Crestwood Equity Partners LP
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from to .

(Exact name of registrant as specified in its charter)	Commission file number	State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
Crestwood Equity Partners LP	001-34664	Delaware	43-1918951
Crestwood Midstream Partners LP	001-35377	Delaware	20-1647837

811 Main Street, Suite 3400 Houston, Texas	77002
(Address of principal executive offices)	(Zip code)

(832) 519-2200
(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.

Crestwood Equity Partners LP Yes x No o
Crestwood Midstream Partners LP Yes x No o

(Explanatory Note: Crestwood Midstream Partners LP is currently a voluntary filer and is not subject to the filing requirements of the Securities Exchange Act of 1934. Although not subject to these filing requirements, Crestwood Midstream Partners LP 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.)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Crestwood Equity Partners LP Yes x No o
Crestwood Midstream Partners LP Yes x No o

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.

Crestwood Equity Partners LP	Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
Crestwood Midstream Partners LP	Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller reporting company o	Emerging growth company o

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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.

Crestwood Equity Partners LP	o
Crestwood Midstream Partners LP	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Crestwood Equity Partners LP	Yes o	No x
Crestwood Midstream Partners LP	Yes o	No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (October 30, 2017)

Crestwood Equity Partners LP	70,291,071
Crestwood Midstream Partners LP	None

Crestwood Midstream Partners LP, as a wholly-owned subsidiary of a reporting company, meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this report with the reduced disclosure format as permitted by such instruction.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED BALANCE SHEETS
(in millions, except unit information)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash	$ 1.4	$ 1.6
Accounts receivable, less allowance for doubtful accounts of $1.2 million and $1.9 million at September 30, 2017 and December 31, 2016	345.0	289.8
Inventory	92.9	66.0
Assets from price risk management activities	7.8	6.3
Prepaid expenses and other current assets	5.2	9.7
Total current assets	452.3	373.4
Property, plant and equipment	2,599.6	2,555.4
Less: accumulated depreciation and depletion	547.5	457.8
Property, plant and equipment, net	2,052.1	2,097.6
Intangible assets	898.6	898.6
Less: accumulated amortization	281.4	241.2
Intangible assets, net	617.2	657.4
Goodwill	199.0	199.0
Investments in unconsolidated affiliates	1,198.5	1,115.4
Other assets	6.2	6.1
Total assets	$ 4,525.3	$ 4,448.9
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	$ 312.7	$ 217.2
Accrued expenses and other liabilities	112.5	90.5
Liabilities from price risk management activities	52.6	28.6
Current portion of long-term debt	0.9	1.0
Total current liabilities	478.7	337.3
Long-term debt, less current portion	1,615.4	1,522.7
Other long-term liabilities	48.2	44.6
Deferred income taxes	4.7	5.3
Commitments and contingencies (Note 10)		
Partners' capital:		
Crestwood Equity Partners LP partners' capital (70,551,614 and 69,499,741 common and subordinated units issued and outstanding at September 30, 2017 and December 31, 2016)	1,566.4	1,782.0
Preferred units (71,257,445 and 66,533,415 units issued and outstanding at September 30, 2017 and December 31, 2016)	612.0	564.5
Total Crestwood Equity Partners LP partners' capital	2,178.4	2,346.5
Interest of non-controlling partners in subsidiaries	199.9	192.5
Total partners' capital	2,378.3	2,539.0

