amortization recorded to cost of sales	84	—	71	1,351	—	—	1,506
Net unrealized losses on derivatives	2,170	3,022	12,682	—	—	—	17,874
Inventory valuation adjustment	—	—	—	(2,165 )	—	—	(2,165 )
Lower of cost or market adjustments	—	—	(2,476 )	7,809	—	—	5,333
(Gain) loss on disposal or impairment of assets, net	(157 )	915	117,729	(7,528 )	—	—	110,959
Equity-based compensation expense	—	—	—	—	6,065	—	6,065
Acquisition expense	—	—	—	—	264	—	264
Other income, net	50	2	3	167	1,415	—	1,637
Adjusted EBITDA attributable to unconsolidated entities	3,798	127	—	1,216	1	—	5,142
Adjusted EBITDA attributable to noncontrolling interest	—	(190 )	—	—	—	—	(190 )
Revaluation of liabilities	—	5,600	—	—	—	—	5,600
Other	1,502	92	22	—	—	—	1,616
Discontinued operations	—	—	—	—	—	3,392	3,392
Adjusted EBITDA	\$29,601	\$27,273	\$16,065	\$22,216	\$(7,795 )	\$3,392	\$90,752

Table of Contents

	Six Months Ended September 30, 2018							
	Crude Oil Logistics	Water Solutions	Liquids	Refined Products and Renewables	Corporate and Other	Discontinued Operations	Consolidated	
	(in thousands)							
Operating (loss) income	\$(68,716)	\$ 10,739	\$ 13,381	\$ (485 )	\$(52,782)	\$ —	\$ (97,863 )	
Depreciation and amortization	38,099	51,651	12,927	641	1,477	—	104,795	
Amortization recorded to cost of sales	80	—	73	2,696	—	—	2,849	
Net unrealized losses on derivatives	1,270	10,898	4,813	—	—	—	16,981	
Inventory valuation adjustment	—	—	—	1,168	—	—	1,168	
Lower of cost or market adjustments	—	—	(504 )	91	—	—	(413 )	
Loss (gain) on disposal or impairment of assets, net	105,261	3,205	994	(3,026 )	889	—	107,323	
Equity-based compensation expense	—	—	—	—	24,730	—	24,730	
Acquisition expense	—	—	161	—	4,000	—	4,161	
Other income (expense), net	23	(370 )	44	246	(32,241 )	—	(32,298 )	
Adjusted EBITDA attributable to unconsolidated entities	—	369	—	476	—	—	845	
Adjusted EBITDA attributable to noncontrolling interest	—	(86 )	(551 )	—	—	—	(637 )	
Revaluation of liabilities	—	800	—	—	—	—	800	
Gavilon legal matter settlement	—	—	—	—	35,000	—	35,000	
Other	2,901	204	33	80	—	—	3,218	
Discontinued operations	—	—	—	—	—	5,025	5,025	
Adjusted EBITDA	\$78,918	\$77,410	\$31,371	\$ 1,887	\$(18,927)	\$ 5,025	\$ 175,684	

Table of Contents

	Six Months Ended September 30, 2017						
	Crude Oil Logistics	Water Solutions	Liquids	Refined Products and Renewables	Corporate and Other	Discontinued Operations	Consolidated
	(in thousands)						
Operating income (loss)	\$5,553	\$(8,702 )	\$(126,879)	\$ 35,538	\$(34,185)	\$ —	\$(128,675 )
Depreciation and amortization	41,793	49,261	12,471	648	1,839	—	106,012
Amortization recorded to cost of sales	169	—	141	2,781	—	—	3,091
Net unrealized losses on derivatives	1,511	3,022	11,313	—	—	—	15,846
Inventory valuation adjustment	—	—	—	(21,347 )	—	—	(21,347 )
Lower of cost or market adjustments	—	—	—	9,411	—	—	9,411
(Gain) loss on disposal or impairment of assets, net	(3,716 )	185	117,729	(15,056 )	—	—	99,142
Equity-based compensation expense	—	—	—	—	14,886	—	14,886
Acquisition expense	—	—	—	—	(54 )	—	(54 )
Other income, net	94	20	7	335	2,914	—	3,370
Adjusted EBITDA attributable to unconsolidated entities	7,620	281	—	2,107	—	—	10,008
Adjusted EBITDA attributable to noncontrolling interest	—	(434 )	—	—	—	—	(434 )
Revaluation of liabilities	—	5,600	—	—	—	—	5,600
Other	2,413	185	43	—	—	—	2,641
Discontinued operations	—	—	—	—	—	10,184	10,184
Adjusted EBITDA	\$55,437	\$49,418	\$14,825	\$ 14,417	\$(14,600)	\$ 10,184	\$ 129,681

