

NGL Energy Partners LP  
Form 10-Q  
February 09, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

OR

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

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

Commission File Number: 001-35172

NGL Energy Partners LP

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

6120 South Yale Avenue, Suite 805

Tulsa, Oklahoma

(Address of Principal Executive Offices)

(918) 481-1119

(Registrant's Telephone Number, Including Area Code)

27-3427920

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

74136

(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically 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). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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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.

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

At February 5, 2018, there were 121,083,664 common units issued and outstanding.

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Forward-Looking Statements

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

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



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the availability and cost of capital and our ability to access certain capital sources;  
a deterioration of the credit and capital markets;  
the ability to successfully identify and complete accretive acquisitions, and integrate acquired assets and businesses;  
changes in the volume of hydrocarbons recovered during the wastewater treatment process;  
changes in the financial condition and results of operations of entities in which we own noncontrolling equity interests;  
changes in applicable laws and regulations, including tax, environmental, transportation, and employment regulations, or new interpretations by regulatory agencies concerning such laws and regulations and the effect of such laws and regulations (now existing or in the future) on our business operations;  
the costs and effects of legal and administrative proceedings;  
any reduction or the elimination of the federal Renewable Fuel Standard; and  
changes in the jurisdictional characteristics of, or the applicable regulatory policies with respect to, our pipeline assets.

You should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this Quarterly Report. Except as may be required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks discussed under Part I, Item 1A—"Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 and under Part II, Item 1A—"Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Balance Sheets

(in Thousands, except unit amounts)

	December 31, 2017	March 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 28,469	\$ 12,264
Accounts receivable-trade, net of allowance for doubtful accounts of \$5,561 and \$5,234, respectively	1,063,907	800,607
Accounts receivable-affiliates	3,517	6,711
Inventories	645,100	561,432
Prepaid expenses and other current assets	97,395	103,193
Assets held for sale	131,591	—
Total current assets	1,969,979	1,484,207
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$420,174 and \$375,594, respectively	1,708,683	1,790,273
GOODWILL	1,313,317	1,451,716
INTANGIBLE ASSETS, net of accumulated amortization of \$455,532 and \$414,605, respectively	1,064,955	1,163,956
INVESTMENTS IN UNCONSOLIDATED ENTITIES	16,369	187,423
LOAN RECEIVABLE-AFFILIATE	318	3,200
OTHER NONCURRENT ASSETS	242,765	239,604
Total assets	\$ 6,316,386	\$ 6,320,379
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable-trade	\$ 866,768	\$ 658,021
Accounts payable-affiliates	474	7,918
Accrued expenses and other payables	230,752	207,125
Advance payments received from customers	46,850	35,944
Current maturities of long-term debt	3,260	29,590
Liabilities held for sale	16,574	—
Total current liabilities	1,164,678	938,598
LONG-TERM DEBT, net of debt issuance costs of \$22,883 and \$33,458, respectively, and current maturities	2,921,966	2,963,483
OTHER NONCURRENT LIABILITIES	168,281	184,534
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
CLASS A 10.75% CONVERTIBLE PREFERRED UNITS, 19,942,169 and 19,942,169 preferred units issued and outstanding, respectively	76,056	63,890
REDEEMABLE NONCONTROLLING INTEREST	4,011	3,072
EQUITY:	(50,869	) (50,529 )

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General partner, representing a 0.1% interest, 121,205 and 120,300 notional units, respectively		
Limited partners, representing a 99.9% interest, 121,083,664 and 120,179,407 common units issued and outstanding, respectively	1,823,740	2,192,413
Class B preferred limited partners, 8,400,000 and 0 preferred units issued and outstanding, respectively	202,731	—
Accumulated other comprehensive loss	(1,478	) (1,828 )
Noncontrolling interests	7,270	26,746
Total equity	1,981,394	2,166,802
Total liabilities and equity	\$ 6,316,386	\$ 6,320,379

