Shell Midstream Partners, L.P.
Form 10-K
February 23, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-36710

Shell Midstream Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	46-5223743
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (888) 737-2377
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units, Representing Limited Partnership Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No
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. x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x No
The aggregate market value of the registrant’s common units held by non-affiliates of the registrant as of June 30, 2016, was $2,983 million, based on the closing price of such units of $33.79 as reported on the New York Stock Exchange on such date. The registrant had 177,317,444 common units and no subordinated units outstanding as of February 23, 2017.
Documents incorporated by reference:
None

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. You can identify our forward-looking statements by the words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "sho "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about us and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

- The continued ability of Shell and our non-affiliate customers to satisfy their obligations under our commercial and other agreements and the impact of lower market prices for oil, and refined products.
- The volume of crude oil and refined petroleum products we transport or store and the prices that we can charge our customers.
- The tariff rates with respect to volumes that we transport through our regulated assets, which rates are subject to review and possible adjustment imposed by federal and state regulators.
- Changes in revenue we realize under the loss allowance provisions of our fees and tariffs resulting from changes in underlying commodity prices.
- Fluctuations in the prices for crude oil and refined petroleum products.
- The level of onshore and offshore (including deepwater) production and demand for crude by U.S. refiners.
- Changes in global economic conditions and the effects of a global economic downturn on the business of Shell and the business of its suppliers, customers, business partners and credit lenders.
- Liabilities associated with the risks and operational hazards inherent in transporting and storing crude oil and refined petroleum products.
- Curtailment of operations or expansion projects due to unexpected leaks or spills, severe weather disruption; riots, strikes, lockouts or other industrial disturbances; or failure of information technology systems due to various causes, including unauthorized access or attack.
- Costs or liabilities associated with federal, state and local laws and regulations relating to environmental protection and safety, including spills, releases and pipeline integrity.
- Costs associated with compliance with evolving environmental laws and regulations on climate change.
- Costs associated with compliance with safety regulations and system maintenance programs, including pipeline integrity management program testing and related repairs.
- Changes in tax status.
- Changes in the cost or availability of third-party vessels, pipelines, rail cars and other means of delivering and transporting crude oil and refined petroleum products.
- Direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war.
- Availability of acquisitions and financing for acquisitions on our expected timing and acceptable terms.
- Changes in, and availability to us, of the equity and debt capital markets.
- The factors generally described in Part I, Item 1A. Risk Factors of this report.

GLOSSARY OF TERMS

Barrel: One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to crude oil or other liquid hydrocarbons.

BOEM: Bureau of Ocean Energy Management.

BSEE: Bureau of Safety and Environmental Enforcement.

Capacity: Nameplate capacity.

Common carrier pipeline: A pipeline engaged in the transportation of crude oil, refined products or natural gas liquids as a common carrier for hire.

Crude oil: A mixture of raw hydrocarbons that exists in liquid phase in underground reservoirs.

DOT: Department of Transportation.

EPAct: Energy Policy Act of 1992.

Expansion capital expenditures: Expansion capital expenditures is a defined term under our partnership agreement. Expansion capital expenditures are cash expenditures (including transaction expenses) for capital improvements. Expansion capital expenditures do not include maintenance capital expenditures or investment capital expenditures. Expansion capital expenditures do include interest payments (including periodic net payments under related interest rate swap agreements) and related fees paid during the construction period on construction debt. Where cash expenditures are made in part for expansion capital expenditures and in part for other purposes, the general partner determines the allocation between the amounts paid for each.

FERC: Federal Energy Regulatory Commission.

GAAP: United States generally accepted accounting principles.

HCAs: High Consequence Areas.

ICA: Interstate Commerce Act.

kbpd: Thousand barrels per day.

Life-of-lease agreement: A contract in which the producer dedicates shipments of all current and future reserves pertaining to a specific lease or area to a specific carrier.

LNG: Liquefied natural gas.

LTIP: Shell Midstream Partners, L.P. 2014 Incentive Compensation Plan.

Maintenance capital expenditures: Maintenance capital expenditures is a defined term under our partnership agreement. Maintenance capital expenditures are cash expenditures (including expenditures for (a) the acquisition (through an asset acquisition, merger, stock acquisition, equity acquisition or other form of investment) by the Partnership or any of its subsidiaries of existing assets or assets under construction, (b) the construction or development of new capital assets by the Partnership or any of its subsidiaries, (c) the replacement, improvement or expansion of existing capital assets by the Partnership or any of its subsidiaries or (d) a capital contribution by the Partnership or any of its subsidiaries to a person that is not a subsidiary in which the Partnership or any of its subsidiaries has, or after such capital contribution will have, directly or indirectly, an equity interest, to fund the Partnership or such subsidiary's share of the cost of the acquisition, construction or development of new, or the replacement, improvement or expansion of existing, capital assets by such person), in each case if and to the extent such acquisition, construction, development, replacement, improvement or expansion is made to maintain, over the long-term, the operating capacity or operating income of the Partnership and its subsidiaries, in the case of clauses (a), (b) and (c), or such person, in the case of clause (d), as the operating capacity or operating income of the Partnership and its subsidiaries or such person, as the case may be, existed immediately prior to such acquisition, construction, development, replacement, improvement, expansion or capital contribution. For purposes of this definition, "long-term" generally refers to a period of not less than twelve months.

mbls: Million barrels.

mscf/d: Million standard cubic feet per day.