## Liquidity, Sources of Capital and Capital Resource Activities

Our principal sources of liquidity and capital are the cash flows from our operations, borrowings under our Revolving Credit Facility and accessing capital markets. See Note 8 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a detailed description of our long-term debt. Our cash flows from operations are discussed below.

Our borrowing needs vary during the year due in part to the seasonal nature of our Liquids and Refined Products and Renewables businesses. Our greatest working capital borrowing needs generally occur during the period of June through December, when we are building our natural gas liquids inventories in anticipation of the heating season as well as building our gasoline inventory in anticipation of the winter gasoline contango and blending season. Our working capital borrowing needs generally decline during the period of January through March, when the cash flows from our Liquids segment is the greatest and gasoline inventories need to be minimized due to certain inventory requirements.

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement) to unitholders as of the record date. Available cash for any quarter generally consists of all cash on hand at the end of that quarter, less the amount of cash reserves established by our

general partner, to (i) provide for the proper conduct of our business, (ii) comply with applicable law, any of our debt instruments or other agreements, and (iii) provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters.

We believe that our anticipated cash flows from operations and the borrowing capacity under our Revolving Credit Facility are sufficient to meet our liquidity needs. If our plans or assumptions change or are inaccurate, or if we make acquisitions, we may need to raise additional capital or sell assets. Our ability to raise additional capital, if necessary, depends on various factors and conditions, including market conditions. We cannot give any assurances that we can raise additional capital to meet these needs. Commitments or expenditures, if any, we may make toward any acquisition projects are at our discretion.

## Table of Contents

We have made the strategic decision to completely exit the Retail Propane business and re-deploy proceeds from this sale to repay certain indebtedness and for certain near-term strategic growth opportunities, primarily in the Water Solutions segment. We believe our Water Solutions and Crude Oil Logistics businesses have organic growth opportunities with the activity in our core basins, including the Delaware Basin and DJ Basin in particular. We plan to pursue a strategy of growth through acquisitions as well as undertaking certain capital expansion projects. We expect to consider financing future acquisitions and capital expansion projects through available capacity on our Revolving Credit Facility or other forms of financing.

Other sources of liquidity during the three months ended September 30, 2018 are discussed below.

### Dispositions

On July 10, 2018, we completed the sale of virtually all of our Retail Propane segment for total consideration of \$896.5 million in cash after adjusting for estimated working capital, which we used to pay down amounts outstanding under our Revolving Credit Facility.

### Long-Term Debt

#### Credit Agreement

We are party to a \$1.765 billion credit agreement (as amended, the “Credit Agreement”) with a syndicate of banks. As of September 30, 2018, the Credit Agreement includes a revolving credit facility to fund working capital needs, which had a capacity of \$1.450 billion for cash borrowings and letters of credit (the “Working Capital Facility”), and a revolving credit facility to fund acquisitions and expansion projects, which had a capacity of \$315.0 million (the “Expansion Capital Facility,” and together with the Working Capital Facility, the “Revolving Credit Facility”). During the three months ended September 30, 2018, we reallocated \$150.0 million from the Expansion Capital Facility to the Working Capital Facility, as permitted by the terms of the Credit Agreement. We had letters of credit of \$202.3 million on the Working Capital Facility at September 30, 2018.

At September 30, 2018, we were in compliance with the covenants under the Credit Agreement.

#### Senior Unsecured Notes

The senior unsecured notes include the 2019 Notes, 2021 Notes, 2023 Notes and 2025 Notes.

#### Redemptions and Repurchases

On October 16, 2018, we redeemed all of our outstanding 6.875% Senior Unsecured Notes that were due to mature on October 15, 2021. The registered holders received a redemption payment of 101.719% of the principal amount, plus accrued and unpaid interest, which equaled \$0.19 per \$1,000 of the redeemed notes. The final semiannual interest payment on the 6.875% Senior Unsecured Notes was made on October 15, 2018, to the holders of record at the close of business on October 1, 2018. We used amounts available under our Revolving Credit Facility to fund the redemption.

