Crestwood Equity Partners LP
Form 10-Q
November 01, 2018
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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, 2018

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<br>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 29, 2018).

| | |
|---|---|
| Crestwood Equity Partners LP | 71,220,170 |
| 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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CRESTWOOD MIDSTREAM PARTNERS LP
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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, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $ 2.4 | $ 1.3 |
| Accounts receivable, less allowance for doubtful accounts of $0.3 million and $2.4 million at September 30, 2018 and December 31, 2017 | 352.3 | 442.7 |
| Inventory | 91.8 | 68.4 |
| Assets from price risk management activities | 7.6 | 7.2 |
| Assets held for sale | 69.3 | 3.0 |
| Prepaid expenses and other current assets | 6.2 | 7.9 |
| Total current assets | 529.6 | 530.5 |
| Property, plant and equipment | 2,505.2 | 2,285.2 |
| Less: accumulated depreciation and depletion | 543.7 | 464.4 |
| Property, plant and equipment, net | 1,961.5 | 1,820.8 |
| Intangible assets | 770.3 | 788.8 |
| Less: accumulated amortization | 206.1 | 191.6 |
| Intangible assets, net | 564.2 | 597.2 |
| Goodwill | 138.6 | 147.6 |
| Investments in unconsolidated affiliates | 1,166.9 | 1,183.0 |
| Other non-current assets | 5.6 | 5.8 |
| Total assets | $ 4,366.4 | $ 4,284.9 |
| Liabilities and partners' capital | | |
| Current liabilities: | | |
| Accounts payable | $ 321.8 | $ 349.4 |
| Accrued expenses and other liabilities | 114.1 | 105.9 |
| Liabilities from price risk management activities | 43.5 | 48.9 |
| Current portion of long-term debt | 0.9 | 0.9 |
| Total current liabilities | 480.3 | 505.1 |
| Long-term debt, less current portion | 1,675.1 | 1,491.3 |
| Other long-term liabilities | 172.0 | 104.7 |
| Deferred income taxes | 3.1 | 3.3 |
| Commitments and contingencies (Note 11) | | |
| Partners' capital: | | |
| Crestwood Equity Partners LP partners' capital (71,635,616 and 70,721,563 common and subordinated units issued and outstanding at September 30, 2018 and December 31, 2017) | 1,243.4 | 1,393.5 |
| Preferred units (71,257,445 units issued and outstanding at both September 30, 2018 and December 31, 2017) | 612.0 | 612.0 |
| Total Crestwood Equity Partners LP partners' capital | 1,855.4 | 2,005.5 |
| Interest of non-controlling partner in subsidiary | 180.5 | 175.0 |

| | | |
|---|---|---|
| Total partners’ capital | 2,035.9 | 2,180.5 |
| Total liabilities and partners’ capital | $ 4,366.4 | $ 4,284.9 |

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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Product revenues: | | | | |
| Gathering and processing | $173.5 | $353.3 | $632.6 | $971.7 |
| Marketing, supply and logistics | 671.5 | 502.0 | 1,987.6 | 1,353.7 |
| | 845.0 | 855.3 | 2,620.2 | 2,325.4 |
| Services revenues: | | | | |
| Gathering and processing | 68.8 | 80.6 | 205.4 | 235.0 |
| Storage and transportation | 3.5 | 6.2 | 12.8 | 24.7 |
| Marketing, supply and logistics | 12.6 | 13.0 | 46.4 | 47.5 |
| Related party (Note 12) | 0.3 | 0.5 | 0.9 | 1.4 |
| | 85.2 | 100.3 | 265.5 | 308.6 |
| Total revenues | 930.2 | 955.6 | 2,885.7 | 2,634.0 |
| | | | | |
| Costs of product/services sold (exclusive of items shown separately below): | | | | |
| Product costs | 770.8 | 843.3 | 2,391.5 | 2,223.7 |
| Product costs - related party (Note 12) | 45.7 | 3.7 | 91.0 | 11.8 |
| Service costs | 11.0 | 11.5 | 36.2 | 36.1 |
| Total costs of products/services sold | 827.5 | 858.5 | 2,518.7 | 2,271.6 |
| | | | | |
| Operating expenses and other: | | | | |
| Operations and maintenance | 29.6 | 35.5 | 96.0 | 103.4 |
| General and administrative | 25.5 | 22.5 | 72.8 | 71.6 |
| Depreciation, amortization and accretion | 39.2 | 48.1 | 128.8 | 145.2 |
| Loss on long-lived assets, net | 3.6 | 6.3 | 27.7 | 6.3 |
| | 97.9 | 112.4 | 325.3 | 326.5 |
| Operating income (loss) | 4.8 | (15.3 ) | 41.7 | 35.9 |

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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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Earnings from unconsolidated affiliates, net | 15.1 | 11.5 | 39.5 | 29.2 |
| Interest and debt expense, net | (25.1 ) | (24.2 ) | (73.8 ) | (74.8 ) |
| Loss on modification/extinguishment of debt | — | — | — | (37.7 ) |
| Other income, net | — | 0.2 | 0.2 | 0.4 |
| Income (loss) before income taxes | (5.2 ) | (27.8 ) | 7.6 | (47.0 ) |
| Provision for income taxes | — | (0.1 ) | (0.2 ) | — |
| Net income (loss) | (5.2 ) | (27.9 ) | 7.4 | (47.0 ) |
| Net income attributable to non-controlling partner | 4.1 | 6.4 | 12.1 | 18.8 |
| Net loss attributable to Crestwood Equity Partners LP | (9.3 ) | (34.3 ) | (4.7 ) | (65.8 ) |
| Net income attributable to preferred units | 15.0 | 16.2 | 45.1 | 47.5 |
| Net loss attributable to partners | $(24.3) | $(50.5) | $(49.8) | $(113.3) |
| | | | | |
| Common unitholders’ interest in net loss | $(24.3) | $(50.5) | $(49.8) | $(113.3) |
| Net loss per limited partner unit: | | | | |
| Basic | $(0.34) | $(0.72) | $(0.70) | $(1.63 ) |
| Diluted | $(0.34) | $(0.72) | $(0.70) | $(1.63 ) |
| Weighted-average limited partners’ units outstanding (in thousands): | | | | |
| Basic | 71,212 | 69,725 | 71,201 | 69,692 |
| Dilutive | — | — | — | — |
| Diluted | 71,212 | 69,725 | 71,201 | 69,692 |

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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | $(5.2) | $(27.9) | $7.4 | $(47.0) |
| Change in fair value of Suburban Propane Partners, L.P. units | — | 0.3 | (0.1) | (0.6) |
| Comprehensive income (loss) | (5.2) | (27.6) | 7.3 | (47.6) |
| Comprehensive income attributable to non-controlling partner | 4.1 | 6.4 | 12.1 | 18.8 |
| Comprehensive loss attributable to Crestwood Equity Partners LP | $(9.3) | $(34.0) | $(4.8) | $(66.4) |

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 Partner | Total Partners' Capital |
| Balance at December 31, 2017 | 71.3 | $612.0 | 70.3 | 0.4 | $1,393.5 | $ 175.0 | $ 2,180.5 |
| Cumulative effect of accounting change (Note 2) | — | — | — | — | 7.5 | — | 7.5 |
| Distributions to partners | — | (45.0 ) | — | — | (128.1 ) | (6.6 ) | (179.7 ) |
| Unit-based compensation charges | — | — | 1.1 | — | 27.9 | — | 27.9 |
| Taxes paid for unit-based compensation vesting | — | — | (0.2 ) | — | (6.9 ) | — | (6.9 ) |
| Change in fair value of Suburban Propane Partners, L.P. units | — | — | — | — | (0.1 ) | — | (0.1 ) |
| Other | — | (0.1 ) | — | — | (0.6 ) | — | (0.7 ) |
| Net income (loss) | — | 45.1 | — | — | (49.8 ) | 12.1 | 7.4 |
| Balance at September 30, 2018 | 71.3 | $612.0 | 71.2 | 0.4 | $1,243.4 | $ 180.5 | $ 2,035.9 |

See accompanying notes.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities | | |
| Net income (loss) | $7.4 | $(47.0) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 128.8 | 145.2 |
| Amortization of debt-related deferred costs | 5.4 | 5.4 |
| Unit-based compensation charges | 27.9 | 18.9 |
| Loss on long-lived assets, net | 27.7 | 6.3 |
| Loss on modification/extinguishment of debt | — | 37.7 |
| Earnings from unconsolidated affiliates, net, adjusted for cash distributions received | (0.3) | (2.5) |
| Deferred income taxes | (0.2) | (0.7) |
| Other | 0.2 | (0.3) |
| Changes in operating assets and liabilities | 4.0 | 65.2 |
| Net cash provided by operating activities | 200.9 | 228.2 |
| Investing activities | | |
| Purchases of property, plant and equipment | (205.7) | (134.4) |
| Investment in unconsolidated affiliates | (27.7) | (46.5) |
| Capital distributions from unconsolidated affiliates | 34.6 | 35.3 |
| Net proceeds from sale of assets | 8.6 | 1.3 |
| Net cash used in investing activities | (190.2) | (144.3) |
| Financing activities | | |
| Proceeds from the issuance of long-term debt | 1,152.1 | 2,209.8 |
| Payments on long-term debt | (973.7) | (2,159.2) |
| Payments on capital leases | (1.1) | (2.2) |
| Payments for debt-related deferred costs | — | (1.0) |
| Distributions to partners | (128.1) | (125.4) |
| Distributions to non-controlling partner | (6.6) | (11.4) |
| Distribution to preferred unit holders | (45.0) | — |
| Issuance of common units | — | 10.6 |
| Taxes paid for unit-based compensation vesting | (6.9) | (5.3) |
| Other | (0.3) | — |
| Net cash used in financing activities | (9.6) | (84.1) |
| Net change in cash | 1.1 | (0.2) |
| Cash at beginning of period | 1.3 | 1.6 |
| Cash at end of period | $2.4 | $1.4 |
| Supplemental schedule of noncash investing and financing activities | | |
| Net change to property, plant and equipment through accounts payable and accrued expenses | $(1.6) | $(15.4) |

See accompanying notes.