Partnership Agreement: First Amended and Restated Agreement of Limited Partnership of Shell Midstream Partners, L.P., dated as of November 3, 2014.
PHMSA: Pipeline and Hazardous Materials Safety Administration.
Product loss allowance or PLA: An allowance for volume losses due to measurement difference set forth in crude oil product transportation agreements, including long-term transportation agreements and tariffs for crude oil shipments.
Refined products: Hydrocarbon compounds, such as gasoline, diesel fuel, jet fuel and residual fuel that are produced by a refinery.
Ship-or-pay contract: A contract requiring payment for the transportation of crude oil or refined products even if the crude oil or refined products are not transported.
Tension-leg platform: A vertically moored floating structure normally used for the offshore production of oil or gas, and particularly suited for water depths greater than 300 meters. The platform is permanently moored by means of tethers or tendons grouped at each of the structure’s corners. A group of tethers is called a tension leg. A feature of the design of the tethers is that they have relatively high axial stiffness (low elasticity), such that vertical motion of the platform is significantly reduced. Tension-leg platforms equipped with a drilling rig have direct vertical access for drilling and completing wells, as well as intervention operations.
Throughput: The volume of crude oil, refined products or natural gas transported or passing through a refinery, pipeline, terminal or other facility during a particular period.

SHELL MIDSTREAM PARTNERS, L.P.
TABLE OF CONTENTS

PART I

Unless the context otherwise requires, references in this report to "Shell Midstream Partners," "the Partnership," "us," "our," "we," or similar expressions for time period from and after November 3, 2014, the closing date of our Initial Public Offering ("IPO"), refer to Shell Midstream Partners, L.P. and its subsidiaries. References to "our general partner" refer to Shell Midstream Partners GP LLC, a wholly owned subsidiary of Shell Pipeline Company LP ("SPLC"). References to "Shell" or "Parent" refer collectively to Royal Dutch Shell plc and its controlled affiliates, other than us, our subsidiaries and our general partner.

The following businesses were acquired from our Parent and accounted for as acquisitions between entities under common control. As such, our consolidated financial statements include the financial results of these businesses, which were derived from the financial statements and accounting records of SPLC and Shell for the periods prior to acquisition. Specifically, such businesses are reflected for the following periods prior to the effective date of such acquisition:

- Houston-to-Houma crude oil pipeline system ("Ho-Ho") for periods prior to July 1, 2014;
- Zydeco Pipeline Company LLC ("Zydeco") for the period from July 1, 2014 through November 2, 2014; and
- Shell Auger and Lockport Operations as defined below for periods prior to October 1, 2015.

Our consolidated statements of income exclude the results of these businesses from net income attributable to the Partnership for the periods indicated above by allocating these results to our Parent.

Items 1 and 2. BUSINESS AND PROPERTIES

Overview

Shell Midstream Partners, L.P. is a Delaware limited partnership formed by Shell on March 19, 2014, to own, operate, develop and acquire pipelines and other midstream assets. On November 3, 2014, we completed our IPO. Our common units are traded on the New York Stock Exchange ("NYSE") under the symbol "SHLX." As of December 31, 2016, SPLC, through Shell Midstream LP Holdings LLC, owned 21,475,068 common units and 67,475,068 subordinated units, representing a 49.2% limited partner interest in us. Our subordinated units converted to common units on February 15, 2017. SPLC also owned a 100% interest in Shell Midstream Partners GP LLC, our general partner, which in turn owned 3,618,723 general partner units, representing a 2% general partner interest in us.

We are a fee-based, growth-oriented master limited partnership. Our assets consist of interests in entities that own crude oil, refined products and natural gas pipelines, and a crude tank storage and terminal system. Our pipelines and crude tank storage and terminal system serve as key infrastructure to transport and store onshore and offshore crude oil production to Gulf Coast and Midwest refining markets, to deliver Gulf Coast natural gas production to market hubs, and to deliver refined products from Gulf Coast markets to major demand centers. We generate the majority of our revenue under long-term agreements by charging fees for the transportation or storage of crude oil and refined products through our pipelines, the transportation of natural gas through our pipeline, and crude tank storage and terminal services. We do not engage in the marketing and trading of any commodities. Our operations comprise one reportable segment containing our portfolio of pipelines and other midstream assets. See Note 1—Description of the Business and Basis of Presentation in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