During the six months ended September 30, 2018, we repurchased \$5.0 million of the 2023 Notes. See Note 8 to our unaudited condensed consolidated financial statements included in this Quarterly Report for a further discussion of the repurchases.



Compliance

At September 30, 2018, we were in compliance with the covenants under the indentures for all of the senior unsecured notes.

For a further discussion of our Revolving Credit Facility and senior unsecured note repurchases, see Note 8 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

Table of Contents

## Revolving Credit Balances

The following table summarizes our Revolving Credit Facility borrowings for the periods indicated:

	Average	Lowest	Highest
	Outstanding	Balance	Balance
	(in thousands)		
Six Months Ended September 30, 2018			
Expansion capital borrowings	\$73,008	\$—	\$296,500
Working capital borrowings	\$795,568	\$439,000	\$1,095,500
Six Months Ended September 30, 2017			
Expansion capital borrowings	\$97,123	\$—	\$193,500
Working capital borrowings	\$783,653	\$719,500	\$869,500

## Capital Expenditures, Acquisitions and Other Investments

The following table summarizes expansion and maintenance capital expenditures (which excludes additions for tank bottoms and line fill and has been prepared on the accrual basis), acquisitions and other investments for the periods indicated. Amounts in the table below include capital expenditures and acquisitions related to the Retail Propane segment.

	Capital Expenditures		Other	
	Expansion	Maintenance	Acquisitions	Investments
	(1)	(2)	(3)	(4)
	(in thousands)			
Three Months Ended September 30,				
2018	\$113,767	\$15,299	\$94,209	\$86
2017	\$19,439	\$7,994	\$28,537	\$10,088
Six Months Ended September 30,				
2018	\$190,765	\$27,689	\$229,871	\$92
2017	\$44,032	\$14,521	\$48,434	\$14,150

(1) There was no amount for the three months ended September 30, 2018 and the amount for the six months ended September 30, 2018 includes \$0.4 million related to our Retail Propane segment. Amounts for the three months and six months ended September 30, 2017 include \$0.8 million and \$2.0 million, respectively, related to our Retail Propane segment.

(2) Amounts for the three months and six months ended September 30, 2018 include \$0.4 million and \$3.8 million, respectively, related to our Retail Propane segment. Amounts for the three months and six months ended September 30, 2017 include \$5.2 million and \$7.8 million, respectively, related to our Retail Propane segment.

(3) Amounts for the three months and six months ended September 30, 2018 include \$12.8 million and \$31.9 million, respectively, related to our Retail Propane segment. Amounts for the three months and six months ended September 30, 2017 include \$28.5 million and \$28.5 million, respectively, related to our Retail Propane segment.

(4) Amounts for the three months and six months ended September 30, 2018 and 2017 primarily related to contributions made to unconsolidated entities. There were no amounts related to our Retail Propane segment for either the three months or six months ended September 30, 2018 or 2017.



Table of Contents

## Cash Flows

The following table summarizes the sources (uses) of our cash flows from continuing operations for the periods indicated:

Cash Flows Provided by (Used in)	Six Months Ended	
	September 30,	
	2018	2017
	(in thousands)	
Operating activities, before changes in operating assets and liabilities	\$ 115,626	\$ 56,501
Changes in operating assets and liabilities	(234,422 )	(84,156 )
Operating activities-continuing operations	\$(118,796)	\$(27,655 )
Investing activities-continuing operations	\$(456,620)	\$(71,607 )
Financing activities-continuing operations	\$(286,673)	\$ 107,012

**Operating Activities-Continuing Operations.** The seasonality of our natural gas liquids businesses has a significant effect on our cash flows from operating activities. Increases in natural gas liquids prices typically reduce our operating cash flows due to higher cash requirements to fund increases in inventories, and decreases in natural gas liquids prices typically increase our operating cash flows due to lower cash requirements to fund increases in inventories. In our Liquids business, we typically experience operating losses or lower operating income during our first and second quarters, or the six months ending September 30, as a result of lower volumes of natural gas liquids sales and when we are building our inventory levels for the upcoming heating season. The heating season runs through the six months ending March 31. The seasonal motor fuel blend during the third quarter of our fiscal year impacts the value of our gasoline inventory in our Refined Products and Renewables business and also represents a period when we build inventory into our system. We borrow under our Revolving Credit Facility to supplement our operating cash flows during the periods in which we are building inventory. Our operations, and as a result our cash flows, are also impacted by positive and negative movements in commodity prices, which cause fluctuations in the value of inventory, accounts receivable and payables, due to increases and decreases in revenues and cost of sales. The increase in net cash used in operating activities during the six months ended September 30, 2018 was due primarily to fluctuations in the value of accounts receivable, inventory and accounts payable during the six months ended September 30, 2018.