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CRESTWOOD MIDSTREAM PARTNERS LP
CONSOLIDATED BALANCE SHEETS
(in millions)

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $ 2.0 | $ 1.0 |
| Accounts receivable, less allowance for doubtful accounts of $0.3 million and $2.4 million at September 30, 2018 and December 31, 2017 | 350.0 | 442.6 |
| Inventory | 91.8 | 68.4 |
| Assets from price risk management activities | 7.6 | 7.2 |
| Assets held for sale | 69.3 | 3.0 |
| Prepaid expenses and other current assets | 6.2 | 7.9 |
| Total current assets | 526.9 | 530.1 |
| Property, plant and equipment | 2,835.2 | 2,615.3 |
| Less: accumulated depreciation and depletion | 697.7 | 607.8 |
| Property, plant and equipment, net | 2,137.5 | 2,007.5 |
| Intangible assets | 770.3 | 773.3 |
| Less: accumulated amortization | 206.1 | 177.6 |
| Intangible assets, net | 564.2 | 595.7 |
| Goodwill | 138.6 | 147.6 |
| Investments in unconsolidated affiliates | 1,166.9 | 1,183.0 |
| Other non-current assets | 2.3 | 2.4 |
| Total assets | $ 4,536.4 | $ 4,466.3 |
| Liabilities and partners’ capital | | |
| Current liabilities: | | |
| Accounts payable | $ 319.2 | $ 346.8 |
| Accrued expenses and other liabilities | 113.2 | 104.7 |
| Liabilities from price risk management activities | 43.5 | 48.9 |
| Current portion of long-term debt | 0.9 | 0.9 |
| Total current liabilities | 476.8 | 501.3 |
| Long-term debt, less current portion | 1,675.1 | 1,491.3 |
| Other long-term liabilities | 169.4 | 102.6 |
| Deferred income taxes | 0.6 | 0.7 |
| Commitments and contingencies (Note 11) | | |
| Partners’ capital | 2,034.0 | 2,195.4 |
| Interest of non-controlling partner in subsidiary | 180.5 | 175.0 |
| Total partners’ capital | 2,214.5 | 2,370.4 |
| Total liabilities and partners’ capital | $ 4,536.4 | $ 4,466.3 |

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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Product revenues: | | | | |
| Gathering and processing | $173.5 | $353.3 | $632.6 | $971.7 |
| Marketing, supply and logistics | 671.5 | 502.0 | 1,987.6 | 1,353.7 |
| | 845.0 | 855.3 | 2,620.2 | 2,325.4 |
| Service revenues: | | | | |
| Gathering and processing | 68.8 | 80.6 | 205.4 | 235.0 |
| Storage and transportation | 3.5 | 6.2 | 12.8 | 24.7 |
| Marketing, supply and logistics | 12.6 | 13.0 | 46.4 | 47.5 |
| Related party (Note 12) | 0.3 | 0.5 | 0.9 | 1.4 |
| | 85.2 | 100.3 | 265.5 | 308.6 |
| Total revenues | 930.2 | 955.6 | 2,885.7 | 2,634.0 |
| | | | | |
| Costs of product/services sold (exclusive of items shown separately below): | | | | |
| Product costs | 770.8 | 843.3 | 2,391.5 | 2,223.7 |
| Product costs - related party (Note 12) | 45.7 | 3.7 | 91.0 | 11.8 |
| Service costs | 11.0 | 11.5 | 36.2 | 36.1 |
| Total costs of product/services sold | 827.5 | 858.5 | 2,518.7 | 2,271.6 |
| | | | | |
| Operating expenses and other: | | | | |
| Operations and maintenance | 29.6 | 35.5 | 96.0 | 103.4 |
| General and administrative | 24.6 | 21.4 | 69.9 | 69.0 |
| Depreciation, amortization and accretion | 42.7 | 50.9 | 137.9 | 153.5 |
| Loss on long-lived assets, net | 3.6 | 6.3 | 27.7 | 6.3 |
| | 100.5 | 114.1 | 331.5 | 332.2 |
| Operating income (loss) | 2.2 | (17.0) | 35.5 | 30.2 |
| Earnings from unconsolidated affiliates, net | 15.1 | 11.5 | 39.5 | 29.2 |
| Interest and debt expense, net | (25.1) | (24.2) | (73.8) | (74.8) |
| Loss on modification/extinguishment of debt | — | — | — | (37.7) |
| Income (loss) before income taxes | (7.8) | (29.7) | 1.2 | (53.1) |
| Provision for income taxes | — | (0.1) | (0.1) | — |
| Net income (loss) | (7.8) | (29.8) | 1.1 | (53.1) |
| Net income attributable to non-controlling partner | 4.1 | 6.4 | 12.1 | 18.8 |
| Net loss attributable to Crestwood Midstream Partners LP | $(11.9) | $(36.2) | $(11.0) | $(71.9) |

See accompanying notes.

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

| | Partners | Non-Controlling Partner | Total Partners' Capital |
|---|---|---|---|
| Balance at December 31, 2017 | $2,195.4 | $ 175.0 | $ 2,370.4 |
| Cumulative effect of accounting change (Note 2) | 7.5 | — | 7.5 |
| Distributions to partners | (179.0 ) | (6.6 ) | (185.6 ) |
| Unit-based compensation charges | 27.9 | — | 27.9 |
| Taxes paid for unit-based compensation vesting | (6.9 ) | — | (6.9 ) |
| Other | 0.1 | — | 0.1 |
| Net income (loss) | (11.0 ) | 12.1 | 1.1 |
| Balance at September 30, 2018 | $2,034.0 | $ 180.5 | $ 2,214.5 |

See accompanying notes.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities | | |
| Net income (loss) | $1.1 | $(53.1) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 137.9 | 153.5 |
| Amortization of debt-related deferred costs | 5.4 | 5.4 |
| Unit-based compensation charges | 27.9 | 18.9 |
| Loss on long-lived assets | 27.7 | 6.3 |
| Loss on modification/extinguishment of debt | — | 37.7 |
| Earnings from unconsolidated affiliates, net, adjusted for cash distributions received | (0.3) | (2.5) |
| Deferred income taxes | (0.1) | 0.1 |
| Other | 0.2 | (0.3) |
| Changes in operating assets and liabilities | 6.6 | 66.9 |
| Net cash provided by operating activities | 206.4 | 232.9 |
| Investing activities | | |
| Purchases of property, plant and equipment | (205.7) | (134.4) |
| Investment in unconsolidated affiliates | (27.7) | (46.5) |
| Capital distributions from unconsolidated affiliates | 34.6 | 35.3 |
| Net proceeds from sale of assets | 8.6 | 1.3 |
| Net cash used in investing activities | (190.2) | (144.3) |
| Financing activities | | |
| Proceeds from the issuance of long-term debt | 1,152.1 | 2,209.8 |
| Payments on long-term debt | (973.7) | (2,159.2) |
| Payments on capital leases | (1.1) | (2.2) |
| Payments for debt-related deferred costs | — | (1.0) |
| Distributions to partners | (185.6) | (130.9) |
| Taxes paid for unit-based compensation vesting | (6.9) | (5.3) |
| Net cash used in financing activities | (15.2) | (88.8) |
| Net change in cash | 1.0 | (0.2) |
| Cash at beginning of period | 1.0 | 1.3 |
| Cash at end of period | $2.0 | $1.1 |
| Supplemental schedule of non-cash investing and financing activities | | |
| Net change to property, plant and equipment through accounts payable and accrued expenses | $(1.6) | $(15.4) |

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 Equit 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 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2018. The financial information as of September 30, 2018, and for the three and nine months ended September 30, 2018 and 2017, is unaudited. The consolidated balance sheets as of December 31, 2017, were derived from the audited balance sheets filed in our 2017 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 that 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. Certain amounts in prior periods have been reclassified to conform to the current year presentation, none of which impacted our previously reported net income, earnings per unit or partners' capital. 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

Effective January 1, 2018, we adopted the following accounting standards. There were no other material changes in our significant accounting policies from those described in our 2017 Annual Report on Form10-K.

Revenue Recognition

We provide gathering, processing, compression, storage, fractionation, and transportation (consisting of pipelines, truck and rail terminals, truck/trailer units and rail cars) services and we sell commodities (including crude oil, natural gas, NGLs and water) under various contracts. These contracts include:

- Fixed-fee contracts. Under these contracts, we do not take title to the underlying crude oil, natural gas or NGLs but charge our customers a fixed-fee for the services we provide, which can be a firm reservation charge and/or a charge

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per volume gathered, processed, compressed, stored, loaded and/or transported (which, in certain contracts, can be subject to a minimum level of volumes);

- Percentage-of-proceeds service contracts. Under these contracts, we take title to crude oil, natural gas or NGLs after the commodity leaves our gathering and processing facilities. We often market and sell those commodities to third parties after they leave our facilities and we will remit a portion of the sales proceeds to our producers;
- Percentage-of-proceeds product contracts. Under these contracts, we take title to crude oil, natural gas or NGLs before the commodity enters our facilities. We market and sell those commodities to third parties and we will remit a portion of the sales proceeds to our producers; and
- Purchase and sale contracts. Under these contracts, we purchase crude oil, natural gas or NGLs before the commodity enters our facilities, and we market and sell those commodities to third parties.