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



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NGL ENERGY PARTNERS LP AND SUBSIDIARIES  
 Unaudited Condensed Consolidated Statements of Operations  
 (in Thousands, except unit and per unit amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
<b>REVENUES:</b>				
Crude Oil Logistics	\$585,007	\$385,906	\$1,526,944	\$1,161,742
Water Solutions	64,024	40,359	162,023	115,845
Liquids	709,044	470,275	1,379,981	909,584
Retail Propane	160,025	128,654	291,797	240,131
Refined Products and Renewables	2,944,874	2,381,283	8,806,717	6,746,168
Other	289	164	696	679
Total Revenues	4,463,263	3,406,641	12,168,158	9,174,149
<b>COST OF SALES:</b>				
Crude Oil Logistics	552,871	361,839	1,423,511	1,107,587
Water Solutions	10,192	477	13,019	3,871
Liquids	670,701	430,946	1,319,344	831,221
Retail Propane	87,487	60,508	148,443	106,019
Refined Products and Renewables	2,951,440	2,374,175	8,781,009	6,674,194
Other	117	77	311	300
Total Cost of Sales	4,272,808	3,228,022	11,685,637	8,723,192
<b>OPERATING COSTS AND EXPENSES:</b>				
Operating	84,846	76,981	237,285	225,408
General and administrative	29,218	18,280	77,689	88,077
Depreciation and amortization	63,340	60,767	192,427	160,276
(Gain) loss on disposal or impairment of assets, net	(111,480)	34	(11,242)	(203,433)
Revaluation of liabilities	—	—	5,600	—
Operating Income (Loss)	124,531	22,557	(19,238)	180,629
<b>OTHER INCOME (EXPENSE):</b>				
Equity in earnings of unconsolidated entities	3,426	1,279	7,270	1,726
Revaluation of investments	—	—	—	(14,365)
Interest expense	(51,790)	(41,436)	(151,249)	(105,316)
(Loss) gain on early extinguishment of liabilities, net	(21,141)	—	(22,479)	30,890
Other income, net	2,107	20,007	6,113	25,860
Income (Loss) Before Income Taxes	57,133	2,407	(179,583)	119,424
<b>INCOME TAX EXPENSE</b>	(364)	(1,114)	(934)	(2,036)
Net Income (Loss)	56,769	1,293	(180,517)	117,388
<b>LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	(89)	(317)	(221)	(6,091)
<b>LESS: NET (INCOME) LOSS ATTRIBUTABLE TO REDEEMABLE NONCONTROLLING INTERESTS</b>	(424)	—	261	—
<b>NET INCOME (LOSS) ATTRIBUTABLE TO NGL ENERGY PARTNERS LP</b>	56,256	976	(180,477)	111,297
<b>LESS: DISTRIBUTIONS TO PREFERRED UNITHOLDERS</b>	(16,219)	(8,906)	(42,001)	(20,958)
<b>LESS: NET (INCOME) LOSS ALLOCATED TO GENERAL PARTNER</b>	(73)	(22)	121	(180)
<b>LESS: REPURCHASE OF WARRANTS</b>	—	—	(349)	—

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NET INCOME (LOSS) ALLOCATED TO COMMON UNITHOLDERS	\$39,964	\$ (7,952 )	\$(222,706 )	\$90,159
BASIC INCOME (LOSS) PER COMMON UNIT	\$0.33	\$ (0.07 )	\$(1.84 )	\$0.85
DILUTED INCOME (LOSS) PER COMMON UNIT	\$0.32	\$ (0.07 )	\$(1.84 )	\$0.82
BASIC WEIGHTED AVERAGE COMMON UNITS OUTSTANDING	120,844,008	107,966,901	120,899,502	106,114,668
DILUTED WEIGHTED AVERAGE COMMON UNITS OUTSTANDING	124,161,966	107,966,901	120,899,502	109,554,928

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

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NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

(in Thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss)	\$56,769	\$1,293	\$(180,517)	\$117,388
Other comprehensive income	784	545	350	60
Comprehensive income (loss)	\$57,553	\$1,838	\$(180,167)	\$117,448

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

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## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statement of Changes in Equity

Nine Months Ended December 31, 2017

(in Thousands, except unit amounts)

	General Partner	Limited Partners		Common Units	Amount	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
		Units	Amount					
BALANCES AT MARCH 31, 2017	\$(50,529)	—	\$—	120,179,407	\$2,192,413	\$ (1,828 )	\$ 26,746	\$2,166,802
Distributions to general and common unit partners and preferred unitholders (Note 10)	(242 )	—	—	—	(171,072 )	—	—	(171,314 )
Distributions to noncontrolling interest owners	—	—	—	—	—	—	(3,082 )	(3,082 )
Contributions	—	—	—	—	—	—	23	23
Purchase of noncontrolling interest (Note 4)	—	—	—	—	(6,245 )	—	(16,638 )	(22,883 )
Redemption valuation adjustment (Note 2)	—	—	—	—	(1,201 )	—	—	(1,201 )
Repurchase of warrants (Note 10)	—	—	—	—	(10,549 )	—	—	(10,549 )
Equity issued pursuant to incentive compensation plan (Note 10)	23	—	—	1,855,102	28,611	—	—	28,634
Common unit repurchases and cancellations (Note 10)	—	—	—	(1,558,498 )	(15,608 )	—	—	(15,608 )
Warrants exercised (Note 10)	—	—	—	607,653	6	—	—	6
Accretion of beneficial conversion feature of Class A convertible preferred units	—	—	—	—	(12,259 )	—	—	(12,259 )

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(Note 10)

Issuance of Class B preferred units	—	8,400,000	202,731	—	—	—	—	202,731
(Note 10)								
Net (loss) income	(121 )	—	—	—	(180,356 )	—	221	(180,256 )
Other comprehensive income	—	—	—	—	—	350	—	350
<b>BALANCES AT</b>								
DECEMBER 31, 2017	\$(50,869)	8,400,000	\$202,731	121,083,664	\$1,823,740	\$(1,478 )	\$7,270	\$1,981,394