**Investing Activities-Continuing Operations.** Net cash used in investing activities was \$456.6 million during the six months ended September 30, 2018, compared to net cash used in investing activities of \$71.6 million during the six months ended September 30, 2017. The increase in net cash used in investing activities was due primarily to:

- a \$164.0 million increase in cash paid for acquisitions and investments in unconsolidated entities during the six months ended September 30, 2018;
- an increase in capital expenditures from \$46.6 million during the six months ended September 30, 2017 to \$193.5 million during the six months ended September 30, 2018 due primarily to capital expenditures for expansion projects in our Water Solutions segment; and
- a \$73.1 million increase in payments to settle derivatives.

**Financing Activities-Continuing Operations.** Net cash used in financing activities was \$286.7 million during the six months ended September 30, 2018, compared to net cash provided by financing activities of \$107.0 million during the six months ended September 30, 2017. The increase in net cash used in financing activities was due primarily to:

- a decrease of \$302.5 million in borrowings on our Revolving Credit Facility (net of repayments) during the six months ended September 30, 2018; and

a decrease of \$202.8 million due to proceeds received from the sale of our preferred units during the six months ended September 30, 2017.

These increases in net cash used in financing activities were partially offset by a decrease in repurchases of our senior secured and senior unsecured notes of \$110.3 million during the six months ended September 30, 2018.

#### Distributions Declared

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement) to unitholders as of the record date. See further discussion of our cash

Table of Contents

distribution policy in Item 5. Market for Registrant's Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities included in our Annual Report.

On September 12, 2018, the board of directors of our general partner declared a distribution on the Class B Preferred Units for the three months ended September 30, 2018 of \$4.7 million in the aggregate, which was paid to the holders of the Class B Preferred Units on October 15, 2018.

On October 23, 2018, the board of directors of our general partner declared a distribution of \$0.39 per common unit to the unitholders of record on November 8, 2018. In addition, the board of directors declared a distribution to the holders of the Class A Preferred Units of \$6.4 million in the aggregate. The distributions to both the common unitholders and the holders of the Class A Preferred Units are to be paid on November 14, 2018.

For a further discussion of our distributions, see Note 10 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

## Contractual Obligations

The following table summarizes our contractual obligations at September 30, 2018 for our fiscal years ending thereafter:

	Total	Six Months Ending March 31, 2019	Fiscal Year Ending March 31, 2020	2021	2022	2023	Thereafter
	(in thousands)						
Principal payments on long-term debt:							
Expansion capital borrowings	\$65,000	\$—	\$—	\$—	\$65,000	\$—	\$—
Working capital borrowings	759,000	—	—	—	759,000	—	—
Senior unsecured notes	1,720,554	367,048	353,424	—	—	—	1,000,082
Other long-term debt	5,654	323	648	4,683	—	—	—
Interest payments on long-term debt:							
Revolving Credit Facility (1)	149,602	24,074	48,280	48,280	28,968	—	—
Senior unsecured notes	437,740	56,571	78,712	69,656	69,656	69,656	93,489
Other long-term debt	435	116	210	109	—	—	—
Letters of credit	202,334	—	—	—	202,334	—	—
Future minimum lease payments under noncancelable operating leases	450,745	62,135	118,248	98,231	72,286	52,266	47,579
Future minimum throughput payments under noncancelable agreements (2)	71,324	27,043	44,281	—	—	—	—
Fixed-price commodity purchase commitments:							
Crude oil	73,144	73,144	—	—	—	—	—
Natural gas liquids	21,336	20,549	787	—	—	—	—
Index-price commodity purchase commitments (3):							

Edgar Filing: NGL Energy Partners LP - Form 10-Q

Crude oil (4)	3,343,889	1,011,839	806,980	559,574	441,459	303,144	220,893
Natural gas liquids	667,549	635,900	31,649	—	—	—	—
Total contractual obligations	\$7,968,306	\$2,278,742	\$1,483,219	\$780,533	\$1,638,703	\$425,066	\$1,362,043

The estimated interest payments on our Revolving Credit Facility are based on principal and letters of credit (1) outstanding at September 30, 2018. See Note 8 to our unaudited condensed consolidated financial statements included in this Quarterly Report for additional information on our Credit Agreement.