We own interests in seven crude oil pipeline systems, three refined products systems, one natural gas pipeline system and a crude tank storage and terminal system. The crude oil pipeline systems, which are the Auger Pipeline System ("Auger"), held by Pecten Midstream LLC ("Pecten"), Zydeco, Odyssey Pipeline LLC ("Odyssey"), Mars Oil Pipeline Company ("Mars"), Poseidon Oil Pipeline Company LLC ("Poseidon"), Proteus Oil Pipeline Company, LLC ("Proteus"), and Endymion Oil Pipeline Company, LLC ("Endymion"), are strategically located along the Texas and Louisiana Gulf Coast and in the Gulf of Mexico. These systems link major onshore and offshore production areas with key refining markets. The refined products pipeline systems held by Bengal Pipeline Company LLC ("Bengal") and Colonial Pipeline Company ("Colonial") connect Gulf Coast and southeastern U.S. refineries to major demand centers from

Alabama to New York, while the system held by Explorer Pipeline Company ("Explorer") serves more than 70 major cities in 16 states from the Gulf Coast to the Midwest. The natural gas pipeline system, Cleopatra Gas Gathering Company, LLC ("Cleopatra"), brings Gulf of Mexico gas production to the market hub at Ship Shoal 332. The crude storage terminal, Lockport Terminal ("Lockport"), is located southwest of Chicago and serves Midwest refineries. The following table reflects our ownership, and Shell's retained ownership as of December 31, 2016.

	SHLX Ownership		Shell's Retained Ownership	
Pecten Midstream LLC	100	%	—	%
Zydeco	92.5	%	7.5	%
Bengal Pipeline Company LLC	50.0	%	—	%
Odyssey Pipeline LLC	49.0	%	22.0	%
Mars Oil Pipeline Company	48.6	%	22.9	%
Poseidon Oil Pipeline Company LLC	36.0	%	—	%
Proteus Oil Pipeline Company, LLC	10.0	%	—	%
Endymion Oil Pipeline Company, LLC	10.0	%	—	%
Colonial Pipeline Company	6.0	%	10.12	%
Explorer Pipeline Company	2.62	%	35.97	%
Cleopatra Gas Gathering Company, LLC	1.0	%	—	%

Acquisitions in 2016 and 2015

In 2016, we completed three acquisitions from Shell, and one acquisition from third parties, with an aggregate purchase price of $1,118.2 million. These acquisitions are as follows:

- On December 27, 2016, we acquired a 10.0% interest in Proteus, a 10.0% interest in Endymion and a 1.0% interest in Cleopatra from subsidiaries of BP Pipelines (North America) Inc. (collectively, “BP Pipelines”) for $42.0 million in cash.
- On October 3, 2016, we acquired a 49.0% interest in Odyssey from Equilon Enterprises LLC, d/b/a Shell Oil Products US (“SOPUS”) and an additional 20.0% interest in Mars from SPLC for $350.0 million in cash.
- On August 9, 2016, we acquired a 2.62% equity interest in Explorer from SPLC for $26.2 million in cash.
- On May 23, 2016, we acquired an additional 30.0% interest in Zydeco, an additional 1.0% interest in Bengal and an additional 3.0% interest in Colonial from SPLC for $700.0 million in cash.

In 2015, we completed three acquisitions from Shell with an aggregate purchase price of $1,188.0 million. These acquisitions are as follows:

- On November 17, 2015, we acquired a 100% interest in Pecten, which owns Auger and Lockport (collectively, the “Shell Auger and Lockport Operations”), from SPLC for $390.0 million in cash.
- On July 1, 2015, we acquired a 36.0% interest in Poseidon from SOPUS for $350.0 million in cash.
- On May 18, 2015, we acquired an additional 19.5% interest in Zydeco and an additional 1.388% interest in Colonial from SPLC for $448.0 million in cash.

Organizational Structure

The following simplified diagram depicts our organizational structure as of December 31, 2016.

*SPLC intends to assume operatorship of these systems by the end of 2017.

Our Assets and Operations

Our assets consist of the following systems:

Crude Oil Pipelines

Onshore Crude Pipeline

Zydeco. We own a 92.5% interest in Zydeco, which owns the Zydeco pipeline system. SPLC owns the remaining 7.5% interest in, and is the operator of, Zydeco.

Zydeco is a FERC-regulated pipeline system. It spans over 350 miles and currently has a mainline capacity of approximately 375 kbpd. Zydeco consists of four main segments: (i) the Houston, Texas to Port Neches, Texas segment, which has a capacity of 250 kbpd, (ii) the Port Neches, Texas to Houma, Louisiana segment which has a capacity of 375 kbpd, (iii) the Houma, Louisiana to Clovelly, Louisiana segment, which has a capacity of 500 kbpd, and (iv) the Houma, Louisiana to St. James, Louisiana segment, which has a capacity of 260 kbpd. Zydeco also includes tankage in Port Neches, Texas and Erath and Houma, Louisiana, a dock in Houma, Louisiana and a 16-inch pipeline that indirectly connects to the offshore Boxer pipeline system. We added new tankage at Port Neches and a new third-party connection in late 2016. In August 2016, a joint tariff with LOCAP was filed that allowed for movement of Poseidon crude oil from Houma to St. James beginning September 2016. Moving Poseidon crude oil via LOCAP opened up an additional 100 to 140 kbpd of capacity for Zydeco's shippers on the Houma to St. James 18-inch pipeline, while enabling the Poseidon shippers to ship under the joint tariff at the same rate structure as the existing 18-inch pipeline. Also, a new connection into Zydeco at Channelview Houston with Transcanada’s Market Link pipeline became available in August 2016. This connection provides access to additional volumes from Cushing, OK.