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

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## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Cash Flows

(in Thousands)

	Nine Months Ended December 31,	
	2017	2016
<b>OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(180,517)	\$117,388
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization, including amortization of debt issuance costs	205,192	173,566
Loss (gain) on early extinguishment or revaluation of liabilities, net	28,079	(30,890 )
Gain on termination of a storage sublease agreement	—	(16,205 )
Non-cash equity-based compensation expense	27,114	39,859
Gain on disposal or impairment of assets, net	(11,242 )	(203,433 )
Provision for doubtful accounts	1,910	471
Net adjustments to fair value of commodity derivatives	99,814	102,638
Equity in earnings of unconsolidated entities	(7,270 )	(1,726 )
Distributions of earnings from unconsolidated entities	4,891	2,094
Revaluation of investments	—	14,365
Other	854	(3,269 )
Changes in operating assets and liabilities, exclusive of acquisitions:		
Accounts receivable-trade and affiliates	(278,547 )	(245,065 )
Inventories	(90,037 )	(244,941 )
Other current and noncurrent assets	(11,534 )	(65,331 )
Accounts payable-trade and affiliates	200,363	245,506
Other current and noncurrent liabilities	14,991	(599 )
Net cash provided by (used in) operating activities	4,061	(115,572 )
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(99,384 )	(264,580 )
Acquisitions, net of cash acquired	(49,481 )	(127,513 )
Cash flows from settlements of commodity derivatives	(85,823 )	(82,815 )
Proceeds from sales of assets	33,673	14,195
Proceeds from sale of interest in Glass Mountain	292,117	—
Proceeds from sale of TLP common units	—	112,370
Proceeds from sale of Grassland	—	22,000
Transaction with an unconsolidated entity (Note 13)	(6,424 )	—
Investments in unconsolidated entities	(21,461 )	—
Distributions of capital from unconsolidated entities	11,710	7,608
Repayments on loan for natural gas liquids facility	7,425	6,585
Loan to affiliate	(1,460 )	(2,700 )
Repayments on loan to affiliate	4,160	655
Payment to terminate development agreement	—	(16,875 )
Other (Note 14)	20,000	—
Net cash provided by (used in) investing activities	105,052	(331,070 )
<b>FINANCING ACTIVITIES:</b>		
Proceeds from borrowings under Revolving Credit Facility	1,674,500	1,176,000
Payments on Revolving Credit Facility	(1,349,500)	(1,510,500)

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Issuance of senior unsecured notes	—	700,000
Repayment and repurchase of senior secured and senior unsecured notes	(415,568 )	(15,129 )
Payments on other long-term debt	(4,361 )	(6,549 )
Debt issuance costs	(2,497 )	(12,608 )
Contributions from general partner	—	59
Contributions from noncontrolling interest owners, net	23	639
Distributions to general and common unit partners and preferred unitholders	(166,589 )	(132,135 )
Distributions to noncontrolling interest owners	(3,082 )	(3,292 )
Proceeds from sale of preferred units, net of offering costs	202,731	234,989
Repurchase of warrants	(10,549 )	—
Common unit repurchases and cancellations	(15,608 )	—
Proceeds from sale of common units, net of offering costs	—	43,896
Payments for settlement and early extinguishment of liabilities	(2,408 )	(27,977 )
Net cash (used in) provided by financing activities	(92,908 )	447,393
Net increase in cash and cash equivalents	16,205	751
Cash and cash equivalents, beginning of period	12,264	28,176
Cash and cash equivalents, end of period	\$28,469	\$28,927
Supplemental cash flow information:		
Cash interest paid	\$153,788	\$89,102
Income taxes paid (net of income tax refunds)	\$1,614	\$1,985
Supplemental non-cash investing and financing activities:		
Distributions declared but not paid to Class B preferred unitholders	\$4,725	\$—
Accrued capital expenditures	\$7,444	\$2,754
Value of common units issued in business combinations	\$—	\$3,947

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

NGL ENERGY PARTNERS LP AND SUBSIDIARIES  
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1—Organization and Operations

NGL Energy Partners LP (“we,” “us,” “our,” or the “Partnership”) is a Delaware limited partnership. NGL Energy Holdings LLC serves as our general partner. At December 31, 2017, our operations include:

Our Crude Oil Logistics segment purchases crude oil from producers and transports it to refineries or for resale at pipeline injection stations, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs, and provides terminaling, trucking, marine and pipeline transportation services through its owned assets.

Our Water Solutions segment provides services for the treatment and disposal of wastewater generated from crude oil and natural gas production and for the disposal of solids such as tank bottoms and drilling fluids and performs truck and frac tank washouts. In addition, our Water Solutions segment sells the recovered hydrocarbons that result from performing these services.

Our Liquids segment supplies natural gas liquids to retailers, wholesalers, refiners, and petrochemical plants throughout the United States and in Canada using its leased underground storage and fleet of leased railcars, markets regionally through its 21 owned terminals throughout the United States, and provides terminaling and storage services at its salt dome storage facility in Utah.