We have executed noncancelable agreements with crude oil operators, which guarantee us minimum monthly shipping capacity on the pipelines. As a result, we are required to pay the minimum shipping fees if actual shipments are less than our allotted capacity. Under certain agreements we have the ability to recover minimum shipping fees previously paid if our shipping volumes exceed the minimum monthly shipping commitment during (2) each month remaining under the agreement, with some contracts containing provisions that allow us to continue shipping up to six months after the maturity date of the contract in order to recapture previously paid minimum shipping delinquency fees. See Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report for additional information.

## Table of Contents

Index prices are based on a forward price curve at September 30, 2018. A theoretical change of \$0.10 per gallon of natural gas liquids in the underlying commodity price at September 30, 2018 would result in a change of \$61.6 million in the value of our index-price natural gas liquids purchase commitments. A theoretical change of \$1.00 per barrel of crude oil in the underlying commodity price at September 30, 2018 would result in a change of \$54.1 million in the value of our index-price crude oil purchase commitments. See Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report for further detail of the commitments.

(3) Our crude oil index-price purchase commitments exceed our crude oil index-price sales commitments (see Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report) due primarily to (4) our long-term purchase commitments for crude oil that we purchase and ship on the Grand Mesa Pipeline. As these purchase commitments are deliver-or-pay contracts, we have not entered into corresponding long-term sales contracts for volumes we may not receive.

### Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements other than the operating leases discussed in Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

### Environmental Legislation

See our Annual Report for a discussion of proposed environmental legislation and regulations that, if enacted, could result in increased compliance and operating costs. However, at this time we cannot predict the structure or outcome of any future legislation or regulations or the eventual cost we could incur in compliance.

### Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements that are applicable to us, see Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires the selection and application of appropriate accounting principles to the relevant facts and circumstances of our operations and the use of estimates made by management. We have identified certain accounting policies that are most important to the portrayal of our consolidated financial position and results of operations. The application of these accounting policies, which requires subjective or complex judgments regarding estimates and projected outcomes of future events, and changes in these accounting policies, could have a material effect on our consolidated financial statements. There have been no material changes in the critical accounting policies previously disclosed in our Annual Report, with the exception of revenue recognition. For further discussion of the changes to our revenue recognition policy, see Note 15 to our unaudited condensed consolidated financial statements included in this Quarterly Report.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

A significant portion of our long-term debt is variable-rate debt. Changes in interest rates impact the interest payments of our variable-rate debt but generally do not impact the fair value of the liability. Conversely, changes in interest rates impact the fair value of our fixed-rate debt but do not impact its cash flows.

Our Revolving Credit Facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. At September 30, 2018, we had \$0.8 billion of outstanding borrowings under our Revolving Credit Facility at a weighted average interest rate of 5.13%. A change in interest rates of 0.125% would result in an increase or decrease of our annual interest expense of \$1.0 million, based on borrowings outstanding at September 30, 2018.

Commodity Price and Credit Risk

Our operations are subject to certain business risks, including commodity price risk and credit risk. Commodity price risk is the risk that the market value of crude oil, natural gas liquids, or refined and renewables products will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract.

Procedures and limits for managing commodity price risks and credit risks are specified in our market risk policy and credit policy, respectively. Open commodity positions and market price changes are monitored daily and are reported to senior management and to marketing operations personnel. Credit risk is monitored daily and exposure is minimized through customer deposits, restrictions on product liftings, letters of credit, and entering into master netting agreements that allow for offsetting counterparty receivable and payable balances for certain transactions. At September 30, 2018, our primary counterparties were retailers, resellers, energy marketers, producers, refiners, and dealers.