Zydeco’s customers include traders, marketers, refiners, producers and affiliates of Shell. For 2016 and 2015, four third-party customers accounted for 76.1% and 75.0%, respectively, of total Zydeco revenue.

Offshore Crude Pipelines

Auger. Auger is wholly owned by Pecten, and we own a 100% interest in Pecten. SPLC is the operator of Auger. Auger is a 174-mile offshore Gulf of Mexico corridor pipeline that transports medium sour crude from producers in eastern Garden Bank and Keathley Canyon blocks. Auger offers producers two crude market options: (i) the 20-inch pipeline delivers to Ship Shoal pipeline at Ship Shoal 28 for delivery to the St. James market hub (Bonito Sour crude), and (ii) the 12-inch pipeline delivers to Eugene Island pipeline for delivery to the Houma market hub (Eugene Island crude). Auger shares a complementary strategic connection to the Poseidon pipeline system through South Marsh Island 205 which provides the producers connected to Southeast Keathley Canyon Pipeline Company L.L.C. ("SEKCo") the option to access either Poseidon or Auger delivery markets.

Auger provides transportation for major oil producers and from more than 13 different production fields in the Gulf of Mexico. Auger has several direct connected producers, including the Shell operated Garden Banks 426 (Auger) and Garden Banks 128 (Enchilada) platforms, and the ConocoPhillips operated Garden Banks 783 platform, connected via the Magnolia lateral pipeline. Auger also receives production from producers connected to Poseidon and SEKCo, including the Anadarko operated Keathley Canyon 875 platform (Lucius), via the South Marsh Island 205 Poseidon pipeline connection. The Auger pipeline system provides transportation for a number of customers from offshore to St. James via Ship Shoal and Houma via Eugene Island.

Auger receives the majority of its revenues from volumes transported on posted transportation rates, some of which are indexed annually. For direct connected producers, including Garden Banks 426 and Garden Banks 128 platforms, Auger captures transportation revenue for 100% of those volumes. Auger also receives transportation revenue from receipts at the South Marsh Island 205 connection, as producers seek to deliver into the typically advantaged Bonito Sour market at St. James.

Odyssey. We own a 49.0% interest in Odyssey, which owns the Odyssey pipeline system. SOPUS and GEL Offshore Pipeline LLC ("GEL") own a 22.0% interest and 29.0% interest, respectively, in Odyssey. SPLC is the operator of Odyssey.

The Odyssey pipeline system is an approximately 106-mile pipeline system for the transportation of crude oil in the offshore eastern Gulf of Mexico to markets in Louisiana. Odyssey provides transportation for major oil producers and from more than 20 different production fields in the eastern Gulf of Mexico. Major production platforms connected to Odyssey include: Delta House operated by LLOG Exploration Company, L.L.C., Ram Powell operated by Shell, Petronius operated by Chevron Corporation, and Horn Mountain operated by Freeport-McMoRan Inc. Crude oil transported via Odyssey is delivered to the Delta pipeline system for further delivery to onshore demand centers at Empire Terminal, Houma Terminal, and Norco and Alliance refineries.

Odyssey provides for the transportation of crude oil through the use of buy-sell arrangements where crude is purchased at the receipt location into the pipeline and sold back to the counterparty at the destination at that price plus a transportation differential.

Mars. We own a 48.6% interest in Mars, which owns the Mars pipeline system. SPLC owns a 22.9% ownership interest in, and is the operator of, Mars. An affiliate of BP Pipelines owns the remaining 28.5% interest in Mars.

The Mars pipeline system is approximately 163 miles in length and has 16-, 18- and 24-inch diameter pipelines with mainline capacity of up to 600 kbpd. Mars delivers production received from the Mississippi Canyon area, including the Olympus and Mars A platform and the Medusa and Ursa pipelines, and from the Green Canyon and Walker Ridge areas via the Amberjack pipeline connection, to shore, terminating in salt dome caverns in Clovelly, Louisiana, which is a major trading hub. Mars leases its main storage cavern at Clovelly from LOOP LLC, an affiliate of Shell. Mars has maintained a set of well-established customers, including an affiliate of Shell. For 2016 and 2015, 56.0% and 57.0%, respectively, of volumes transported on Mars were moved either under life-of-lease agreements or posted tariffs from production areas where there was established and consistent production activity and where there was limited take-away capacity beyond what our pipelines offered. Mars tariffs are subject to annual adjustment based on the FERC index. Such tariff adjustments allow for annual cash flow increases without commensurate incremental capital expenditures. In addition, in connection with the expansion described below, Mars entered into life-of-lease transportation agreements with certain producers that include a guaranteed return for Mars for an initial period of time

and thereafter will continue for the life of the lease. Mars also receives significant volume from Amberjack at Fourchon, Louisiana, the terminus of the Amberjack pipeline system. This connection is governed by a FERC tariff.
Poseidon. We own a 36.0% interest in Poseidon, which owns the Poseidon pipeline system. Genesis Energy, L.P. ("Genesis") owns the remaining 64.0% interest in, and is the operator of, Poseidon.