Total liabilities and partners’ capital	$ 4,525.3	$ 4,448.9

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except unit and per unit data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Product revenues:				
Gathering and processing	$353.3	$206.1	$971.7	$567.7
Marketing, supply and logistics	502.0	271.3	1,353.7	735.2
	855.3	477.4	2,325.4	1,302.9
Services revenues:				
Gathering and processing	80.6	72.5	235.0	217.9
Storage and transportation	6.2	18.3	24.7	131.5
Marketing, supply and logistics	13.0	18.7	47.5	71.1
Related party (Note 11)	0.5	0.7	1.4	2.1
	100.3	110.2	308.6	422.6
Total revenues	955.6	587.6	2,634.0	1,725.5
Costs of product/services sold (exclusive of items shown separately below):				
Product costs:				
Gathering and processing	374.9	221.1	1,038.1	618.4
Marketing, supply and logistics	468.4	229.1	1,185.6	605.1
Related party (Note 11)	3.7	5.0	11.8	13.7
	847.0	455.2	2,235.5	1,237.2
Service costs:				
Gathering and processing	—	—	—	0.1
Storage and transportation	0.2	0.1	0.3	4.9
Marketing, supply and logistics	11.3	11.4	35.8	37.9
	11.5	11.5	36.1	42.9
Total costs of products/services sold	858.5	466.7	2,271.6	1,280.1
Expenses:				
Operations and maintenance	35.5	33.1	103.4	119.9
General and administrative	22.5	18.3	71.6	70.2
Depreciation, amortization and accretion	48.1	50.3	145.2	177.0
	106.1	101.7	320.2	367.1
Other operating expenses:				
Loss on long-lived assets, net	(6.3)	(2.1)	(6.3)	(34.8)
Goodwill impairment	—	—	—	(109.7)
Operating income (loss)	(15.3)	17.1	35.9	(66.2)

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
(in millions, except unit and per unit data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Earnings from unconsolidated affiliates, net	11.5	13.4	29.2	26.1
Interest and debt expense, net	(24.2)	(27.5)	(74.8)	(97.9)
Gain (loss) on modification/extinguishment of debt	—	—	(37.7)	10.0
Other income, net	0.2	0.2	0.4	0.4
Income (loss) before income taxes	(27.8)	3.2	(47.0)	(127.6)
Provision for income taxes	(0.1)	(0.2)	—	(0.2)
Net income (loss)	(27.9)	3.0	(47.0)	(127.8)
Net income attributable to non-controlling partners	6.4	6.1	18.8	18.0
Net loss attributable to Crestwood Equity Partners LP	(34.3)	(3.1)	(65.8)	(145.8)
Net income attributable to preferred units	16.2	6.9	47.5	16.6
Net loss attributable to partners	$(50.5)	$(10.0)	$(113.3)	$(162.4)
Subordinated unitholders' interest in net loss	$—	$—	$—	$—
Common unitholders' interest in net loss	$(50.5)	$(10.0)	$(113.3)	$(162.4)
Net loss per limited partner unit:				
Basic	$(0.72)	$(0.14)	$(1.63)	$(2.35)
Diluted	$(0.72)	$(0.14)	$(1.63)	$(2.35)
Weighted-average limited partners’ units outstanding (in thousands):				
Basic	69,725	69,050	69,692	69,002
Dilutive units	—	—	—	—
Diluted	69,725	69,050	69,692	69,002

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$(27.9)	$3.0	$(47.0)	$(127.8)
Change in fair value of Suburban Propane Partners, L.P. units	0.3	—	(0.6)	1.3
Comprehensive income (loss)	(27.6)	3.0	(47.6)	(126.5)
Comprehensive income attributable to non-controlling interest	6.4	6.1	18.8	18.0
Comprehensive loss attributable to Crestwood Equity Partners LP	$(34.0)	$(3.1)	$(66.4)	$(144.5)

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(in millions)
(unaudited)

	Preferred		Partners				
	Units	Capital	Common Units	Subordinated Units	Capital	Non-Controlling Partners	Total Partners' Capital
Balance at December 31, 2016	66.5	$564.5	69.1	0.4	$1,782.0	$ 192.5	$ 2,539.0
Distributions to partners	4.8	—	—	—	(125.4)	(11.4)	(136.8)
Unit-based compensation charges	—	—	0.9	—	18.9	—	18.9
Taxes paid for unit-based compensation vesting	—	—	(0.2)	—	(5.3)	—	(5.3)
Change in fair value of Suburban Propane Partners, L.P. units	—	—	—	—	(0.6)	—	(0.6)
Issuance of common units	—	—	0.4	—	10.6	—	10.6
Other	—	—	—	—	(0.5)	—	(0.5)
Net income (loss)	—	47.5	—	—	(113.3)	18.8	(47.0)
Balance at September 30, 2017	71.3	$612.0	70.2	0.4	$1,566.4	$ 199.9	$ 2,378.3