The crude oil, natural gas liquids, and refined and renewables products industries are “margin-based” and “cost-plus” businesses in which gross profits depend on the differential of sales prices over supply costs. We have no control over market conditions. As a result, our profitability may be impacted by sudden and significant changes in the price of crude oil, natural gas liquids, and refined and renewables products.

We engage in various types of forward contracts and financial derivative transactions to reduce the effect of price volatility on our product costs, to protect the value of our inventory positions, and to help ensure the availability of product during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes when we have a matching purchase commitment from our wholesale and retail customers. We may experience net unbalanced positions from time to time. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our derivative portfolio.

Although we use financial derivative instruments to reduce the market price risk associated with forecasted transactions, we do not account for financial derivative transactions as hedges. We record the changes in fair value of these financial derivative transactions within cost of sales in our unaudited condensed consolidated statements of operations. The following table summarizes the hypothetical impact on the September 30, 2018 fair value of our commodity derivatives of an increase of 10% in the value of the underlying commodity (in thousands):

Edgar Filing: NGL Energy Partners LP - Form 10-Q

	Increase (Decrease) To Fair Value
Crude oil (Crude Oil Logistics segment)	\$(25,581 )
Propane (Liquids segment)	\$2,887
Other products (Liquids segment)	\$(74 )
Gasoline (Refined Products and Renewables segment)	\$(29,946 )
Diesel (Refined Products and Renewables segment)	\$(16,608 )
Ethanol (Refined Products and Renewables segment)	\$(4,039 )
Biodiesel (Refined Products and Renewables segment)	\$4,360
Canadian dollars (Liquids segment)	\$555

86

---

Table of Contents

Fair Value

We use observable market values for determining the fair value of our derivative instruments. In cases where actively quoted prices are not available, other external sources are used which incorporate information about commodity prices in actively quoted markets, quoted prices in less active markets and other market fundamental analysis.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to provide reasonable assurance that information required to be disclosed in our filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including the principal executive officer and principal financial officer of our general partner, as appropriate, to allow timely decisions regarding required disclosure.

We completed an evaluation under the supervision and with participation of our management, including the principal executive officer and principal financial officer of our general partner, of the effectiveness of the design and operation of our disclosure controls and procedures at September 30, 2018. Based on this evaluation, the principal executive officer and principal financial officer of our general partner have concluded that as of September 30, 2018, such disclosure controls and procedures were effective to provide the reasonable assurance described above.

There have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) of the Exchange Act) during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved from time to time in various legal proceedings and claims arising in the ordinary course of business. For information related to legal proceedings, see the discussion under the captions “Legal Contingencies” and “Environmental Matters” in Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report, which information is incorporated by reference into this Item 1.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in Part I, Item 1A–“Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During September 2018, 4,661 common units were surrendered by employees to pay tax withholdings in connection with the vesting of restricted units. As a result, we are deeming the surrenders to be “repurchases.” The average price paid per common unit was \$11.69. These repurchases were not part of a publicly announced program to repurchase our common units, nor do we have a publicly announced program to repurchase our common units.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

## Item 6. Exhibits

Exhibit Number	Exhibit
2.1	<u>Membership Interest Purchase Agreement, dated as of May 30, 2018, by and among NGL Energy Operating, LLC, NGL Energy Partners LP, and Superior Plus Energy Services Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K (File No. 001-35172) filed with the SEC on July 10, 2018)</u>
10.1	<u>Amendment No. 6 to Amended and Restated Credit Agreement, dated as of July 5, 2018, among the Partnership, NGL Energy Operating LLC, the other subsidiary borrowers party thereto, Deutsche Bank Trust Company Americas, and the other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-35172) filed with the SEC on July 10, 2018)</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2*	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document

\*Exhibits filed with this report.

The following documents are formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets at September 30, 2018 and March 31, 2018, (ii) Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2018 and 2017, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months and six months ended September 30, 2018 and 2017, (iv) Unaudited Condensed Consolidated Statement of Changes in Equity for the six months ended September 30, 2018, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2018 and 2017, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

NGL ENERGY PARTNERS LP

By: NGL Energy Holdings LLC, its  
general partner

Date: November 8, 2018      By: /s/ H. Michael Krimbill  
H. Michael Krimbill  
Chief Executive Officer

Date: November 8, 2018      By: /s/ Robert W. Karlovich III  
Robert W. Karlovich III  
Chief Financial Officer