The Poseidon pipeline system is a 367-mile Gulf of Mexico offshore crude oil pipeline with a 350 kbpd capacity transporting to key markets in Texas and Louisiana. A key corridor pipeline, Poseidon connects to approximately 50 Gulf of Mexico fields and delivers to three locations. It provides access to major crude trading hubs via connecting carriers (i.e., Gibson/Houma to St James and Clovelly, Louisiana and via Cameron Highway Oil Pipeline System to Texas hubs in Texas City and Port Arthur). Poseidon delivers crude oil (i) into Zydeco's tankage at Houma, Louisiana via Poseidon's 24-inch line from Ship Shoal 332A, (ii) into connecting carriers at St. James, Louisiana via Zydeco's 18-inch line from Houma, Louisiana, (iii) into Raceland Pipeline subject to a new connection projected to be effective March 15, 2017; and (iv) for barrels on the west side of the Poseidon system and for certain barrels at Ship Shoal 332A, Poseidon can deliver oil into Auger via South Marsh Island 205A in addition to receiving oil from Auger, if needed. Poseidon owns the strategic platform South Marsh Island 205A.

Poseidon's largest customers are major oil producers who ship from a variety of production fields in the Gulf of Mexico. Each accounts for material throughput on the system, and together these shippers account for 90.0% of the throughput. Poseidon earns income through buy/sell arrangements, pursuant to which it purchases crude oil from its customer at the time the crude oil enters its pipeline system, and then resells the crude oil to the customer at the time the crude oil reaches its destination. At the resell point, Poseidon receives the original purchase price plus an agreed differential (referred to as the buy/sell differential). Many of Poseidon's customers have dedicated production to the pipeline. Some of Poseidon's customers have agreed to pay for the transportation of minimum periodic volumes whether or not they actually deliver those volumes for transportation.

Proteus. We own a 10.0% interest in Proteus, which owns the Proteus pipeline system. Mardi Gras Transportation System Inc ("Mardi Gras") and ExxonMobil Pipeline Company ("ExxonMobil") own a 65.0% interest and 25.0% interest, respectively, in Proteus. BP Pipelines, an affiliate of Mardi Gras, is currently the operator of Proteus, and SPLC intends to assume operatorship of this system by the end of 2017.

The Proteus pipeline system is a 71-mile crude oil pipeline with a 425 kbpd capacity and provides transportation for multiple oil producers in the eastern Gulf of Mexico. The pipeline provides access to the Mississippi Canyon area of the Gulf of Mexico from the Thunder Horse and Thunder Hawk platforms to the Proteus SP 89E Platform. Noble Energy Inc.'s Big Bend and Dantzler fields are tied back to Thunder Hawk platform. SPLC is currently building the Mattox pipeline which will connect to Proteus and transport all of the volumes from the recently-sanctioned Appomattox platform. Volumes transported on Proteus move via private oil transportation agreements, which are a mix of term and life-of-lease agreements, rather than posted tariffs.

Endymion. We own a 10.0% interest in Endymion, which owns the Endymion pipeline system. Mardi Gras Endymion Oil Pipeline Company, LLC ("Mardi Gras Endymion") and ExxonMobil own a 65.0% interest and 25.0% interest, respectively, in Endymion. BP Pipelines, an affiliate of Mardi Gras Endymion, is currently the operator of Endymion, and SPLC intends to assume operatorship of this system by the end of 2017.

The Endymion pipeline system, which originates downstream of the Proteus SP 89E Platform, is an 89-mile crude oil pipeline with a 425 kbpd capacity and provides transportation for multiple oil producers in the eastern Gulf of Mexico. Endymion provides access to the Mississippi Canyon area of the Gulf of Mexico and is connected to the LOOP Clovelly storage terminal with access to multiple markets. Endymion leases a cavern from LOOP LLC. Volumes transported on Endymion move via private oil transportation agreements, which are a mix of term and life-of-lease agreements, rather than posted tariffs. Such agreements also allow for storage at the LOOP Clovelly storage terminal.

Refined Products Pipelines

Bengal. We own a 50.0% interest in Bengal and Colonial owns a 50.0% interest in Bengal. Colonial is the system operator for regulatory reporting purposes and operates Bengal's tankage. SPLC operates Bengal's pipelines.