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Nine Months Ended September 30, 2017	2016
Operating activities		
Net loss	$(47.0)	$(127.8)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	145.2	177.0
Amortization of debt-related deferred costs	5.4	5.1
Unit-based compensation charges	18.9	13.4
Loss on long-lived assets, net	6.3	34.8
Goodwill impairment	—	109.7
(Gain) loss on modification/extinguishment of debt	37.7	(10.0)
Earnings from unconsolidated affiliates, net, adjusted for cash distributions received	(2.5)	(3.9)
Deferred income taxes	(0.7)	(0.9)
Other	(0.3)	0.3
Changes in operating assets and liabilities	65.2	46.8
Net cash provided by operating activities	228.2	244.5
Investing activities		
Purchases of property, plant and equipment	(134.4)	(79.3)
Investment in unconsolidated affiliates	(46.5)	(6.2)
Capital distributions from unconsolidated affiliates	35.3	9.2
Net proceeds from sale of assets	1.3	943.1
Net cash provided by (used in) investing activities	(144.3)	866.8
Financing activities		
Proceeds from the issuance of long-term debt	2,209.8	1,364.0
Payments on long-term debt	(2,159.2)	(2,279.4)
Payments on capital leases	(2.2)	(1.5)
Payments for debt-related deferred costs	(1.0)	(3.4)
Distributions to partners	(125.4)	(178.4)
Distributions paid to non-controlling partners	(11.4)	(11.4)
Issuance of common units	10.6	—
Taxes paid for unit-based compensation vesting	(5.3)	(0.8)
Other	—	0.1
Net cash used in financing activities	(84.1)	(1,110.8)
Net change in cash	(0.2)	0.5
Cash at beginning of period	1.6	0.5
Cash at end of period	$1.4	$1.0
Supplemental schedule of noncash investing and financing activities		
Net change to property, plant and equipment through accounts payable and accrued expenses	$(15.4)	$(9.4)

See accompanying notes.

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CRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED BALANCE SHEETS
(in millions)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash	$ 1.1	$ 1.3
Accounts receivable, less allowance for doubtful accounts of $1.2 million and $1.9 million at September 30, 2017 and December 31, 2016	344.7	289.8
Inventory	92.9	66.0
Assets from price risk management activities	7.8	6.3
Prepaid expenses and other current assets	5.2	9.7
Total current assets	451.7	373.1
Property, plant and equipment	2,929.6	2,885.5
Less: accumulated depreciation and depletion	687.4	587.1
Property, plant and equipment, net	2,242.2	2,298.4
Intangible assets	883.1	883.1
Less: accumulated amortization	268.1	230.2
Intangible assets, net	615.0	652.9
Goodwill	199.0	199.0
Investments in unconsolidated affiliates	1,198.5	1,115.4
Other assets	2.6	1.8
Total assets	$ 4,709.0	$ 4,640.6
Liabilities and partners’ capital		
Current liabilities:		
Accounts payable	$ 310.0	$ 214.5
Accrued expenses and other liabilities	111.8	87.9
Liabilities from price risk management activities	52.6	28.6
Current portion of long-term debt	0.9	1.0
Total current liabilities	475.3	332.0
Long-term debt, less current portion	1,615.4	1,522.7
Other long-term liabilities	45.3	42.0
Deferred income taxes	0.7	0.7
Commitments and contingencies (Note 10)		
Partners’ capital	2,372.4	2,550.7
Interest of non-controlling partners in subsidiary	199.9	192.5
Total partners’ capital	2,572.3	2,743.2
Total liabilities and partners’ capital	$ 4,709.0	$ 4,640.6

See accompanying notes.