On January 1, 2018, we adopted the provisions of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted the standard using the modified retrospective method for all revenue contracts that involve revenue generating activities that occur after January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new standard, while amounts prior to January 1, 2018 continue to be reported in accordance with our historic accounting under Revenue Recognition (Topic 605).

Prior to January 1, 2018, we recognized revenues for services and products when all of the following criteria were met under Topic 605: (i) services had been rendered or products delivered or sold; (ii) persuasive evidence of an exchange arrangement existed; (iii) the price for services was fixed or determinable; and (iv) collectability 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. At December 31, 2017, we had deferred revenue of approximately $0.6 million, which is reflected in accrued expenses and other liabilities on our consolidated balance sheet.

Beginning January 1, 2018, we recognize revenues for services and products under revenue contracts as our obligations to perform services or deliver/sell products under the contracts are satisfied. A contract’s transaction price is allocated to each performance obligation in the contract and recognized as revenue when, or as, the performance obligation is satisfied. Our fixed-fee contracts and our percentage-of-proceeds service contracts primarily have a single performance obligation to deliver a series of distinct goods or services that are substantially the same and have the same pattern of transfer to our customers. For performance obligations associated with these contracts, we recognize revenues over time utilizing the output method based on the actual volumes of products delivered/sold or services performed, because the single performance obligation is satisfied over time using the same performance measure of progress toward satisfaction of the performance obligation. The transaction price under certain of our fixed-price contracts and percentage-of-proceeds service contracts includes variable consideration that varies primarily based on actual volumes that are delivered under the contracts. Because the variable consideration specifically relates to our efforts to transfer the services and/or products under the contracts, we allocate the variable consideration entirely to the distinct service utilizing the allocation exception guidance under Topic 606, and accordingly recognize the variable consideration as revenues at the time the good or service is transferred to the customer.

Certain of our fixed-fee contracts contain minimum volume features under which the customers must utilize our services to gather, compress or load a specified quantity of crude oil or natural gas or pay a deficiency fee based on the difference between actual volumes and the contractual minimum volume. We recognize revenues from these contracts when actual volumes are gathered, compressed or loaded and the likelihood of a customer exercising its remaining rights to make up the deficient volumes under minimum volume commitments becomes remote.

We recognize revenues at a point in time for performance obligations associated with our percentage-of proceeds product contracts and purchase and sale contracts, and these revenues are recognized because control of the underlying product is transferred to the customer when the distinct good is provided to the customer.

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 standalone selling price of goods and services provided to customers under contracts with multiple performance obligations. Actual results can significantly vary from those judgments and assumptions. We did not have any material contracts with multiple performance obligations or under which we receive material amounts of non-cash consideration during the nine months ended September 30, 2018.

The following table summarizes the transaction price allocated to our remaining performance obligations under certain contracts that have not been recognized as of September 30, 2018 (in millions):

| | |
|---|---|
| Remainder of 2018 | $12.2 |
| 2019 | 27.7 |
| 2020 | 23.5 |
| 2021 | 9.4 |
| 2022 | 7.3 |
| Thereafter | 10.6 |
| Total | $90.7 |

Our remaining performance obligations presented in the table above exclude estimates of variable rate escalation clauses in our contracts with customers, and is generally limited to fixed-fee and percentage-of-proceeds service contracts which have fixed pricing and minimum volume terms and conditions. Our remaining performance obligations generally exclude, based on the following practical expedients that we elected to apply, disclosures for (i) variable consideration allocated to a wholly-unsatisfied promise to transfer a distinct service that forms part of the identified single performance obligation; (ii) unsatisfied performance obligations where the contract term is one year or less; and (iii) contracts for which we recognize revenues as amounts are invoiced.

Contract Assets and Contract Liabilities. Amounts due from our customers under our revenue contracts are typically billed as the service is being provided or on a weekly, bi-weekly or monthly basis and are due within 30 days of billing. Under certain of our contracts, we recognize revenues in excess of billings which we present as contract assets on our consolidated balance sheets.

Under certain 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 and present it as deferred revenue or contract liabilities on our consolidated balance sheets. Our deferred revenue primarily relates to:

- Capital Reimbursements. Certain contracts in our G&P segment require that our customers reimburse us for capital expenditures related to the construction of long-lived assets 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. On January 1, 2018, we recorded an $87.6 million increase to our property, plant and equipment, net, a $69.1 million increase to our deferred revenue liability and an $18.5 million increase to partners' capital as a result of applying the cumulative impact of adopting the new standard on these types of contracts.

- Contracts with Increasing (Decreasing) Rates per Unit. Certain contracts in our G&P, S&T and MS&L segments have fixed rates per volume that increase and/or decrease over the life of the contract once certain time periods or thresholds are met. We record revenues on these contracts ratably per unit over the life of the contract based on the remaining performance obligations to be performed, which can result in the deferral of revenue for the difference between the consideration received and the ratable revenue recognized. On January 1, 2018, we recorded a $1.5 million increase to our deferred revenue liability and a corresponding decrease to partners' capital as a result of applying the cumulative impact of adopting the new standard on these types of contracts.

Our contract assets and contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Our receivables related to our Topic 606 revenue contracts totaled $323.8 million for both CEQP and CMLP at September 30, 2018, and are included in accounts receivable on our consolidated balance sheet. Our contract assets are included in other non-current assets on our consolidated balance sheet. The majority of our

deferred revenues are included in other long-term liabilities on our consolidated balance sheet and are classified as non-current, for which the majority of revenue is expected to be recognized as the performance obligations under the related revenue contracts are satisfied over the next 13 years.

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The following table summarizes the opening and closing balances of our contract assets and contract liabilities (in millions):

| | Balance at January 1, 2018 | Balance at September 30, 2018 |
|---|---|---|
| Contract Assets (Non-current) | $ 1.1 | $ 1.0 |
| Contract Liabilities (Current)[1] | 12.2 | 12.7 |
| Contract Liabilities (Non-current)[2] | 60.6 | 64.2 |

(1) Our current contract liabilities primarily consist of current deferred revenues and are included in accrued expenses and other liabilities on our consolidated balance sheets. During the three and nine months ended September 30, 2018, we recognized revenues of approximately $3.1 million and $9.3 million that were previously included in deferred revenues (current) at January 1, 2018.

(2) Our non-current contract liabilities primarily consist of non-current deferred revenues and are included in other long-term liabilities on our consolidated balance sheets.

Impact of financial statement line items. For contracts that were modified prior to January 1, 2018, we have not retrospectively restated the contract for those modifications and instead we have reflected the aggregate effect of those modifications when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied obligations. The impact of applying this transition practical expedient was not material to our financial statements. The adoption of Topic 606 had the following impact on CEQP's and CMLP's consolidated income statements and balance sheets (in millions):

Crestwood Equity

| | Three Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | As Reported under Topic 606 | Prior to Adoption of Topic 606 | Increase (Decrease) | As Reported under Topic 606 | Prior to Adoption of Topic 606 | Increase (Decrease) |
| Income Statement | | | | | | |
| Product revenues: | | | | | | |
| Gathering and processing[1] | $ 173.5 | $ 442.7 | $ (269.2) | $ 632.6 | $ 1,309.6 | $ (677.0) |
| Service revenues: | | | | | | |
| Gathering and processing[1][2] | 68.8 | 78.8 | (10.0) | 205.4 | 236.7 | (31.3) |
| Marketing, supply and logistics[3] | 12.6 | 12.3 | 0.3 | 46.4 | 45.6 | 0.8 |
| Costs of product/services sold: | | | | | | |
| Product costs[1] | 770.8 | 1,052.9 | (282.1) | 2,391.5 | 3,108.4 | (716.9) |
| Depreciation, amortization and accretion[2] | 39.2 | 38.0 | 1.2 | 128.8 | 125.1 | 3.7 |
| Earnings from unconsolidated affiliates, net[4] | 15.1 | 17.4 | (2.3) | 39.5 | 46.8 | (7.3) |
| Net income (loss) | (5.2) | (4.9) | (0.3) | 7.4 | 9.0 | (1.6) |

| September 30, 2018 | | |
|---|---|---|
| As Reported under | Prior to Adoption of Topic | Increase (Decrease) |

| | Topic 606 | 606 | |
|---|---|---|---|
| Balance Sheet | | | |
| Assets: | | | |
| Property, plant and equipment(2) | $ 2,505.2 | $ 2,391.7 | $ 113.5 |
| Accumulated depreciation and depletion(2) | 543.7 | 527.8 | 15.9 |
| Investments in unconsolidated affiliates(4) | 1,166.9 | 1,183.7 | (16.8 ) |
| Liabilities: | | | |
| Accrued expenses and other liabilities(2)(3) | 114.1 | 102.5 | 11.6 |
| Other long-term liabilities(2)(3) | 172.0 | 108.6 | 63.4 |
| Partners' capital: | | | |
| Crestwood Equity Partners LP partners' capital(2)(3)(4) | 1,243.4 | 1,237.5 | 5.9 |

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Crestwood Midstream

| | Three Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | As Reported under Topic 606 | Prior to Adoption of Topic 606 | Increase (Decrease) | As Reported under Topic 606 | Prior to Adoption of Topic 606 | Increase (Decrease) |
| Income Statement | | | | | | |
| Product revenues: | | | | | | |
| Gathering and processing[1] | $173.5 | $442.7 | $(269.2) | $632.6 | $1,309.6 | $(677.0) |
| Service revenues: | | | | | | |
| Gathering and processing[1][2] | 68.8 | 78.8 | (10.0) | 205.4 | 236.7 | (31.3) |
| Marketing, supply and logistics[3] | 12.6 | 12.3 | 0.3 | 46.4 | 45.6 | 0.8 |
| Costs of product/services sold: | | | | | | |
| Product costs[1] | 770.8 | 1,052.9 | (282.1) | 2,391.5 | 3,108.4 | (716.9) |
| Depreciation, amortization and accretion[2] | 42.7 | 41.5 | 1.2 | 137.9 | 134.2 | 3.7 |
| Earnings from unconsolidated affiliates, net[4] | 15.1 | 17.4 | (2.3) | 39.5 | 46.8 | (7.3) |
| Net income (loss) | (7.8) | (7.5) | (0.3) | 1.1 | 2.7 | (1.6) |

| | September 30, 2018 | | |
|---|---|---|---|
| | As Reported under Topic 606 | Prior to Adoption of Topic 606 | Increase (Decrease) |
| Balance Sheet | | | |
| Assets: | | | |
| Property, plant and equipment[2] | $2,835.2 | $2,721.7 | $113.5 |
| Accumulated depreciation and depletion[2] | 697.7 | 681.8 | 15.9 |
| Investments in unconsolidated affiliates[4] | 1,166.9 | 1,183.7 | (16.8) |
| Liabilities: | | | |
| Accrued expenses and other liabilities[2][3] | 113.2 | 101.6 | 11.6 |
| Other long-term liabilities[2][3] | 169.4 | 106.0 | 63.4 |
| Partners' capital[2][3][4] | 2,034.0 | 2,028.1 | 5.9 |

(1) On January 1, 2018, we began classifying product and service revenues as a reduction of costs of product sold on certain of our gathering and processing contracts where we do not obtain control of the customers' product prior to it entering our facilities.