The Bengal pipeline system is a 159-mile refined products pipeline system connecting four refineries in southern Louisiana to long-haul transportation pipelines. The pipeline system consists of two primary pipelines. The 24-inch diameter pipeline has a capacity of 305 kbpd and connects the Motiva and Valero refineries in Norco, Louisiana and the Marathon refinery in Garyville, Louisiana to Bengal's Baton Rouge, Louisiana tankage and the Plantation pipeline. The 16-inch diameter pipeline has a capacity of 210 kbpd and runs from Motiva's Convent, Louisiana refinery to the Plantation pipeline and Bengal's Baton Rouge, Louisiana tankage.

The Bengal pipeline system provides transportation for a number of customers from connected refineries and terminals to the Plantation and Colonial pipelines, and from refineries to the Baton Rouge tankage. Bengal's revenue is primarily dependent on ship-or-pay contracts. As of December 31, 2016, approximately 67.0% of Bengal's capacity was subject to minimum volume commitments under ship-or-pay contracts with an average remaining term of 5 years. These contracts are renewable at the election of the shipper. Rates for Bengal's transportation services are governed by Bengal's FERC-approved tariffs. These tariffs are subject to annual adjustment based on the FERC index. Rates under the index ceiling do not require adjustment downward.

Bengal also has a joint tariff division agreement with Colonial covering transportation of refined products from refineries connected to the Bengal pipeline system to destinations in the southeast and eastern United States via the Colonial pipeline system. Under this joint tariff, Colonial bills and collects the tariff from the product shippers and remits to Bengal its share of the joint tariff.

Colonial. We own a 6.0% interest in Colonial, which owns the Colonial pipeline system. SPLC owns a 10.12% interest, and CDPQ Colonial Partners, LP; Koch Capital Investments Company, LLC; KKR-Keats Pipeline Investors LP and IFM (US) Colonial Pipeline 2, LLC collectively own the remaining 83.88% interest, in Colonial. The pipeline system is operated by Colonial.

The Colonial pipeline system is the largest refined products pipeline in the United States based on barrel-miles transported. Colonial includes more than 5,500 miles of pipeline connecting refineries along the Gulf Coast to approximately 265 marketing terminals between Houston, Texas and Linden, New Jersey. Colonial transports more than 100 million gallons a day of gasoline, jet fuel, kerosene, home heating oil, diesel fuel and national defense fuels to shipper terminals in 13 states and the District of Columbia.

Since its inception in 1963, Colonial has served a diverse set of customers, including refiners, marketers, airports and airlines. In 2016, more than 100 shippers transported product through Colonial's system, including an affiliate of Shell. Colonial is subject to FERC regulation and has both market-based rates and rates that are subject to annual adjustment based on the FERC index.

Explorer. We own a 2.62% interest in Explorer, which owns the Explorer pipeline system. SPLC owns a 35.97% interest, and MPL Investment LLC, Phillips 66 Partners Holdings LLC and Sunoco Pipeline L.P. collectively own the remaining 61.41% interest, in Explorer. The pipeline system is operated by Explorer.

The Explorer pipeline system is a FERC-regulated 1,830-mile common carrier petroleum products pipeline system, which extends from the Gulf Coast to the Midwest serving more than 70 major cities in 16 states. In 2016, Explorer placed into service a new 24-inch diluent pipeline extension from its existing Peotone, Illinois Station to Manhattan, Illinois allowing shippers to transport diluent volumes into Western Canada via this new Manhattan, Illinois origin. Explorer transports refined products with more than 72 different specifications for more than 60 different shippers. For the year ended December 31, 2016, the Explorer Owner Companies accounted for 12.72% of the total volume moved on the line as well as 9.31% of Explorer's total revenue.

Explorer has rates that are subject to annual adjustment based on the FERC index. In addition, Explorer has an auction program for certain excess capacity when the pipeline is fully subscribed. Explorer also has take-or-pay contracts for condensate delivered to the Southern Lights system.

Other Midstream Assets

Lockport. Lockport is wholly owned by Pecten, and we own a 100% interest in Pecten. SPLC is the operator of Lockport.

Lockport is a crude terminal facility located southwest of Chicago with two million barrels of storage capacity that feeds regional refineries, while also offering strategic trading opportunities. Lockport receives Canadian crude from the Enbridge pipeline and serves as a distribution point for movements originating on the Mustang and Westshore pipeline systems. Lockport provides storage services for a number of customers, receives primarily Canadian and Midwest crude and supplies Midwest refineries, such as Citgo Lamont Refinery and via connection to Patoka, a regional distribution hub. Lockport receives its revenues from contracted storage capacity.

Cleopatra. We own a 1.0% interest in Cleopatra, which owns the Cleopatra pipeline system. Mardi Gras, BHP Billiton Petroleum (Deepwater) Inc., Enbridge Offshore (Gas Transmission) LLC, and Chevron Midstream Investments LLC collectively own the remaining 99.0% interest in Cleopatra. BP Pipelines, an affiliate of Mardi Gras, is currently the operator of Cleopatra, and SPLC intends to assume operatorship of this system by the end of 2017.