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CRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Product revenues:				
Gathering and processing	$353.3	$206.1	$971.7	$567.7
Marketing, supply and logistics	502.0	271.3	1,353.7	735.2
	855.3	477.4	2,325.4	1,302.9
Service revenues:				
Gathering and processing	80.6	72.5	235.0	217.9
Storage and transportation	6.2	18.3	24.7	131.5
Marketing, supply and logistics	13.0	18.7	47.5	71.1
Related party (Note 11)	0.5	0.7	1.4	2.1
	100.3	110.2	308.6	422.6
Total revenues	955.6	587.6	2,634.0	1,725.5
Costs of product/services sold (exclusive of items shown separately below):				
Product costs:				
Gathering and processing	374.9	221.1	1,038.1	618.4
Marketing, supply and logistics	468.4	229.1	1,185.6	605.1
Related party (Note 11)	3.7	5.0	11.8	13.7
	847.0	455.2	2,235.5	1,237.2
Service costs:				
Gathering and processing	—	—	—	0.1
Storage and transportation	0.2	0.1	0.3	4.9
Marketing, supply and logistics	11.3	11.4	35.8	37.9
	11.5	11.5	36.1	42.9
Total costs of product/services sold	858.5	466.7	2,271.6	1,280.1
Expenses:				
Operations and maintenance	35.5	33.6	103.4	116.7
General and administrative	21.4	17.3	69.0	67.5
Depreciation, amortization and accretion	50.9	53.2	153.5	185.2
	107.8	104.1	325.9	369.4
Other operating expenses:				
Loss on long-lived assets, net	(6.3)	(2.1)	(6.3)	(34.8)
Goodwill impairment	—	—	—	(109.7)
Operating income (loss)	(17.0)	14.7	30.2	(68.5)

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CRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Earnings from unconsolidated affiliates, net	11.5	13.4	29.2	26.1
Interest and debt expense, net	(24.2)	(27.5)	(74.8)	(97.9)
Gain (loss) on modification/extinguishment of debt	—	—	(37.7)	10.0
Income (loss) before income taxes	(29.7)	0.6	(53.1)	(130.3)
Provision for income taxes	(0.1)	—	—	—
Net income (loss)	(29.8)	0.6	(53.1)	(130.3)
Net income attributable to non-controlling partners	6.4	6.1	18.8	18.0
Net loss attributable to Crestwood Midstream Partners LP	$(36.2)	$(5.5)	$(71.9)	$(148.3)

See accompanying notes.

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CRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(in millions)
(unaudited)

	Partners	Non-Controlling Partners	Total Partners' Capital
Balance at December 31, 2016	$2,550.7	$ 192.5	$ 2,743.2
Distributions to partners	(119.5)	(11.4)	(130.9)
Unit-based compensation charges	18.9	—	18.9
Taxes paid for unit-based compensation vesting	(5.3)	—	(5.3)
Other	(0.5)	—	(0.5)
Net income (loss)	(71.9)	18.8	(53.1)
Balance at September 30, 2017	$2,372.4	$ 199.9	$ 2,572.3

See accompanying notes.

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CRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating activities		
Net loss	$(53.1)	$(130.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	153.5	185.2
Amortization of debt-related deferred costs	5.4	5.1
Unit-based compensation charges	18.9	13.4
Goodwill impairment	—	109.7
Loss on long-lived assets	6.3	34.8
(Gain) loss on modification/extinguishment of debt	37.7	(10.0)
Earnings from unconsolidated affiliates, net, adjusted for cash distributions received	(2.5)	(3.9)
Deferred income taxes	0.1	0.2
Other	(0.3)	0.3
Changes in operating assets and liabilities	66.9	46.3
Net cash provided by operating activities	232.9	250.8
Investing activities		
Purchases of property, plant and equipment	(134.4)	(79.3)
Investment in unconsolidated affiliates	(46.5)	(6.2)
Capital distributions from unconsolidated affiliates	35.3	9.2
Net proceeds from sale of assets	1.3	943.1
Net cash provided by (used in) investing activities	(144.3)	866.8
Financing activities		
Proceeds from the issuance of long-term debt	2,209.8	1,364.0
Payments on long-term debt	(2,159.2)	(2,279.2)
Payments on capital leases	(2.2)	(1.5)
Payments for debt-related deferred costs	(1.0)	(3.4)
Distributions to partners	(130.9)	(196.4)
Taxes paid for unit-based compensation vesting	(5.3)	(0.8)
Other	—	0.1
Net cash used in financing activities	(88.8)	(1,117.2)
Net change in cash	(0.2)	0.4
Cash at beginning of period	1.3	0.1
Cash at end of period	$1.1	$0.5
Supplemental schedule of non-cash investing and financing activities		
Net change to property, plant and equipment through accounts payable and accrued expenses	$(15.4)	$(9.4)

See accompanying notes.