Our Retail Propane segment sells propane, distillates, equipment and supplies to end users consisting of residential, agricultural, commercial, and industrial customers and to certain resellers in 30 states and the District of Columbia. Our Refined Products and Renewables segment conducts gasoline, diesel, ethanol, and biodiesel marketing operations, purchases refined petroleum and renewable products primarily in the Gulf Coast, Southeast and Midwest regions of the United States and schedules them for delivery at various locations throughout the country.

Note 2—Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include our accounts and those of our controlled subsidiaries. Intercompany transactions and account balances have been eliminated in consolidation. Investments we cannot control, but can exercise significant influence over, are accounted for using the equity method of accounting. We also own an undivided interest in a crude oil pipeline, and include our proportionate share of assets, liabilities, and expenses related to this pipeline in our unaudited condensed consolidated financial statements.

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim consolidated financial information in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, the unaudited condensed consolidated financial statements exclude certain information and notes required by GAAP for complete annual consolidated financial statements. However, we believe that the disclosures made are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements include all adjustments that we consider necessary for a fair presentation of our consolidated financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed in this Quarterly Report. The unaudited condensed consolidated balance sheet at March 31, 2017 was derived from our audited consolidated financial statements for the fiscal year ended March 31, 2017 included in our Annual Report on Form 10-K (“Annual Report”) filed with the SEC on May 26, 2017.

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



of the results of operations to be expected for future periods or for the full fiscal year ending March 31, 2018.

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Use of Estimates

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

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

Significant Accounting Policies

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

Fair Value Measurements

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

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

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

• Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity price swap and option contracts and forward commodity contracts. We determine the fair value of all of our derivative financial instruments utilizing pricing models for similar instruments. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

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

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to a fair value measurement requires judgment, considering factors specific to the asset or liability.

Derivative Financial Instruments

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

We have not designated any financial instruments as hedges for accounting purposes. All changes in the fair value of our commodity derivative instruments that do not qualify as normal purchases and normal sales (whether cash transactions or

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

non-cash mark-to-market adjustments) are reported within cost of sales in our unaudited condensed consolidated statements of operations, regardless of whether the contract is physically or financially settled.

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

#### Revenue Recognition

We record product sales revenues when title to the product transfers to the purchaser, which typically occurs when the purchaser receives the product. We record terminaling, transportation, storage, and service revenues when the service is performed, and we record tank and other rental revenues over the lease term. Revenues for our Water Solutions segment are recognized when we obtain the wastewater at our treatment and disposal facilities.

The tariffs we charge for our pipeline transportation systems are primarily regulated by the Federal Energy Regulatory Commission. Our tariffs include provisions which allow us to deduct from our customer's inventory a small percentage of the products our customers transport on our pipeline systems. We refer to these product quantities as pipeline loss allowance. We receive pipeline loss allowances from our customers as consideration for product losses during the transportation of their products on our pipeline systems. Our customers are guaranteed delivery of the amount of their injected volumes, net of pipeline loss allowance, irrespective of what our actual product losses may be during the delivery process.

We report taxes collected from customers and remitted to taxing authorities, such as sales and use taxes, on a net basis. We include amounts billed to customers for shipping and handling costs in revenues in our unaudited condensed consolidated statements of operations. We enter into certain contracts whereby we agree to purchase product from a counterparty and sell the same volume of product to the same counterparty at a different location or time. When such agreements are entered into at the same time and in contemplation of each other, we record the revenues for these transactions net of cost of sales.

Revenues during the three months ended December 31, 2017 and 2016 include \$0.3 million and \$1.2 million, respectively, and revenues during the nine months ended December 31, 2017 and 2016 include \$1.0 million and \$3.7 million, respectively, associated with the amortization of a liability recorded in the acquisition accounting for an acquired business related to certain out-of-market revenue contracts.

#### Income Taxes

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

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

We evaluate uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. We had no material uncertain tax positions that required recognition in our unaudited condensed consolidated financial statements at December 31, 2017 or March 31, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law by the President of the United States. The Act amended the Internal Revenue Code of 1986 for taxable years beginning after December 31, 2017 and does not extend retroactively to any prior tax periods. Beginning in tax year 2018, the deductibility of net interest expense is limited to 30% of our adjusted taxable income. For tax years beginning after December 31, 2017 and before January 1, 2022, the Act calculates adjusted taxable income using an EBITDA-based calculation. For tax years beginning January 1, 2022 and thereafter, the calculation of adjusted taxable income will not add back depreciation or amortization. Any disallowed business interest expense is then generally carried forward as a deduction in a succeeding taxable year at the partner level. These limitations might cause interest expense to be deducted by our unitholders in a later period than recognized in the GAAP financial statements.

As of December 31, 2017, we do not have any deferred tax assets or liabilities. Any future deferred tax assets or liabilities will be valued based on the new corporate tax rate under the Act.