(2) On January 1, 2018, we began recording proceeds received from customers for reimbursable construction as deferred revenue instead of as reductions of property, plant and equipment.

(3) For contracts that have fixed rates per volume that increase and/or decrease over the life of the contract once certain time periods or thresholds have been met, on January 1, 2018, we began recording revenues on those contracts ratably per unit over the life of the contract based on the remaining performance obligations to be performed.

(4) On January 1, 2018, Jackalope Gas Gathering Services, L.L.C. (Jackalope) adopted the provisions of Topic 606, and we recorded a $9.5 million decrease to our equity method investment and a corresponding decrease to our partners' capital to reflect our proportionate share of the cumulative effect of accounting change recorded by the

equity investment related to the new standard. In addition, our earnings from unconsolidated affiliates decreased by approximately $2.3 million and $7.3 million during the three and nine months ended September 30, 2018 to reflect our proportionate share of the ongoing impact of the new standard on Jackalope's revenues. The adoption of Topic 606 was not material to our other equity method investments.

Cash Flows

Effective January 1, 2018, we adopted the provisions of 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. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

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New Accounting Pronouncements Issued But Not Yet Adopted

As of September 30, 2018, the following accounting standard had not yet been adopted by us:

In February 2016, the Financial Accounting Standards Board 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 will adopt the provisions of the standard effective January 1, 2019 using the modified retrospective method. As allowed for in the standard, upon adoption we currently anticipate that we will not reassess the current GAAP classification of leases, easements and rights of way that exist as of December 31, 2018, and will not utilize the hindsight method in determining the assets and liabilities to be recorded for our existing leases on January 1, 2019. We are in the process of implementing appropriate changes to our processes, systems and controls to support the accounting and disclosure requirements of the new standard and are currently evaluating the impact that this standard will have on our consolidated financial statements.

Note 3 – Assets Held for Sale

In October 2018, we sold our West Coast facilities included in our Marketing, Supply and Logistics segment to a third party for approximately $70 million. For a further description of these assets, see our 2017 Annual Report on Form 10-K. We recorded a $69.3 million current asset held for sale at September 30, 2018 related to the fair value of the facilities sold, which is a Level 3 fair value measurement based on the sales price plus working capital adjustments in the sales agreement. We recorded a loss on long-lived assets of approximately $2.4 million and $26.9 million (including the goodwill impairment discussed further below) during the three and nine months ended September 30, 2018 based on the difference between the carrying value of West Coast's current assets and liabilities, goodwill and its $61.8 million of property, plant and equipment, net and the fair value of the assets held for sale at September 30, 2018. We expect to receive the proceeds from the sale during the fourth quarter of 2018.

Our Marketing, Supply and Logistics segment had approximately $101.7 million of goodwill associated with it at December 31, 2017. On January 1, 2018, we combined four of the reporting units included in the Marketing, Supply and Logistics segment into one NGL Marketing and Logistics reporting unit for the purpose of evaluating goodwill for impairment on an ongoing basis. We combined these reporting units based on a strategic shift in the way in which we manage, operate and report our NGL operations as an integrated platform instead of as four individual stand-alone operations. As a result, we attributed approximately $9.0 million of the goodwill associated with our NGL Marketing and Logistics reporting unit to our West Coast facilities to be sold as of September 30, 2018, and this goodwill was fully impaired in conjunction with the reclassification of the West Coast net assets to assets held for sale during the nine months ended September 30, 2018.

Note 4 – Certain Balance Sheet Information

Accrued Expenses and Other Liabilities

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

| | CEQP | | CMLP | |
|---|---|---|---|---|
| | September 30, | December 31, | September 30, | December 31, |

| | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|
| Accrued expenses | $38.8 | $ 56.6 | $37.9 | $ 55.5 |
| Accrued property taxes | 4.8 | 4.8 | 4.8 | 4.8 |
| Income tax payable | 0.2 | 0.3 | 0.2 | 0.3 |
| Interest payable | 38.6 | 20.3 | 38.6 | 20.3 |
| Accrued additions to property, plant and equipment | 16.6 | 22.3 | 16.6 | 22.2 |
| Capital leases | 2.4 | 1.0 | 2.4 | 1.0 |
| Deferred revenue | 12.7 | 0.6 | 12.7 | 0.6 |
| Total accrued expenses and other liabilities | $114.1 | $ 105.9 | $113.2 | $ 104.7 |

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## Note 5 - Investments in Unconsolidated Affiliates

### Variable Interest Entity

Crestwood Permian Basin Holdings LLC (Crestwood Permian) is a joint venture owned by Crestwood Infrastructure Holdings LLC (Crestwood Infrastructure), our wholly-owned subsidiary, and an affiliate of First Reserve Management, L.P. (First Reserve). We manage and account for our 50% ownership interest in Crestwood Permian, which is a variable interest entity, 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.

### Net Investments and Earnings

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

| | Investment | | Earnings (Loss) from Unconsolidated Affiliates | | | |
|---|---|---|---|---|---|---|
| | September 30, | December 31, | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Stagecoach Gas Services LLC[(1)] | $836.6 | $849.8 | $8.8 | $6.4 | $21.5 | $19.0 |
| Jackalope Gas Gathering Services, L.L.C.[(2)(6)] | 181.1 | 184.9 | 4.5 | 1.5 | 11.3 | 5.5 |
| Crestwood Permian Basin Holdings LLC[(3)] | 103.5 | 102.0 | 1.1 | 2.8 | 4.5 | 2.2 |
| Tres Palacios Holdings LLC[(4)] | 36.9 | 37.8 | 0.1 | 0.3 | 0.5 | 1.5 |
| Powder River Basin Industrial Complex, LLC[(5)] | 8.8 | 8.5 | 0.6 | 0.5 | 1.7 | 1.0 |
| Total | $1,166.9 | $1,183.0 | $15.1 | $11.5 | $39.5 | $29.2 |

(1) As of September 30, 2018, 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. Pursuant to the Stagecoach limited liability company agreement, our share of Stagecoach's equity earnings increased from 35% to 40% effective July 1, 2018, Our Stagecoach Gas investment is included in our storage and transportation segment.

(2) As of September 30, 2018, our equity in the underlying net assets of Jackalope exceeded our investment balance by approximately $0.4 million. We amortize this amount over 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) In June 2017, we contributed to Crestwood Permian 100% of the equity interest of Crestwood New Mexico Pipeline LLC (Crestwood New Mexico). This contribution was treated as a transaction between entities under common control (because of our relationship with First Reserve) and the accounting standards related to such transactions required Crestwood Permian to record the assets and liabilities of Crestwood New Mexico at our historical book value. The difference between our equity in Crestwood Permian's net assets and our investment balance is not subject to amortization. Pursuant to the Crestwood Permian limited liability company agreement, we were allocated 100% of Crestwood New Mexico's earnings through June 30, 2018. Effective July 1, 2018, our equity earnings from Crestwood New Mexico is based on our ownership percentage of Crestwood Permian, which is currently 50%. Our Crestwood Permian investment is included in our gathering and processing segment.

(4) As of September 30, 2018, our equity in the underlying net assets of Tres Palacios Holdings LLC (Tres Holdings) exceeded our investment balance by approximately $25.6 million. We amortize this amount over the life of the

Tres Palacios Gas Storage LLC 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.

(5) As of September 30, 2018, our equity in the underlying net assets of Powder River Basin Industrial Complex, LLC (PRBIC) exceeded our investment balance by approximately $6.0 million. We amortize 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. Our PRBIC investment is included in our storage and transportation segment.

(6) On January 1, 2018, Jackalope adopted the provisions of Topic 606, and we recorded a $9.5 million decrease to our equity method investment and a corresponding decrease to our partners' capital to reflect our proportionate share of the cumulative effect of accounting change recorded by the equity investment related to the new standard. In addition, our earnings from unconsolidated affiliates decreased by approximately $2.3 million and $7.3 million during the three and nine months ended September 30, 2018 to reflect our proportionate share of Jackalope's deferred revenues related to the new standard.