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CRESTWOOD EQUITY PARTNERS LP
CRESTWOOD MIDSTREAM PARTNERS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 – Organization and Business Description

Organization

The accompanying notes to the consolidated financial statements apply to Crestwood Equity Partners LP and Crestwood Midstream Partners LP, unless otherwise indicated. References in this report to “we,” “us,” “our,” “ours,” “our company,” the “partnership,” the “Company,” "Crestwood Equity," “CEQP,” and similar terms refer to either Crestwood Equity Partners LP itself or Crestwood Equity Partners LP and its consolidated subsidiaries, as the context requires. Unless otherwise indicated, references to "Crestwood Midstream" and "CMLP" refer to Crestwood Midstream Partners LP and its consolidated subsidiaries.

The accompanying consolidated financial statements and related notes should be read in conjunction with our 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 27, 2017. The financial information as of September 30, 2017, and for the three and nine months ended September 30, 2017 and 2016, is unaudited. The consolidated balance sheets as of December 31, 2016, were derived from the audited balance sheets filed in our 2016 Annual Report on Form 10-K.

Business Description

Crestwood Equity is a publicly-traded (NYSE: CEQP) Delaware limited partnership that develops, acquires, owns or controls, and operates primarily fee-based assets and operations within the energy midstream sector. We provide broad-ranging infrastructure solutions across the value chain to service premier liquids-rich natural gas and crude oil shale plays across the United States. We own and operate a diversified portfolio of crude oil and natural gas gathering, processing, storage and transportation assets and connect fundamental energy supply with energy demand across North America. Crestwood Equity is a holding company and all of its consolidated operating assets are owned by or through its wholly-owned subsidiary, Crestwood Midstream, a Delaware limited partnership.

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and include the accounts of all consolidated subsidiaries after the elimination of all intercompany accounts and transactions. In management’s opinion, all necessary adjustments to fairly present our results of operations, financial position and cash flows for the periods presented have been made and all such adjustments are of a normal and recurring nature. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

Significant Accounting Policies

There were no material changes in our significant accounting policies from those described in our 2016 Annual Report on Form 10-K. Below is an update of our accounting policies related to Goodwill and Unit-Based Compensation, and a description of Crestwood Equity's Long Term Incentive Plan.

Goodwill. The goodwill impairments recorded during the first quarter of 2016 primarily resulted from increasing the discount rates utilized in determining the fair value of the reporting units considering the significant, sustained decrease in the market price of our common units and the continued decrease in commodity prices and its impact on the midstream industry and our customers during that period. We utilized the income approach to determine the fair value of our reporting units given the limited availability of comparable market-based transactions as of March 31, 2016, and we utilized discount rates ranging from 10% to 19% in applying the income approach to determine the fair value of our reporting units with goodwill as of March 31, 2016.

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The following table summarizes goodwill impairments of certain of our reporting units recorded during the nine months ended September 30, 2016 (in millions):

Gathering and Processing	
Marcellus	$8.6
Storage and Transportation	
COLT	13.7
Marketing, Supply and Logistics	
Supply and Logistics	65.5
Storage and Terminals	14.1
Trucking	7.8
Total	$109.7

Unit-Based Compensation. Effective January 1, 2017, we adopted the provisions of Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment award transactions, including the classification of awards as either equity or liabilities and the presentation on the statement of cash flows. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