## Inventories

We value our inventories at the lower of cost or market, with cost determined using either the weighted-average cost or the first in, first out (FIFO) methods, including the cost of transportation and storage. Market is determined based on estimated replacement cost using prices at the end of the reporting period. On April 1, 2017, we adopted the new inventory standard, Accounting Standards Update ("ASU") No. 2015-11. Under this ASU, inventory is to be measured at the lower of cost or net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. In performing this analysis, we consider fixed-price forward commitments and the opportunity to transfer propane inventory from our wholesale Liquids business to our Retail Propane business to sell the inventory in retail markets.

Inventories consist of the following at the dates indicated:

	December 31, 2017	March 31, 2017
	(in thousands)	
Crude oil	\$77,306	\$146,857
Natural gas liquids:		
Propane	118,998	38,631
Butane	40,670	5,992
Other	11,778	6,035
Refined products:		
Gasoline	214,717	193,051
Diesel	129,126	98,237
Renewables:		
Ethanol	39,631	42,009
Biodiesel	8,124	21,410
Other	4,750	9,210
Total	\$645,100	\$561,432

Amounts as of December 31, 2017 in the table above exclude inventory related to the potential sale of a portion of the Retail Propane segment, as these amounts have been classified as current assets held for sale in our unaudited condensed consolidated balance sheet (see Note 14).

#### Investments in Unconsolidated Entities

Investments we cannot control, but can exercise significant influence over, are accounted for using the equity method of accounting. Investments in partnerships and limited liability companies, unless our investment is considered to be minor, and

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

investments in unincorporated joint ventures are also accounted for using the equity method of accounting. Under the equity method, we do not report the individual assets and liabilities of these entities on our unaudited condensed consolidated balance sheets; instead, our ownership interests are reported within investments in unconsolidated entities on our unaudited condensed consolidated balance sheets. Under the equity method, the investment is recorded at acquisition cost, increased by our proportionate share of any earnings and additional capital contributions and decreased by our proportionate share of any losses, distributions paid, and amortization of any excess investment. Excess investment is the amount by which our total investment exceeds our proportionate share of the historical net book value of the net assets of the investee. We use the cumulative earnings approach to classify distributions received from unconsolidated entities as either operating activities or investing activities in our unaudited condensed consolidated statements of cash flows.

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

Entity	Segment	Ownership Interest (1)	Date Acquired or Formed	December 31, 2017	March 31, 2017
				(in thousands)	
Glass Mountain Pipeline, LLC (2)	Crude Oil Logistics	—%	December 2013	\$—	\$172,098
E Energy Adams, LLC	Refined Products and Renewables	19%	December 2013	14,369	12,952
Water treatment and disposal facility (3)	Water Solutions	50%	August 2015	2,000	2,147
Victory Propane, LLC (4)	Retail Propane	50%	April 2015	—	226
Total				\$16,369	\$187,423

(1) Ownership interest percentages are at December 31, 2017.

(2) On December 22, 2017, we sold our previously held 50% interest in Glass Mountain Pipeline, LLC for net proceeds of \$292.1 million and recorded a gain on disposal of \$108.6 million during the three months ended December 31, 2017 within (gain) loss on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations.

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

(4) As our investment is \$0 at December 31, 2017, our proportionate share of Victory Propane, LLC's ("Victory Propane") losses have been recorded against the loan receivable we have with Victory Propane. See Note 13 for a further discussion of the loan receivable and a description of other transactions between us and Victory Propane.

#### Variable Interest Entity

Victory Propane was formed as a joint venture in April 2015 by us and an unrelated third party. The business purpose of Victory Propane is to acquire and/or develop retail propane operations in a defined geographic area. In conjunction with the formation of Victory Propane, we agreed to provide Victory Propane a revolving line of credit of \$5.0 million to be used for working capital and/or acquisition funding. Victory Propane began using this revolving line of credit shortly after operations commenced. At December 31, 2017, we provided a majority of Victory Propane's financing and have concluded that Victory Propane is a variable interest entity because the equity is not sufficient to fund Victory Propane's activities without additional subordinated financial support. Each joint venture member has an equal ownership interest in Victory Propane and has equal representation on Victory Propane's board of managers to make all significant decisions relating to the operations of Victory Propane. Therefore, we do not have the power to direct activities that significantly influence the economic performance of Victory Propane and have concluded that we are not the primary beneficiary. Our maximum exposure to loss related to Victory Propane is limited to the sum of our equity investment as shown in the table above and the outstanding loan receivable (see Note 13) at December 31,



2017.

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## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

## Other Noncurrent Assets

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

	December 2017	March 31, 2017
	(in thousands)	
Loan receivable (1)	\$32,396	\$40,684
Line fill (2)	36,446	30,628
Tank bottoms (3)	42,044	42,044
Minimum shipping fees - pipeline commitments (4)	82,301	67,996
Other	49,578	58,252
Total	\$242,765	\$239,604

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

Represents minimum volumes of product we are required to leave on certain third-party owned pipelines under long-term shipment commitments. At December 31, 2017, line fill consisted of 377,320 barrels of crude oil and (2) 262,000 barrels of propane (requirement is due to a new contract). At March 31, 2017, line fill consisted of 427,193 barrels of crude oil. Line fill held in pipelines we own is included within property, plant and equipment (see Note 5).