The Cleopatra pipeline system is a 115-mile gas gathering pipeline and provides gathering and transportation for multiple gas producers and third party gas shippers in Southern Green Canyon, with access to Atwater Valley, Walker Ridge, and Lund areas of the Gulf of Mexico. Cleopatra is currently connected to the Holstein, Atlantis and Mad Dog platforms. The system will transport new volumes from the Mad Dog 2 field once it comes online. Additionally, Neptune and Shenzi platforms have access through third party pipelines into Cleopatra. Volumes transported on

Cleopatra move via private gas gathering agreements, which are life-of-lease agreements, rather than posted tariffs. Such agreements are not subject to annual escalation.

Pipeline Systems and Terminal Systems
The following table sets forth certain information regarding our pipeline and terminal systems:

Pipeline System/Terminal System	Diameter (inches)	Length (miles)	Approximate Capacity (kbpd)
Zydeco crude oil system - Mainlines			
Houston to Port Neches	20	87	250
Port Neches to Houma	22	213	375
Houma to Clovelly	24	34	500
Houma to St James	18	48	260
Auger crude oil system - Mainlines			
Enchilada Platform to EI315	12	34	35
Enchilada Platform to SS28P	20	100	200
Mars crude oil system			
Mars TLP to WD 143	18	41	100
Olympus TLP to WD 143	16/18	41	100
WD 143 to Fourchon	24	55	400
Fourchon to Clovelly	24	27	600
Bengal product system			
Norco to Baton Rouge tank farm	24	94	305
Convent to Baton Rouge tank farm	16	64	210
Poseidon crude oil system			
Poseidon crude oil system	Various	367	350
Odyssey crude oil system			
Odyssey crude oil system	Various	106	220
Proteus crude oil system			
Thunder Horse TLP to SP 89E	24/28	71	425
Endymion crude oil system			
SP 89E to Clovelly	30	89	425
Cleopatra gas gathering system (1)			
Atlantis TLP to SS 332A	16/20	115	500
Colonial product system	Various	5,500	2,500
Explorer product system	Various	1,830	660
Lockport terminal system (2)	-	-	-

(1) The approximate capacity information presented is in kbpd with the exception of the approximate capacity related to Cleopatra gas
gathering system which is presented in mscf/d.
(2) The tank storage capacity on the Lockport terminal system is 2 mbls.

Our Relationship with Shell

Shell is one of the world's largest independent energy companies in terms of market capitalization and operating cash flow, and Shell and its joint ventures are a leading producer and transporter of onshore and offshore hydrocarbons as well as a major refiner in the United States. As one of the largest producers in the Gulf of Mexico, Shell is currently developing several deepwater prospects and associated infrastructure. In addition to its offshore production, Shell has significant onshore exploration and production interests and produces crude oil and natural gas throughout North America. Shell's downstream portfolio includes interests in refineries throughout the United States. Shell's portfolio of midstream assets provides key infrastructure required to transport and store crude oil and refined products for Shell and third parties. Shell's ownership

interests in transportation and midstream assets include crude oil and refined products pipelines, crude oil and refined products terminals, chemicals pipelines, natural gas pipelines and processing plants, and LNG infrastructure assets. Shell or its affiliates are customers of most of our businesses.

SPLC is Shell's principal midstream subsidiary in the United States. SPLC owns our general partner, a 49.2% limited partner interest in us and all of our incentive distribution rights.

Customers

See Note 12—Transactions with Major Customers and Concentration of Credit Risk in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Competition

Competition among onshore common carrier crude oil pipelines is based primarily on posted tariffs, quality of customer service and connectivity to sources of supply and demand. We believe that our position along the Gulf Coast provides a unique level of service to our customers. Additionally, Zydeco is supported by FERC-approved transportation services agreements for the majority of the capacity available on the mainline Houston to Houma segment of the pipeline. Our pipelines and terminals face competition from a variety of alternative transportation methods including rail, water borne movements including barging, shipping and imports and other pipelines that service the same origins or destinations as our pipelines.

Our offshore crude oil pipelines are partially supported by life-of-lease agreements or direct connected production. However, our offshore pipelines will compete for new production on the basis of geographic proximity to the production, cost of connection, available capacity, transportation rates and access to onshore markets. The principal competition for our offshore pipelines include other crude oil pipeline systems as well as producers who may elect to build or utilize their own production handling facilities. In addition, the ability of our offshore pipelines to access future reserves will be subject to our ability, or the producers' ability, to fund the capital expenditures required to connect to the new production. In general, our offshore pipelines are not subject to regulatory rate-making authority, and the rates our offshore pipeline charges for services are dependent on market conditions.

Competition for refined product transportation in any particular area is affected significantly by the end market demand for the volume of products produced by refineries in that area, the availability of products in that area and the cost of transportation to that area from distant refineries. As a result of our contractual relationships, the markets they serve, and the size and scale of our refined products pipelines, we believe that our refined product pipelines will not face significant new competition in the near-term.