Crestwood Equity Long Term Incentive Plan. As of September 30, 2017, Crestwood Equity had 404,847 performance units outstanding under the Crestwood Equity Partners LP Long Term Incentive Plan (Crestwood LTIP) that were issued in 2017. The performance units are designed to provide an incentive for continuous employment to certain key employees. The vesting of performance units is subject to the attainment of certain performance and market goals over a three-year period, and entitle a participant to receive common units of Crestwood Equity without payment of an exercise price upon vesting. As of September 30, 2017, we had total unamortized compensation expense of approximately $7.6 million related to these performance units, which we expect will be amortized during the next three years. We recognized compensation expense of approximately $0.9 million and $2.9 million under the Crestwood LTIP related to these performance units during the three and nine months ended September 30, 2017, which is included in general and administrative expenses on our consolidated statements of operations.

New Accounting Pronouncements Issued But Not Yet Adopted

As of September 30, 2017, the following accounting standards had not yet been adopted by us:

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. We anticipate utilizing the modified retrospective method to adopt the provisions of this standard effective January 1, 2018 and are currently applying the provisions of the standard to our aggregated listing of gathering and processing, storage and transportation, and marketing, supply and logistics revenue contracts that involve revenue generating activities that occur after January 1, 2018. We are also in the process of implementing appropriate changes to our processes, systems and controls to support the accounting and disclosure requirements of the new standard. We are currently evaluating the impact that this standard will have on our consolidated financial statements, and currently believe that the standard will require us to begin classifying certain capital expenditure reimbursements received from our customers as deferred revenue rather than as reductions of property, plant and equipment in our consolidated financial statements. We currently anticipate that approximately $60 million to $70 million of these net reimbursements will be reclassified to net deferred revenue on January 1, 2018, which would result in a $15 million to $25 million cumulative effect of accounting change being recorded as an increase to partners' capital on January 1, 2018. In addition, we currently believe that the standard will require us to begin classifying service revenues on certain of our gathering and processing contracts as reductions of costs of product sold prospectively beginning January 1, 2018. We continue to evaluate the impact that this standard will have on our consolidated financial statements, especially as it relates to non-cash consideration received under certain of our gathering, processing, storage and transportation contracts.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which revises the accounting for leases by requiring certain leases to be recognized as assets and liabilities on the balance sheet, and requiring companies to disclose additional information about their leasing arrangements. We expect to adopt the provisions of this standard effective January 1, 2019 and are currently evaluating the impact that this standard will have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We expect to adopt the provisions of this standard effective January 1, 2018 and are currently evaluating the impact that this standard may have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which changes the annual quantitative goodwill impairment test to eliminate the current two step method and replace it with a single test to determine if goodwill is impaired and the amount of any impairment. We are required to adopt the provisions of this standard by January 1, 2020 and are currently evaluating the impact that this standard may have on our consolidated financial statements.

Note 3 – Certain Balance Sheet Information

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in millions):

	CEQP		CMLP	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Accrued expenses	$40.6	$ 46.9	$39.9	$ 45.5
Accrued property taxes	6.3	4.2	6.3	4.2
Accrued natural gas purchases	0.7	4.9	0.7	4.9
Tax payable	—	1.2	—	—
Interest payable	39.7	22.8	39.7	22.8
Accrued additions to property, plant and equipment	16.6	1.7	16.6	1.7
Capital leases	1.1	1.3	1.1	1.3
Deferred revenue	7.5	7.5	7.5	7.5
Total accrued expenses and other liabilities	$112.5	$ 90.5	$111.8	$ 87.9

Note 4 - Investments in Unconsolidated Affiliates

Crestwood Permian Basin Holdings LLC

In October 2016, Crestwood Infrastructure, our wholly-owned subsidiary, and an affiliate of First Reserve formed a joint venture, Crestwood Permian Basin Holdings LLC (Crestwood Permian), to fund and own the Nautilus gathering system (described below) and other potential investments in the Delaware Permian. As part of this transaction, we transferred to the Crestwood Permian joint venture 100% of the equity interests of Crestwood Permian Basin LLC (Crestwood Permian Basin), which owns the Nautilus gathering system. We manage and account for our 50%

ownership interest in Crestwood Permian, which is a VIE, under the equity method of accounting as we exercise significant influence, but do not control Crestwood Permian and we are not its primary beneficiary due to First Reserve's rights to exercise control over the entity.