Tank bottoms, which are product volumes required for the operation of storage tanks, are recorded at historical cost. We recover tank bottoms when the storage tanks are removed from service. At December 31, 2017 and (3) March 31, 2017, tank bottoms held in third party terminals consisted of 366,212 barrels and 366,212 barrels of refined products, respectively. Tank bottoms held in terminals we own are included within property, plant and equipment (see Note 5).

Represents the minimum shipping fees paid in excess of volumes shipped for two contracts. This amount can be (4) recovered when volumes shipped exceed the minimum monthly volume commitment (see Note 9). Under these contracts, we currently have 2.3 years and 2.8 years, respectively, in which to ship the excess volumes.

## Accrued Expenses and Other Payables

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

	December 2017	March 31, 2017
	(in thousands)	
Accrued compensation and benefits	\$16,237	\$22,227
Excise and other tax liabilities	48,803	64,051
Derivative liabilities	34,713	27,622
Accrued interest	33,389	44,418
Product exchange liabilities	24,312	1,693
Deferred gain on sale of general partner interest in TLP	30,113	30,113
Other	43,185	17,001
Total	\$230,752	\$207,125

Amounts as of December 31, 2017 in the table above exclude accrued expenses and other payables related to the potential sale of a portion of the Retail Propane segment, as these amounts have been classified as current liabilities held for sale in our unaudited condensed consolidated balance sheet (see Note 14).

Deferred Gain on Sale of General Partner Interest in TLP

On February 1, 2016, we sold our general partner interest in TransMontaigne Partners L.P. (“TLP”) to an affiliate of ArcLight Capital Partners. We deferred a portion of the gain on the sale and will recognize this amount over our future lease payment obligations, which is approximately seven years. During the three months ended December 31, 2017 and 2016, we recognized \$7.5 million and \$7.5 million, respectively, and during the nine months ended December 31, 2017 and 2016, we recognized \$22.6 million and \$22.6 million, respectively, of the deferred gain in our unaudited condensed consolidated

NGL ENERGY PARTNERS LP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

statements of operations. Within our December 31, 2017 unaudited condensed consolidated balance sheet, the current portion of the deferred gain, \$30.1 million, is recorded in accrued expenses and other payables, and the long-term portion, \$116.7 million, is recorded in other noncurrent liabilities.

Noncontrolling Interests

Noncontrolling interests represent the portion of certain consolidated subsidiaries that are owned by third parties. Amounts are adjusted by the noncontrolling interest holder's proportionate share of the subsidiaries' earnings or losses each period and any distributions that are paid. Noncontrolling interests are reported as a component of equity, unless the noncontrolling interest is considered redeemable, in which case the noncontrolling interest is recorded between liabilities and equity (mezzanine or temporary equity) in our unaudited condensed consolidated balance sheet. The redeemable noncontrolling interest is adjusted at each balance sheet date to its maximum redemption value if the amount is greater than the carrying value. During the nine months ended December 31, 2017, we recorded \$1.2 million to adjust the redeemable noncontrolling interest to its maximum redemption value.

Business Combination Measurement Period

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

Also, as discussed in Note 4, we made certain adjustments during the nine months ended December 31, 2017 to our estimates of the acquisition date fair values of assets acquired and liabilities assumed in business combinations that occurred during the fiscal year ended March 31, 2017.

Reclassifications

We have reclassified certain prior period financial statement information to be consistent with the classification methods used in the current fiscal year. These reclassifications did not impact previously reported amounts of equity, net income, or cash flows.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15, "Statement of Cash Flows-Classification of Certain Cash Receipts and Cash Payments." The ASU requires cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability to be separated and classified as cash outflows for financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities and any excess should be classified as operating activities. We adopted this ASU effective April 1, 2017 and have revised previously reported information.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses." The ASU requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected, which would include accounts receivable. The measurement of expected credit losses is based on relevant

information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The ASU is effective for the Partnership beginning April 1, 2020, and requires a modified retrospective method of adoption, although early adoption is permitted. We are currently in the process of assessing the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The ASU will replace previous lease accounting guidance in GAAP. The ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. The ASU retains a distinction between finance leases and operating leases. The ASU is effective for the Partnership beginning April 1, 2019, and requires a modified retrospective method of adoption. We are currently in the process

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

of compiling a database of leases and analyzing each lease to assess the impact under this ASU on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU will replace most existing revenue recognition guidance in GAAP. The core principle of this ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU is effective for the Partnership beginning April 1, 2018, and allows for both full retrospective and modified retrospective methods of adoption.