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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):

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Operating Revenues | Operating Expenses | Net Income | Operating Revenues | Operating Expenses | Net Income |
| Stagecoach Gas | $129.3 | $ 59.1 | $ 70.2 | $127.1 | $ 58.4 | $ 68.8 |
| Other[(1)] | 114.0 | 101.4 | 16.4 | 124.6 | 103.7 | 20.8 |
| Total | $243.3 | $ 160.5 | $ 86.6 | $251.7 | $ 162.1 | $ 89.6 |

(1) Includes our Jackalope, Crestwood Permian, Tres Holdings and PRBIC equity investments. We amortize the excess basis in certain of our equity investments as an increase in our earnings from unconsolidated affiliates. We recorded amortization of the excess basis in our Jackalope equity investment of less than $0.1 million for both the nine months ended September 30, 2018 and 2017. We recorded amortization of the excess basis in our Tres Holdings equity investment of approximately $0.9 million for both the nine months ended September 30, 2018 and 2017. We recorded amortization of the excess basis in our PRBIC equity investment of approximately $0.4 million and $0.5 million for the nine months ended September 30, 2018 and 2017.

Distributions and Contributions

The following table summarizes our distributions and contributions from our unconsolidated affiliates (in millions):

| | Distributions[(1)] | | Contributions | |
|---|---|---|---|---|
| | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Stagecoach Gas | $ 34.7 | $ 35.7 | $— | $— |
| Jackalope | 23.2 | 19.4 | 17.6 | 2.9 |
| Crestwood Permian[(2)] | 10.6 | — | 7.6 | 113.0 |
| Tres Holdings | 3.9 | 5.8 | 2.5 | — |
| PRBIC | 1.4 | 1.1 | — | — |
| Total | $ 73.8 | $ 62.0 | $27.7 | $115.9 |

(1) In October 2018, we received cash distributions from Stagecoach Gas, Crestwood Permian and Tres Holdings of approximately $13.9 million, $4.1 million and $1.4 million, respectively.

(2) On June 21, 2017, we contributed to Crestwood Permian 100% of the equity interest of Crestwood New Mexico at our historical book value of approximately $69.4 million. This contribution was treated as a non-cash transaction between entities under common control.

Other

Contingent Consideration. Pursuant to the Stagecoach Gas limited liability company agreement, we may be required to make payments of up to $57 million to Con Edison Gas Pipeline and Storage Northeast, LLC 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. These growth capital projects depend on the construction of other third-party expansion projects, and those third-party projects have experienced regulatory and other delays that have caused Stagecoach Gas to delay its growth capital projects. Although Stagecoach Gas anticipates that these growth capital projects will be constructed in the future, it does not expect that these projects will produce meaningful operating results prior to December 31, 2020. As a result, at September 30, 2018 and December 31, 2017, we have recorded a liability of $57 million for this obligation, which in reflected in other long-term liabilities on our consolidated balance sheets.

Guarantee. Crestwood Permian owns a 50% equity interest in Crestwood Permian Basin LLC (Crestwood Permian Basin) and Shell Midstream Partners L.P. (Shell Midstream), a subsidiary of Royal Dutch Shell plc, owns the remaining 50% equity interest in Crestwood Permian Basin. Crestwood Permian Basin owns the Nautilus gathering system. CEQP issued a guarantee in conjunction with the Crestwood Permian Basin gas gathering agreement with SWEPI LP, a subsidiary of Royal Dutch Shell plc, 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 $129.5 million has been spent through September 30, 2018) if Crestwood Permian fails to do so. We do not believe this guarantee is probable of resulting in future losses based on our

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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 consolidated balance sheets at September 30, 2018 and December 31, 2017.

## Note 6 – Risk Management

We are exposed to certain market risks related to our ongoing business operations. These risks include exposure to changing commodity prices. We utilize derivative instruments to manage our exposure to fluctuations in commodity prices, which is discussed below. Additional information related to our derivatives is discussed in Note 7.

### Commodity Derivative Instruments and Price Risk Management

#### Risk Management Activities

We sell NGLs and crude oil to energy related businesses and may use a variety of financial and other instruments including forward contracts involving physical delivery of NGLs, heating oil and crude oil. We periodically enter into offsetting positions to economically hedge against the exposure our customer contracts create. Certain of these contracts and positions are derivative instruments. We do not designate any of our commodity-based derivatives as hedging instruments for accounting purposes. Our commodity-based derivatives are reflected at fair value in the consolidated balance sheets, and changes in the fair value of these derivatives that impact the consolidated statements of operations are reflected in costs of product/services sold. Our commodity-based derivatives that are settled with physical commodities are reflected as an increase to product revenues, and the commodity inventory that is utilized to satisfy those physical obligations is reflected as an increase to costs of product sold in our consolidated statements of operations. The following table summarizes the impact to our consolidated statements of operations related to our commodity-based derivatives reflected in costs of product/services sold and operating revenues during the three and nine months ended September 30, 2018 and 2017:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Loss reflected in costs of product/services sold | $(16.7) | $(24.1) | $(15.3) | $(22.6) |
| Product revenues | 79.9 | 36.4 | 210.7 | 109.5 |

We attempt to balance our contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. This balance in the contractual portfolio significantly reduces the volatility in costs of product/services sold related to these instruments.

#### Commodity Price and Credit Risk

#### Notional Amounts and Terms

The notional amounts and terms of our derivative financial instruments include the following:

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Fixed Price Payor | Fixed Price Receiver | Fixed Price Payor | Fixed Price Receiver |
| Propane, crude and heating oil (MMBbls) | 17.6 | 20.7 | 15.3 | 17.5 |

| | | | | |
|---|---|---|---|---|
| Natural gas (MMcf) | 1,760 | 1,730 | 780 | 660 |

Notional amounts reflect the volume of transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not reflect our monetary exposure to market or credit risks.

All contracts subject to price risk had a maturity of 36 months or less; however, 91% of the contracted volumes will be delivered or settled within 12 months.

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Credit Risk

Inherent in our contractual portfolio are certain credit risks. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. We take an active role in managing credit risk and have established control procedures, which are reviewed on an ongoing basis. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures as well as through customer deposits, letters of credit and entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. The counterparties associated with our price risk management activities are energy marketers and propane retailers, resellers and dealers.

Certain of our derivative instruments have credit limits that require us to post collateral. The amount of collateral required to be posted is a function of the net liability position of the derivative as well as our established credit limit with the respective counterparty. If our credit rating were to change, the counterparties could require us to post additional collateral. The amount of additional collateral that would be required to be posted would vary depending on the extent of change in our credit rating as well as the requirements of the individual counterparty. The aggregate fair value of all commodity derivative instruments with credit-risk-related contingent features that were in a liability position at September 30, 2018 and December 31, 2017 was $22.9 million and $28.9 million. At both September 30, 2018 and December 31, 2017, we posted less than $0.1 million of collateral for our commodity derivative instruments with credit-risk-related contingent features. In addition, we have margin requirements with a New York Mercantile Exchange (NYMEX) broker related to our net asset or liability position with such broker. At September 30, 2018 and December 31, 2017, we had a NYMEX related net derivative asset position of $23.1 million and $27.2 million, for which we posted $5.2 million and $5.6 million of cash collateral in the normal course of business. At September 30, 2018 and December 31, 2017, we also received collateral of $5.7 million and $3.7 million in the normal course of business. All collateral amounts have been netted against the asset or liability with the respective counterparty and are reflected in our consolidated balance sheets as assets and liabilities from price risk management activities.

Note 7 – Fair Value Measurements

The accounting standard for fair value measurement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

- Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and US government treasury securities.

- Level 2—Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over the counter (OTC) forwards, options and physical exchanges.

- Level 3—Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

Cash, Accounts Receivable and Accounts Payable

As of September 30, 2018 and December 31, 2017, the carrying amounts of cash, accounts receivable and accounts payable approximate fair value based on the short-term nature of these instruments.

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Credit Facility

The fair value of the amounts outstanding under our CMLP credit facility approximates the carrying amounts as of September 30, 2018 and December 31, 2017, due primarily to the variable nature of the interest rate of the instrument, which is considered a Level 2 fair value measurement.

Senior Notes

We estimate the fair value of our senior notes primarily based on quoted market prices for the same or similar issuances (representing a Level 2 fair value measurement). The following table reflects the carrying amount (reduced for deferred financing costs associated with the respective notes) and fair value of our senior notes (in millions):

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| 2023 Senior Notes | $693.2 | $725.0 | $692.1 | $728.8 |
| 2025 Senior Notes | $493.1 | $511.8 | $492.3 | $517.9 |

Financial Assets and Liabilities

As of September 30, 2018 and December 31, 2017, we held certain assets and liabilities that are required to be measured at fair value on a recurring basis, which include our derivative instruments related to heating oil, crude oil, and NGLs. Our derivative instruments consist of forwards, swaps, futures, physical exchanges and options.

Our derivative instruments that are traded on the NYMEX have been categorized as Level 1.

Our derivative instruments also include OTC contracts, which are not traded on a public exchange. The fair values of these derivative instruments are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. These instruments have been categorized as Level 2.

Our OTC options are valued based on the Black Scholes option pricing model that considers time value and volatility of the underlying commodity. The inputs utilized in the model are based on publicly available information as well as broker quotes. These options have been categorized as Level 2.

Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

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The following tables set forth by level within the fair value hierarchy, our financial instruments that were accounted for at fair value on a recurring basis at September 30, 2018 and December 31, 2017 (in millions):

| | September 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Gross Fair Value | Contract Netting[1] | Collateral/Margin Received or Paid | Fair Value |
| Assets | | | | | | | |
| Assets from price risk management | $5.2 | $107.2 | $— | $112.4 | $(86.7) | $(18.1) | $7.6 |
| Suburban Propane Partners, L.P. units[2] | 3.4 | — | — | 3.4 | — | — | 3.4 |
| Total assets at fair value | $8.6 | $107.2 | $— | $115.8 | $(86.7) | $(18.1) | $11.0 |
| Liabilities | | | | | | | |
| Liabilities from price risk management | $5.4 | $119.3 | $— | $124.7 | $(86.7) | $5.5 | $43.5 |
| Total liabilities at fair value | $5.4 | $119.3 | $— | $124.7 | $(86.7) | $5.5 | $43.5 |

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Gross Fair Value | Contract Netting[1] | Collateral/Margin Received or Paid | Fair Value |
| Assets | | | | | | | |
| Assets from price risk management | $1.1 | $102.2 | $— | $103.3 | $(74.6) | $(21.5) | $7.2 |
| Suburban Propane Partners, L.P. units[2] | 3.5 | — | — | 3.5 | — | — | 3.5 |
| Total assets at fair value | $4.6 | $102.2 | $— | $106.8 | $(74.6) | $(21.5) | $10.7 |
| Liabilities | | | | | | | |
| Liabilities from price risk management | $1.4 | $118.2 | $— | $119.6 | $(74.6) | $3.9 | $48.9 |
| Total liabilities at fair value | $1.4 | $118.2 | $— | $119.6 | $(74.6) | $3.9 | $48.9 |

(1) Amounts represent the impact of legally enforceable master netting agreements that allow us to settle positive and negative positions as well as cash collateral held or placed with the same counterparties.
(2) Amount is reflected in other assets on CEQP's consolidated balance sheets.

Note 8 – Long-Term Debt

Long-term debt consisted of the following at September 30, 2018 and December 31, 2017 (in millions):

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Credit Facility | $ 497.5 | $ 318.2 |
| 2023 Senior Notes | 700.0 | 700.0 |
| 2025 Senior Notes | 500.0 | 500.0 |
| Other | 1.5 | 2.4 |
| Less: deferred financing costs, net | 23.0 | 28.4 |
| Total debt | 1,676.0 | 1,492.2 |
| Less: current portion | 0.9 | 0.9 |
| Total long-term debt, less current portion | $ 1,675.1 | $ 1,491.3 |

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Credit Facility

At September 30, 2018, Crestwood Midstream had $526.1 million of available capacity under its credit facility considering the most restrictive debt covenants in its credit agreement. At September 30, 2018 and December 31, 2017, Crestwood Midstream's outstanding standby letters of credit were $78.0 million and $52.2 million. Borrowings under the credit facility accrue interest at prime or Eurodollar based rates plus applicable spreads, which resulted in interest rates between 4.62% and 6.75% at September 30, 2018 and 3.94% and 6.00% at December 31, 2017. The weighted-average interest rate as of September 30, 2018 and December 31, 2017 was 4.72% and 4.11%.

Crestwood Midstream is required under its credit agreement to maintain a net debt to consolidated EBITDA ratio (as defined in its credit agreement) of not more than 5.50 to 1.0, a consolidated EBITDA to consolidated interest expense ratio (as defined in its credit agreement) of not less than 2.50 to 1.0, and a senior secured leverage ratio (as defined in its credit agreement) of not more than 3.75 to 1.0. At September 30, 2018, the net debt to consolidated EBITDA ratio was approximately 4.20 to 1.0, the consolidated EBITDA to consolidated interest expense ratio was approximately 4.34 to 1.0, and the senior secured leverage ratio was 1.23 to 1.0. At September 30, 2018, Crestwood Midstream was in compliance with all of its debt covenants applicable to its credit facility.

In October 2018, Crestwood Midstream entered into a Second Amended and Restated Credit Agreement (the Second Amended Credit Agreement). The Second Amended Credit Agreement provides for a five-year $1.25 billion revolving credit facility, which expires in October 2023 and is available to fund acquisitions, working capital and internal growth projects and for general partnership purposes. Borrowings under the Second Amended Credit Agreement (other than swing line loans) bear interest at either:

- the Alternate Base Rate, which is defined as the highest of (i) the federal funds rate plus 0.50% per annum; (ii) Wells Fargo prime rate; or (iii) the Eurodollar Rate adjusted for certain reserve requirements plus 1% per annum; plus a margin varying from 0.50% to 1.50% per annum depending on Crestwood Midstream's most recent consolidated total leverage ratio; or

- the Eurodollar Rate adjusted for certain reserve requirements plus a margin varying from 1.50% to 2.50% per annum depending on Crestwood Midstream's most recent consolidated total leverage ratio.

The debt covenants under the Second Amended Credit Agreement are materially consistent with the credit facility that existed at September 30, 2018.

Senior Notes

In March 2017, Crestwood Midstream issued $500 million of 5.75% unsecured senior notes due 2025 (the 2025 Senior Notes), which were registered with the SEC effective July 2017. The 2025 Senior Notes will mature on April 1, 2025, and interest is payable semiannually in arrears on April 1 and October 1 of each year, beginning October 1, 2017. The net proceeds from this offering of approximately $492 million were used to repay amounts outstanding under certain of Crestwood Midstream's senior notes. During the nine months ended September 30, 2017, we recognized a loss on extinguishment of debt of approximately $37.7 million in conjunction with the tender of principal amounts of certain of Crestwood Midstream's senior notes. At September 30, 2018, Crestwood Midstream was in compliance with all of its debt covenants applicable to its senior notes.

Note 9 - Earnings Per Limited Partner Unit

Our net income (loss) attributable to Crestwood Equity Partners is allocated to the subordinated and limited partner unitholders based on their ownership percentage after giving effect to net income attributable to the preferred units. We calculate basic net income per limited partner unit using the two-class method. Diluted net income per limited partner unit is computed using the treasury stock method, which considers the impact to net income attributable to Crestwood Equity Partners and limited partner units from the potential issuance of limited partner units.

We exclude potentially dilutive securities from the determination of diluted earnings per unit (as well as their related income statement impacts) when their impact on net income attributable to Crestwood Equity Partners per limited partner unit is anti-dilutive. The following table summarizes information regarding the weighted-average of common units excluded during the three and nine months ended September 30, 2018 and 2017:

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Preferred units [(1)] | 7,125,744 | 7,125,744 | 7,125,744 | 6,968,210 |
| Crestwood Niobrara's preferred units[(1)] | 5,112,277 | 7,277,340 | 5,080,952 | 7,277,340 |
| Performance units[(2)] | 335,856 | 355,934 | 341,012 | 305,934 |
| Subordinated units[(2)] | 438,789 | 438,789 | 438,789 | 438,789 |

(1) See Note 10 for additional information regarding the potential conversion of our preferred units and Crestwood Niobrara's preferred units to common units.
(2) For a description of our subordinated and performance units, see our 2017 Annual Report on Form 10-K.

Note 10 – Partners' Capital

Preferred Units

Subject to certain conditions, the holders of the preferred units have the right to convert their preferred units into (i) common units on a 1-for-10 basis or (ii) a number of common units determined pursuant to a conversion ratio set forth in Crestwood Equity's partnership agreement upon the occurrence of certain events, such as a change in control. The preferred units have voting rights that are identical to the voting rights of the common units and will vote with the common units as a single class, with each preferred unit entitled to one vote for each common unit into which such preferred unit is convertible, except that the preferred units are entitled to vote as a separate class on any matter on which all unitholders are entitled to vote that adversely affects the rights, powers, privileges or preferences of the preferred units in relation to Crestwood Equity's other securities outstanding.

Common Units

Equity Distribution Agreement. On August 4, 2017, we entered into an equity distribution agreement with certain financial institutions (each, a Manager), under which we may offer and sell from time to time through one or more of the Managers, common units having an aggregate offering price of up to $250 million. Common units sold pursuant to this at-the-market (ATM) equity distribution program are issued under a registration statement that became effective on April 12, 2017. We are required to pay the Managers an aggregate fee of up to 2.0% of the gross sales price per common unit sold under our ATM equity distribution program. There were no units issued under our ATM equity distribution program during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, we issued 437,518 common units under the ATM equity distribution program for net proceeds of approximately $10.6 million. We paid a manager fee of approximately $0.2 million during the nine months ended September 30, 2017 related to the sale of the common units.

Employee Unit Purchase Plan. In August 2018, the board of directors of our general partner approved an employee unit purchase plan under which employees of the general partner may purchase our common units through payroll deductions up to a maximum of 10% of the employees' eligible compensation, not to exceed $25,000 for any calendar year. Under the plan, we anticipate purchasing our common units on the open market for the benefit of participating employees based on their payroll deductions. In addition, we may match up to 10% of participating employees' payroll deductions to purchase additional Crestwood common units for participating employees. The board of directors of our general partner authorized 1,500,000 common units (subject to adjustment as provided in the employee unit purchase plan) to be available for purchase. There were no common units purchased under the employee unit purchase plan during the nine months ended September 30, 2018.

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Distributions

Crestwood Equity

Limited Partners. A summary of CEQP's limited partner quarterly cash distributions for the nine months ended September 30, 2018 and 2017 is presented below:

| Record Date | Payment Date | Per Unit Rate | Cash Distributions (in millions) |
|---|---|---|---|
| 2018 | | | |
| February 7, 2018 | February 14, 2018 | $0.60 | $ 42.7 |
| May 8, 2018 | May 15, 2018 | 0.60 | 42.7 |
| August 7, 2018 | August 14, 2018 | 0.60 | 42.7 |
| | | | $ 128.1 |
| 2017 | | | |
| February 7, 2017 | February 14, 2017 | $0.60 | $ 41.8 |
| May 8, 2017 | May 15, 2017 | 0.60 | 41.8 |
| August 7, 2017 | August 14, 2017 | 0.60 | 41.8 |
| | | | $ 125.4 |

On October 18, 2018, we declared a distribution of $0.60 per limited partner unit to be paid on November 14, 2018 to unitholders of record on November 7, 2018 with respect to the third quarter of 2018.