Crestwood Permian Basin has a long-term agreement with SWEPI LP (SWEPI), a subsidiary of Royal Dutch Shell plc, to construct, own and operate a natural gas gathering system (the Nautilus gathering system) in SWEPI's operated position in the Delaware Permian. SWEPI has dedicated to Crestwood Permian Basin approximately 100,000 acres and gathering rights for SWEPI's gas production across a large acreage position in Loving, Reeves and Ward Counties, Texas. The Nautilus gathering system is designed to include 194 miles of low pressure gathering lines, 36 miles of high pressure trunklines and centralized compression facilities, which are expandable over time as production increases, providing gas gathering capacity of approximately 250 MMcf/d. The initial build-out of the Nautilus gathering system was completed on June 6, 2017 and includes 20 receipt point meters, 60 miles of pipeline, a 24-mile high pressure header system, 10,800 horsepower of compression and a high pressure delivery point. Crestwood Permian Basin provides gathering, dehydration, compression and liquids handling services to SWEPI on a fixed fee basis. In October 2017, Shell Midstream Partners L.P. (Shell Midstream), a subsidiary of Royal Dutch Shell plc, purchased a 50% equity interest in Crestwood Permian Basin for approximately $37.9 million in cash.

CEQP issued a guarantee in conjunction with the Crestwood Permian Basin gas gathering agreement with SWEPI described above, under which CEQP has agreed to fund 100% of the costs to build the Nautilus gathering system (which is currently estimated to cost $180 million, of which approximately $72.7 million has been spent through September 30, 2017) if Crestwood Permian fails to do so. We do not believe this guarantee is probable of resulting in future losses based on our assessment of the nature of the guarantee, the financial condition of the guaranteed party and the period of time that the guarantee has been outstanding, and as a result, we have not recorded a liability on our balance sheet at September 30, 2017 and December 31, 2016.

On June 21, 2017, we contributed to Crestwood Permian 100% of the equity interest of Crestwood New Mexico Pipeline LLC (Crestwood New Mexico), our wholly-owned subsidiary that owns our Delaware Basin assets located in Eddy County, New Mexico. This contribution was treated as a transaction between entities under common control (because of our relationship with First Reserve), and accordingly we deconsolidated Crestwood New Mexico and our investment in Crestwood Permian was increased by the historical book value of these assets of approximately $69.4 million. In conjunction with this contribution, First Reserve has agreed to contribute to Crestwood Permian the first $151 million of capital cost required to fund the expansion of the Delaware Basin assets, which includes a new processing plant located in Orla, Texas and associated pipelines (Orla processing plant).

Pursuant to Crestwood Permian's limited liability company agreement, we will receive 100% of Crestwood New Mexico's available cash (as defined in the limited liability company agreement) until the earlier of the Orla processing plant in-service date or June 30, 2018, at which time the distributions will be based on the members respective ownership percentages. Because our ownership and distribution percentages will differ during this period, equity earnings from Crestwood Permian is determined using the Hypothetical Liquidation at Book Value (HLBV) method. Under the HLBV method, a calculation is prepared at each balance sheet date to determine the amount that we would receive if Crestwood Permian were to liquidate all of its assets, as valued in accordance with GAAP, and distribute that cash to the members. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is our share of the earnings or losses from the equity investment for the period, which approximates how earnings are allocated under the terms of the limited liability company agreement.

Stagecoach Gas Services LLC. In June 2016, we contributed to Stagecoach Gas Services LLC (Stagecoach Gas) the entities owning the Northeast storage and transportation assets. Additionally, Con Edison Gas Pipeline Storage Northeast, LLC (CEGP), a wholly-owned subsidiary of Consolidated Edison, Inc., contributed $945 million to Stagecoach Gas in exchange for a 50% equity interest in Stagecoach Gas, and Stagecoach Gas distributed to us the cash proceeds received (net of approximately $3 million of cash transferred to the joint venture) from CEGP. Pursuant to the Stagecoach Gas limited liability company agreement, we may be required to make payments of up to $57 million to CEGP after December 31, 2020 if certain criteria are not met by Stagecoach Gas by December 31, 2020, including achieving certain performance targets on growth capital projects. We do not believe that this provision is probable of resulting in future payments to CEGP, and as a result we have not recorded a liability on our balance sheet as of September 30, 2017 and December 31, 2016.