We are in the process of evaluating our revenue contracts by segment and type to determine the potential impact of adopting this ASU. At this point in our evaluation process, we have determined that the timing and/or amount of revenue that we recognize on certain contracts, particularly contracts with minimum volume commitments, specifically in our Water Solutions, Crude Oil Logistics, Refined and Renewables and Liquids segments, tiered pricing, non-cash consideration and multi-year services arrangements, may be impacted by the adoption of this ASU; however, we are still in the process of quantifying these impacts, if any, and have not yet determined whether they would be material to our consolidated financial statements. We have hired a third-party to assist us in the evaluation of these contracts. In addition, we are in the process of implementing appropriate changes to our business processes, systems and controls to support recognition and disclosure under this ASU. We continue to monitor additional authoritative or interpretive guidance related to this ASU as it becomes available, as well as comparing our conclusions on specific interpretative issues to other peers in our industry, to the extent that such information is available to us. We currently anticipate utilizing a modified retrospective adoption as of April 1, 2018.

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Weighted average units outstanding during the period:				
Common units - Basic	120,844,008	107,966,901	120,899,502	106,114,668
Effect of Dilutive Securities:				
Performance awards	—	—	—	111,826
Warrants	2,914,383	—	—	3,328,434
Service awards	403,575	—	—	—
Common units - Diluted	124,161,966	107,966,901	120,899,502	109,554,928

For the three months ended December 31, 2017, the Class A Preferred Units (as defined herein) and Performance Awards (as defined herein) were considered antidilutive. For the nine months ended December 31, 2017 and three months ended December 31, 2016, the Class A Preferred Units, Performance Awards, Service Awards and warrants were considered antidilutive. For the nine months ended December 31, 2016, the Class A Preferred Units and Service Awards were considered antidilutive.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
	(in thousands, except unit and per unit amounts)			
Net income (loss)	\$ 56,769	\$ 1,293	\$ (180,517 )	\$ 117,388
Less: Net income attributable to noncontrolling interests	(89 )	(317 )	(221 )	(6,091 )
Less: Net (income) loss attributable to redeemable noncontrolling interests	(424 )	—	261	—
Net income (loss) attributable to NGL Energy Partners LP	56,256	976	(180,477 )	111,297
Less: Distributions to preferred unitholders	(16,219 )	(8,906 )	(42,001 )	(20,958 )
Less: Net (income) loss allocated to general partner (1)	(73 )	(22 )	121	(180 )
Less: Repurchase of warrants (2)	—	—	(349 )	—
Net income (loss) allocated to common unitholders	\$ 39,964	\$ (7,952 )	\$ (222,706 )	\$ 90,159
Basic income (loss) per common unit	\$ 0.33	\$ (0.07 )	\$ (1.84 )	\$ 0.85
Diluted income (loss) per common unit	\$ 0.32	\$ (0.07 )	\$ (1.84 )	\$ 0.82
Basic weighted average common units outstanding	120,844,008	107,966,901	120,899,502	106,114,668
Diluted weighted average common units outstanding	124,161,964	107,966,901	120,899,502	109,554,928

(1) Net (income) loss allocated to the general partner includes distributions to which it is entitled as the holder of incentive distribution rights.

(2) This amount represents the excess of the repurchase price over the fair value of the warrants, as discussed further in Note 10.

#### Note 4—Acquisitions

The following summarizes our acquisitions during the nine months ended December 31, 2017:

##### Acquisition of Remaining Interest in NGL Solids Solutions, LLC

On April 17, 2017, we entered into a purchase and sale agreement with the party owning the 50% noncontrolling interest in NGL Solids Solutions, LLC, a consolidated subsidiary in our Water Solutions segment. Total consideration was \$23.1 million, which consisted of cash of \$20.0 million and the termination of a non-compete agreement that we valued at \$3.1 million, and in return we received the following:

- The remaining 50% interest in NGL Solids Solutions, LLC; and
- Two parcels of land to develop saltwater disposal wells.

We accounted for the transaction as an acquisition of assets. Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of a group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed/released based on their relative fair values and does not give rise to goodwill or bargain purchase gains. We allocated \$22.9 million to noncontrolling interest and \$0.2 million to land. The acquisition of the remaining interest was accounted for as an equity transaction, no gain or loss was recorded and the carrying value of the noncontrolling interest was adjusted to reflect the change in ownership interest of the subsidiary. As of the date of the transaction, the 50% noncontrolling interest had a carrying value of \$16.6 million. For the termination of the non-compete agreement, we recorded a gain of \$1.3 million, which included the carrying value

of the non-compete agreement intangible asset that was written off (see Note 7). This gain was recorded within (gain) loss on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations during the nine months ended December 31, 2017.

#### Retail Propane Businesses

During the nine months ended December 31, 2017, we acquired six retail propane businesses for total consideration of \$30.5 million. The agreements for these acquisitions contemplate post-closing payments for certain working capital items.



## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

We are in the process of identifying and determining the fair values of the assets acquired and liabilities assumed for these retail propane businesses, and as a result, the estimates of fair value at December 31, 2017 are subject to change. The following table summarizes the preliminary estimates of the fair values of the assets acquired and liabilities assumed (in thousands):

Current assets	\$2,042
Property, plant and equipment	10,686
Goodwill	3,010
Intangible assets	16,625
Current liabilities	(1,586 )
Other noncurrent liabilities	(291 )
Fair value of net assets acquired	\$30,486

Goodwill represents the excess of the consideration paid for the acquired businesses over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill represents a premium paid to acquire the skilled workforce of each of the businesses acquired and the ability to expand into new markets. We expect that all of the goodwill will be deductible for federal income tax purposes.

The operations of these retail propane businesses have been included in our unaudited condensed consolidated statement of operations since their acquisition date. Our unaudited condensed consolidated statement of operations for the nine months ended December 31, 2017 includes revenues of \$8.8 million and operating income of \$0.8 million that were generated by the operations of three of these retail propane businesses. The revenues and operating income of the other retail propane business acquisitions are not considered material.

The following summarizes the status of the preliminary purchase price allocation of acquisitions prior to April 1, 2017:

#### Water Solutions Facilities

During the six months ended September 30, 2017, we completed the acquisition accounting for two water solutions facilities. During the six months ended September 30, 2017, we received additional information and recorded a decrease of \$0.2 million to property, plant and equipment and an increase of less than \$0.1 million to other noncurrent liabilities related to an asset retirement obligation. The offset of these adjustments was recorded to goodwill.

#### Retail Propane Businesses

During the nine months ended December 31, 2017, we completed the acquisition accounting for four retail propane businesses. During the nine months ended December 31, 2017, we received additional information and recorded a decrease of \$0.2 million to current assets and a decrease of less than \$0.1 million to property, plant and equipment. The offset of these adjustments was recorded to goodwill. In addition, we paid \$0.4 million in cash to the sellers during the nine months ended December 31, 2017 for consideration that was held back at the acquisition date, which we recorded as a liability within accrued expenses and other payables in our unaudited condensed consolidated balance sheet.

#### Natural Gas Liquids Facilities

During the three months ended June 30, 2017, we completed the acquisition accounting for certain natural gas liquids facilities acquired in January 2017. There were no material adjustments to the fair value of assets acquired and

liabilities assumed during the three months ended June 30, 2017.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

## Note 5—Property, Plant and Equipment

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

Description	Estimated Useful Lives	December 31,	March 31,
		2017	2017
(in thousands)			
Natural gas liquids terminal and storage assets	2–30 years	\$238,092	\$207,825
Pipeline and related facilities	30–40 years	255,930	248,582
Refined products terminal assets and equipment	15–25 years	7,062	6,736
Retail propane equipment	2–30 years	195,414	239,417
Vehicles and railcars	3–25 years	179,691	198,480
Water treatment facilities and equipment	3–30 years	585,569	557,100
Crude oil tanks and related equipment	2–30 years	218,056	203,003
Barges and towboats	5–30 years	91,884	91,037
Information technology equipment	3–7 years	43,495	43,880
Buildings and leasehold improvements	3–40 years	167,446	161,957
Land		56,593	56,545
Tank bottoms and line fill (1)		20,094	24,462
Other	3–20 years	14,802	39,132
Construction in progress		54,729	87,711
		2,128,857	2,165,867
Accumulated depreciation		(420,174 )	(375,594 )
Net property, plant and equipment		\$1,708,683	\$1,790,273

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

Amounts as of December 31, 2017 in the table above exclude property, plant and equipment and the accumulated depreciation related to the potential sale of a portion of the Retail Propane segment, as these amounts have been classified as current assets held for sale in our unaudited condensed consolidated balance sheet (see Note 14).

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

	Three Months Ended		Nine Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
(in thousands)				
Depreciation expense	\$32,629	\$32,039	\$98,761	\$88,396
Capitalized interest expense	\$66	\$1,429	\$66	\$6,233

We record losses (gains) from the sales of property, plant and equipment and any write-downs in value due to impairment within (gain) loss on disposal or impairment of assets, net in our unaudited condensed consolidated statements of operations. During the three months ended December 31, 2017, we recorded a net loss of \$4.7 million. The net loss consisted of losses of \$7.5 million related to the disposal of certain assets, offset by a gain of \$2.8 million related to the sale of excess pipe in our Crude Oil Logistics segment. During the nine months ended December 31,

2017, we recorded a net loss of \$4.0 million. The net loss consisted of losses of \$10.6 million related to the disposal of certain assets and the write-down of other assets, offset by a gain of \$6.6 million related to the sale of excess pipe in our Crude Oil Logistics segment.

## NGL ENERGY PARTNERS LP AND SUBSIDIARIES

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

## Note 6—Goodwill

The following table summarizes changes in goodwill by segment during the nine months ended December 31, 2017:

	Crude Oil Logistics	Water Solutions	Liquids	Retail Propane	Refined Products and Renewables	Total
	(in thousands)					
Balances at March 31, 2017	\$579,846	\$424,270	\$266,046	\$130,427	\$51,127	\$1,451,716
Revisions to acquisition accounting (Note 4)	—	195	—			