Preferred Unit Holders. Beginning with the distribution for the quarter ended December 31, 2017, we are required to make quarterly cash distributions to our preferred unitholders. During the nine months ended September 30, 2018, we made cash distributions to our preferred unitholders of approximately $45.0 million. During the nine months ended September 30, 2017, we issued 4,724,030 Preferred Units to our preferred unitholders in lieu of paying cash distributions of $43.1 million. On October 18, 2018, the board of directors of our general partner authorized a cash distribution to our preferred unitholders of approximately $15.0 million for the quarter ended September 30, 2018.

In the second quarter of 2018, Crestwood Equity registered 71,257,445 preferred units under a shelf registration statement filed with the SEC under which holders of the Preferred Units may sell their preferred units.

Crestwood Midstream

During the nine months ended September 30, 2018 and 2017, Crestwood Midstream paid cash distributions of $179.0 million and $119.5 million to Crestwood Equity.

Non-Controlling Partner

Crestwood Niobrara issued a preferred interest (Series A Preferred Units) to a subsidiary of General Electric Capital Corporation and GE Structured Finance, Inc. (collectively, GE) in conjunction with the acquisition of its investment in Jackalope, which is reflected as non-controlling interest in our consolidated financial statements. In December 2017, Crestwood Niobrara redeemed 100% of the outstanding Series A Preferred Units from GE and issued new preferred interests (Series A-2 Preferred Units) to CN Jackalope Holdings LLC (Jackalope Holdings). Subject to certain restrictions, we have the ability to redeem the Series A-2 Preferred Units for an amount in cash for CEQP common units equal to an amount necessary for Jackalope Holdings to achieve a certain rate of return. During the three and

nine months ended September 30, 2018, net income attributable to non-controlling partners was approximately $4.1 million and $12.1 million. During the three and nine months ended September 30, 2017, net income attributable to non-controlling partners was approximately $6.4 million and $18.8 million. During the nine months ended September 30, 2018 and 2017, Crestwood Niobrara paid cash distributions of $6.6 million and $11.4 million to its non-controlling partners, respectively. In October 2018, Crestwood Niobrara paid a cash distribution of $3.3 million to Jackalope Holdings for the quarter ended September 30, 2018.

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## Note 11 – Commitments and Contingencies

### Legal Proceedings

California Trucking Lawsuit. On March 13, 2017, a former Crestwood truck driver filed a lawsuit in the Superior Court (the Court) for Kern County, California on behalf of all Crestwood Transportation LLC's California drivers alleging that Crestwood Equity and its officers, directors and employees violated the California wage and hour laws by failing to comply with certain requirements of the laws. The Court approved the final settlement on October 5, 2018. If no appeals are filed, this lawsuit should be finalized by late 2018.

General. We are periodically involved in litigation proceedings. If we determine that a negative outcome is probable and the amount of loss is reasonably estimable, then we accrue the estimated amount. The results of litigation proceedings cannot be predicted with certainty. We could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations or cash flows in the period in which the amounts are paid and/or accrued. As of September 30, 2018 and December 31, 2017, both CEQP and CMLP had approximately $1.2 million and $2.1 million accrued for outstanding legal matters. Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures for which we can estimate will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures.

Any loss estimates are inherently subjective, based on currently available information, and are subject to management's judgment and various assumptions. Due to the inherently subjective nature of these estimates and the uncertainty and unpredictability surrounding the outcome of legal proceedings, actual results may differ materially from any amounts that have been accrued.

### Regulatory Compliance

In the ordinary course of our business, we are subject to various laws and regulations. In the opinion of our management, compliance with current laws and regulations will not have a material effect on our results of operations, cash flows or financial condition.

### Environmental Compliance

Our operations are subject to stringent and complex laws and regulations pertaining to worker health, safety, and the environment. We are subject to laws and regulations at the federal, state, regional and local levels that relate to air and water quality, hazardous and solid waste management and disposal and other environmental matters. The cost of planning, designing, constructing and operating our facilities must incorporate compliance with environmental laws and regulations and safety standards. Failure to comply with these laws and regulations may trigger a variety of administrative, civil and potentially criminal enforcement measures.

During 2014, we experienced three releases totaling approximately 28,000 barrels of produced water on our Arrow water gathering system located on the Fort Berthold Indian Reservation in North Dakota. We immediately notified the National Response Center, the Three Affiliated Tribes and numerous other regulatory authorities. Thereafter, we contained and cleaned up the releases, and placed the impacted segments of these water lines back into service. In May 2015, we experienced a release of approximately 5,200 barrels of produced water on our Arrow water gathering system, immediately notified numerous regulatory authorities and other third parties, and thereafter contained and cleaned up the releases.

In October 2014, we received data requests from the Environmental Protection Agency (EPA) related to the 2014 water releases and we responded to the requests during the first half of 2015. In April 2015, the EPA issued a Notice of Potential Violation (NOPV) under the Clean Water Act relating to the 2014 water releases. We responded to the NOPV in May 2015 and in April 2017, we entered into an Administrative Order on Consent (the Order) with the EPA. The Order requires us to continue to remediate and monitor the impacted area for no less than four years unless all goals of the Order are satisfied earlier. On December 13, 2017, the EPA and Crestwood signed a Combined Complaint and Consent Agreement (CCCA) whereby we agreed to pay a civil penalty of $49,000 to the EPA and purchase emergency response equipment at an estimated cost of approximately $173,000 for the Three Affiliated Tribes as a Supplemental Environmental Project (SEP). The CCCA and SEP concludes the EPA's penalty phase related to this matter.

In August 2015, we received a notice of violation from the Three Affiliated Tribes' Environmental Division related to our 2014 produced water releases on the Fort Berthold Indian Reservation. The notice of violation imposes fines and requests reimbursements exceeding $1.1 million; however, the notice of violation was stayed on September 15, 2015, upon our posting of a performance bond for the amount contemplated by the notice, and pending the outcome of settlement discussions with the EPA related to the NOPV. Our discussions regarding the notice of violation continue with the Three Affiliated Tribes.

We will continue our remediation efforts to ensure the impacted lands are restored to their prior state. We believe these releases are insurable events under our policies, and we have notified our carriers of these events. We have not recorded an insurance receivable as of September 30, 2018.

At September 30, 2018 and December 31, 2017, our accrual of approximately $2.0 million and $1.9 million is based on our undiscounted estimate of amounts we will spend on compliance with environmental and other regulations, and any associated fines or penalties (including the Arrow water releases described above). We estimate that our potential liability for reasonably possible outcomes related to our environmental exposures could range from approximately $2.0 million to $3.9 million at September 30, 2018.

Self-Insurance

We utilize third-party insurance subject to varying retention levels of self-insurance, which management considers prudent. Such self-insurance relates to losses and liabilities primarily associated with medical claims, workers' compensation claims and general, product, vehicle and environmental liability. At September 30, 2018 and December 31, 2017, CEQP's self-insurance reserves were $12.8 million and $13.6 million. We estimate that $9.1 million of this balance will be paid subsequent to September 30, 2019. As such, CEQP has classified $9.1 million in other long-term liabilities on its consolidated balance sheet at September 30, 2018. At September 30, 2018 and December 31, 2017, CMLP's self insurance reserves were $11.2 million and $11.6 million. CMLP estimates that $7.6 million of this balance will be paid subsequent to September 30, 2019. As such, CMLP has classified $7.6 million in other long-term liabilities on its consolidated balance sheet at September 30, 2018.

Guarantees and Indemnifications.  We are involved in various joint ventures that sometimes require financial and performance guarantees. In a financial guarantee, we are obligated to make payments if the guaranteed party fails to make payments under, or violates the terms of, the financial arrangement. In a performance guarantee, we provide assurance that the guaranteed party will execute on the terms of the contract. If they do not, we are required to perform on their behalf. We also periodically provide indemnification arrangements related to assets or businesses we have sold. For a further description of our guarantees associated with our joint ventures, see Note 5, and for a further description of our guarantees associated with our assets or businesses we have sold, see our 2017 Annual Report on Form 10-K.

Our potential exposure under guarantee and indemnification arrangements can range from a specified amount to an unlimited dollar amount, depending on the nature of the claim, specificity as to duration, and the particular transaction. As of September 30, 2018 and December 31, 2017, we have no amounts accrued for these guarantees.

Note 12 – Related Party Transactions

Crestwood Holdings indirectly owns both CEQP's and CMLP's general partner. The affiliates of Crestwood Holdings and its owners are considered CEQP's and CMLP's related parties. We enter into transactions with our affiliates within the ordinary course of business, including gas gathering and processing services under long-term contracts, product

purchases and various operating agreements.

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The following table shows transactions with our affiliates which are reflected in our consolidated statements of operations (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues at CEQP and CMLP | $0.3 | $0.5 | $0.9 | $1.4 |
| Costs of product/services sold at CEQP and CMLP(1) | $45.7 | $3.7 | $91.0 | $11.8 |
| Operations and maintenance expenses at CEQP and CMLP(2) | $8.2 | $6.6 | $22.2 | $16.4 |
| General and administrative expenses charged by CEQP to CMLP, net(3) | $4.8 | $4.4 | $15.3 | $14.8 |
| General and administrative expenses at CEQP charged from Crestwood Holdings, net(4) | $(4.0 ) | $(0.2) | $(8.8 ) | $(0.4 ) |

(1) Includes $16.8 million and $45.1 million during the three and nine months ended September 30, 2018 related to purchases of NGLs from a subsidiary of Crestwood Permian and $28.9 million and $45.9 million during the same periods related to an agency marketing agreement with Ascent Resources - Utica, LLC (Ascent). Includes $3.7 million and $11.8 million representing natural gas purchases from Sabine for the three and nine months ended September 30, 2017. Ascent and Sabine are affiliates of Crestwood Holdings for the respective periods presented.