We deconsolidated the Northeast storage and transportation assets as a result of this transaction discussed above and began accounting for our 50% equity interest in Stagecoach under the equity method of accounting. We recognized a loss on the deconsolidation of the Northeast storage and transportation assets of approximately $32.9 million.

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Net Investments and Earnings

Our net investments in and earnings from our unconsolidated affiliates are as follows (in millions, unless otherwise stated):

	Investment		Earnings (Loss) from Unconsolidated Affiliates			
	September 30,	December 31,	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016	2017	2016
Stagecoach Gas Services LLC(1)	$854.3	$871.0	$6.4	$6.8	$19.0	$9.1
Jackalope Gas Gathering Services, L.L.C.(2)	186.2	197.2	1.5	5.5	5.5	16.5
Tres Palacios Holdings LLC(3)	34.7	39.0	0.3	0.8	1.5	(0.7)
Powder River Basin Industrial Complex, LLC(4)	8.6	8.7	0.5	0.3	1.0	1.2
Crestwood Permian Basin Holdings LLC(5)	114.7	(0.5)	2.8	—	2.2	—
Total	$1,198.5	$1,115.4	$11.5	$13.4	$29.2	$26.1

(1) As of September 30, 2017, our equity in the underlying net assets of Stagecoach Gas exceeded our investment balance by approximately $51.4 million. This excess amount is entirely attributable to goodwill and, as such, is not subject to amortization. Our Stagecoach Gas investment is included in our storage and transportation segment.

(2) As of September 30, 2017, our equity in the underlying net assets of Jackalope Gas Gathering Services, L.L.C. (Jackalope) exceeded our investment balance by approximately $0.8 million. We amortize this amount over 20 years, which represents the life of Jackalope’s gathering agreement with Chesapeake Energy Corporation (Chesapeake), and we reflect the amortization as an increase in our earnings from unconsolidated affiliates. Our Jackalope investment is included in our gathering and processing segment.

(3) As of September 30, 2017, our equity in the underlying net assets of Tres Palacios Holdings LLC (Tres Holdings) exceeded our investment balance by approximately $26.9 million. We amortize this amount over the life of the Tres Palacios Gas Storage LLC (Tres Palacios) sublease agreement, and we reflect the amortization as an increase in our earnings from unconsolidated affiliates. Our Tres Holdings investment is included in our storage and transportation segment.

(4) As of September 30, 2017, our equity in the underlying net assets of Powder River Basin Industrial Complex, LLC (PRBIC) exceeded our investment balance by approximately $6.5 million. We amortize a portion of this amount over the life of PRBIC's property, plant and equipment and its agreement with Chesapeake, and we reflect the amortization as an increase in our earnings from unconsolidated affiliates. During 2015, we recorded an impairment of our PRBIC equity investment as further discussed in our 2016 Annual Report on Form 10-K. For the year ended December 31, 2016, PRBIC recorded a $41.3 million impairment of its goodwill and long-lived assets and as a result, we adjusted our excess basis in PRBIC by approximately $8.3 million to reflect our proportionate share of the fair value of PRBIC's net assets. Our PRBIC investment is included in our storage and transportation segment.

(5) As of September 30, 2017, our equity in the underlying net assets of Crestwood Permian exceeded our investment balance by approximately $22.0 million, which is entirely attributable to goodwill and, as such, is not subject to amortization. Our Crestwood Permian investment is included in our gathering and processing segment.

Summarized Financial Information of Unconsolidated Affiliates

Below is the summarized operating results for our significant unconsolidated affiliates (in millions; amounts represent 100% of
unconsolidated affiliate information):

Three Months Ended September 30,			
2017			2016
Operating Revenues	Operating Expenses	Net Income	