(2) We have operating agreements with certain of our unconsolidated affiliates pursuant to which we charge them operations and maintenance expenses in accordance with their respective agreements, and these charges are reflected as a reduction of operations and maintenance expenses in our consolidated statements of income. During the three and nine months ended September 30, 2018, we charged $1.8 million and $6.0 million to Stagecoach Gas, $0.9 million and $2.9 million to Tres Palacios, $5.1 million and $12.6 million to Crestwood Permian and $0.4 million and $0.7 million to Jackalope. During the three and nine months ended September 30, 2017, we charged $2.0 million and $6.5 million to Stagecoach Gas, $0.8 million and $2.6 million to Tres Palacios, $3.7 million and $7.0 million to Crestwood Permian, and $0.1 million and $0.3 million to Jackalope.

(3) Includes $5.6 million and $17.7 million of net unit-based compensation charges allocated from CEQP to CMLP for the three and nine months ended September 30, 2018 and $5.2 million and $17.1 million for the three and nine months ended September 30, 2017. In addition, includes $0.8 million and $2.4 million of CMLP's general and administrative costs allocated to CEQP during the three and nine months ended September 30, 2018 and $0.8 million and $2.3 million during the three and nine months ended September 30, 2017.

(4) Includes $4.8 million and $10.2 million unit-based compensation charges allocated from Crestwood Holdings to CEQP and CMLP during the three and nine months ended September 30, 2018 and $1.1 million and $1.9 million during the three and nine months ended September 30, 2017.

The following table shows accounts receivable and accounts payable from our affiliates (in millions):

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable at CEQP and CMLP | $ 6.2 | $ 7.1 |
| Accounts payable at CEQP | $ 27.8 | $ 7.4 |
| Accounts payable at CMLP | $ 25.3 | $ 5.0 |

Note 13 – Segments

Financial Information

We have three operating and reportable segments: (i) gathering and processing operations; (ii) storage and transportation operations; and (iii) marketing, supply and logistics operations. Our corporate operations include all

general and administrative expenses that are not allocated to our reportable segments. We assess the performance of our operating segments based on EBITDA, which is defined as income before income taxes, plus debt-related costs (interest and debt expense, net and loss on modification/extinguishment of debt) and depreciation, amortization and accretion expense.

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Below is a reconciliation of CEQP's net income (loss) to EBITDA (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | $(5.2 ) | $(27.9) | $7.4 | $(47.0 ) |
| Add: | | | | |
| Interest and debt expense, net | 25.1 | 24.2 | 73.8 | 74.8 |
| Loss on modification/extinguishment of debt | — | — | — | 37.7 |
| Provision for income taxes | — | 0.1 | 0.2 | — |
| Depreciation, amortization and accretion | 39.2 | 48.1 | 128.8 | 145.2 |
| EBITDA | $59.1 | $44.5 | $210.2 | $210.7 |

Below is a reconciliation of CMLP's net income (loss) to EBITDA (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | $(7.8 ) | $(29.8) | $1.1 | $(53.1 ) |
| Add: | | | | |
| Interest and debt expense, net | 25.1 | 24.2 | 73.8 | 74.8 |
| Loss on modification/extinguishment of debt | — | — | — | 37.7 |
| Provision for income taxes | — | 0.1 | 0.1 | — |
| Depreciation, amortization and accretion | 42.7 | 50.9 | 137.9 | 153.5 |
| EBITDA | $60.0 | $45.4 | $212.9 | $212.9 |

The following tables summarize CEQP's and CMLP's reportable segment data for the three and nine months ended September 30, 2018 and 2017 (in millions). Intersegment revenues included in the following tables are accounted for as arms-length transactions that apply our revenue recognition policies as described in Note 2. Included in earnings from unconsolidated affiliates, net below was approximately $10.8 million and $10.0 million of depreciation and amortization expense, gains (losses) on long-lived assets, net, and interest expense related to our equity investments for the three months ended September 30, 2018 and 2017 and $30.4 million and $25.7 million for the nine months ended September 30, 2018 and 2017.

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Crestwood Equity

| | Three Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $242.3 | $ 3.5 | $ 684.4 | $ — | $930.2 |
| Intersegment revenues | 54.8 | 2.6 | (57.4 ) | — | — |
| Costs of product/services sold | 205.1 | (0.1 ) | 622.5 | — | 827.5 |
| Operations and maintenance expense | 17.2 | 0.7 | 11.7 | — | 29.6 |
| General and administrative expense | — | — | — | 25.5 | 25.5 |
| Gain (loss) on long-lived assets, net | (2.2 ) | — | (2.5 ) | 1.1 | (3.6 ) |
| Earnings from unconsolidated affiliates, net | 5.6 | 9.5 | — | — | 15.1 |
| EBITDA | $78.2 | $ 15.0 | $ (9.7 ) | $ (24.4 ) | $59.1 |
| Goodwill | $45.9 | $ — | $ 92.7 | $ — | $138.6 |
| Total assets | $2,647.8 | $ 1,015.3 | $ 673.1 | $ 30.2 | $4,366.4 |

| | Three Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $434.4 | $ 6.2 | $ 515.0 | $ — | $955.6 |
| Intersegment revenues | 29.9 | 1.2 | (31.1 ) | — | — |
| Costs of product/services sold | 378.6 | 0.2 | 479.7 | — | 858.5 |
| Operations and maintenance expense | 16.2 | 1.0 | 18.3 | — | 35.5 |
| General and administrative expense | — | — | — | 22.5 | 22.5 |
| Gain (loss) on long-lived assets | (3.9 ) | — | 0.6 | (3.0 ) | (6.3 ) |
| Earnings from unconsolidated affiliates, net | 4.3 | 7.2 | — | — | 11.5 |
| Other income, net | — | — | — | 0.2 | 0.2 |
| EBITDA | $69.9 | $ 13.4 | $ (13.5 ) | $ (25.3 ) | $44.5 |

| | Nine Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $838.1 | $ 12.8 | $2,034.8 | $ — | $2,885.7 |
| Intersegment revenues | 141.5 | 7.1 | (148.6 ) | — | — |
| Costs of product/services sold | 701.6 | 0.1 | 1,817.0 | — | 2,518.7 |
| Operations and maintenance expense | 52.7 | 2.3 | 41.0 | — | 96.0 |
| General and administrative expense | — | — | — | 72.8 | 72.8 |
| Gain (loss) on long-lived assets, net | (2.1 ) | — | (26.7 ) | 1.1 | (27.7 ) |
| Earnings from unconsolidated affiliates, net | 15.8 | 23.7 | — | — | 39.5 |
| Other income, net | — | — | — | 0.2 | 0.2 |
| EBITDA | $239.0 | $ 41.2 | $1.5 | $ (71.5 ) | $210.2 |
| Goodwill | $45.9 | $ — | $92.7 | $ — | $138.6 |
| Total assets | $2,647.8 | $ 1,015.3 | $673.1 | $ 30.2 | $4,366.4 |

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| | Nine Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $1,208.1 | $ 24.7 | $1,401.2 | $ — | $2,634.0 |
| Intersegment revenues | 94.3 | 4.7 | (99.0 ) | — | — |
| Costs of product/services sold | 1,049.9 | 0.3 | 1,221.4 | — | 2,271.6 |
| Operations and maintenance expense | 51.8 | 3.4 | 48.2 | — | 103.4 |
| General and administrative expense | — | — | — | 71.6 | 71.6 |
| Gain (loss) on long-lived assets | (3.9 ) | — | 0.6 | (3.0 ) | (6.3 ) |
| Earnings from unconsolidated affiliates, net | 7.7 | 21.5 | — | — | 29.2 |
| Other income, net | — | — | — | 0.4 | 0.4 |
| EBITDA | $204.5 | $ 47.2 | $33.2 | $ (74.2 ) | $210.7 |

Crestwood Midstream

| | Three Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $242.3 | $ 3.5 | $ 684.4 | $ — | $930.2 |
| Intersegment revenues | 54.8 | 2.6 | (57.4 ) | — | — |
| Costs of product/services sold | 205.1 | (0.1 ) | 622.5 | — | 827.5 |
| Operations and maintenance expense | 17.2 | 0.7 | 11.7 | — | 29.6 |
| General and administrative expense | — | — | — | 24.6 | 24.6 |
| Gain (loss) on long-lived assets, net | (2.2 ) | — | (2.5 ) | 1.1 | (3.6 ) |
| Earnings from unconsolidated affiliates, net | 5.6 | 9.5 | — | — | 15.1 |
| EBITDA | $78.2 | $ 15.0 | $ (9.7 ) | $ (23.5 ) | $60.0 |
| Goodwill | $45.9 | $ — | $ 92.7 | $ — | $138.6 |
| Total assets | $2,825.0 | $ 1,015.3 | $ 673.1 | $ 23.0 | $4,536.4 |

| | Three Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $434.4 | $ 6.2 | $ 515.0 | $ — | $955.6 |
| Intersegment revenues | 29.9 | 1.2 | (31.1 ) | — | — |
| Costs of product/services sold | 378.6 | 0.2 | 479.7 | — | 858.5 |
| Operations and maintenance expense | 16.2 | 1.0 | 18.3 | — | 35.5 |
| General and administrative expense | — | — | — | 21.4 | 21.4 |
| Gain (loss) on long-lived assets, net | (3.9 ) | — | 0.6 | (3.0 ) | (6.3 ) |
| Earnings from unconsolidated affiliates, net | 4.3 | 7.2 | — | — | 11.5 |
| EBITDA | $69.9 | $ 13.4 | $ (13.5 ) | $ (24.4 ) | $45.4 |

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| | Nine Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Gathering and Processing | Storage and Transportation | Marketing, Supply and Logistics | Corporate | Total |
| Revenues | $ 838.1 | $ 12.8 | $ 2,034.8 | $ — | $ 2,885.7 |
| Intersegment revenues | | | | | |