At Lockport, our storage tanks continue to be utilized at 100% capacity via three service and throughput contracts. Two of these contracts expire in 2017; they are currently under re-negotiation. The third contract expires December 31, 2019. In addition to these three contracts, we are actively developing new business for the facility. Additionally, some contracts also guarantee payments for minimum monthly throughput volumes. A competing pipeline from Flannigan to Patoka, Illinois, owned by Enbridge Inc. and Marathon Petroleum Company, was completed in the fourth quarter of 2015 primarily to transport Bakken crude oil, which was being previously shipped via railcars. This new pipeline had no adverse material impact on our Lockport operations due to our contracts in place. The use of pipelines to transport Bakken crude oil may eventually increase demand for storage and throughput at Lockport.

FERC and State Common Carrier Regulations

Our interstate common carrier and intrastate pipeline systems are subject to economic regulation by various federal, state and local agencies.

FERC regulates interstate transportation on our common carrier pipeline systems under the Interstate Commerce Act of 1887 as modified by the Elkins Act ("ICA"), the Energy Policy Act of 1992 ("EPAct") and the rules and regulations promulgated under those laws. FERC regulations require that rates and terms and conditions of service for interstate service pipelines that transport crude oil and refined products (collectively referred to as "petroleum pipelines") and certain other liquids, be just and reasonable and must not be unduly discriminatory or confer any undue preference upon any shipper. FERC's regulations also require interstate common carrier petroleum pipelines to file with FERC and publicly post tariffs stating their interstate transportation rates and terms and conditions of service.

Under the ICA, FERC or interested persons may challenge existing or proposed new or changed rates, services, or terms and conditions of service. FERC is authorized to investigate such charges and may suspend the effectiveness of a new rate for up to seven months. Under certain circumstances, FERC could limit a common carrier pipeline's ability to charge rates until completion of an investigation during which FERC could find that the new or changed rate is unlawful. In contrast, FERC has clarified that initial rates and terms of service agreed upon with committed shippers in a transportation services agreement are not subject to protest or a cost-of-service analysis where the pipeline held an open season offering all potential shippers service on the same terms.

A successful rate challenge could result in a common carrier pipeline paying refunds of revenue collected in excess of the just and reasonable rate, together with interest for the period the rate was in effect, if any. FERC may also order a pipeline to reduce its rates prospectively, and may require a common carrier pipeline to pay shippers reparations retroactively for rate overages for a period of up to two years prior to the filing of a complaint. FERC also has the authority to change terms and conditions of service if it determines that they are unjust or unreasonable or unduly discriminatory or preferential.

We may at any time also be required to respond to governmental requests for information, including compliance audits conducted by FERC, such as the audit of Colonial. FERC's Office of Enforcement concluded an audit of Colonial in Docket No. FA14-4-000 for the period January 1, 2011 to December 31, 2014, and issued a letter order on June 17, 2015 adopting the audit's findings and recommendations and requiring Colonial to submit a compliance plan and quarterly compliance reports. Colonial accepted the audit's findings and recommendations, which had no financial impact to us. FERC's Office of Enforcement is currently conducting an audit of Explorer in Docket No. FA16-5-000.

Additionally, EPAct deemed certain interstate petroleum pipeline rates then in effect to be just and reasonable under the ICA. These rates are commonly referred to as "grandfathered rates." For example, Colonial's rates in effect at the time of the passage of EPAct for interstate transportation service were deemed just and reasonable and therefore are grandfathered. New rates have since been established after EPAct for certain grandfathered pipeline systems such as Zydeco. FERC may change grandfathered rates upon complaint only after it is shown that:

- a substantial change has occurred since enactment in either the economic circumstances or the nature of the services that were a basis for the rate;
- the complainant was contractually barred from challenging the rate prior to enactment of EPAct and filed the complaint within 30 days of the expiration of the contractual bar; or
- a provision of the tariff is unduly discriminatory or preferential.

EPAct required FERC to establish a simplified and generally applicable methodology to adjust tariff rates for inflation for interstate petroleum pipelines. As a result, FERC adopted an indexing rate methodology which, as currently in effect, allows common carriers to change their rates within prescribed ceiling levels that are tied to changes in the U.S. Producer Price Index for Finished Goods ("PPI-FG"). The indexing methodology is applicable to existing rates, including grandfathered rates, with the exclusion of market-based rates. FERC's indexing methodology is subject to review every five years. FERC recently completed its five-year review, revised its indexing methodology and determined that during the five-year period commencing July 1, 2016 and ending June 30, 2021, common carriers charging indexed rates are permitted to adjust their indexed ceilings annually by PPI-FG plus 1.23%. The FERC ruling is still subject to appeal. We cannot predict whether or to what extent the index factor may change in the future. A pipeline is not required to raise its rates up to the index ceiling, but it is permitted to do so; however a pipeline must reduce its indexed rates to the extent they exceed the index ceiling when a negative index applies. The index adjustment effective July 1, 2016 was a negative 2.0135%. Some indexed rates on our systems were reduced in 2016 in response to the lower index ceiling, such as certain spot rates on Zydeco. The majority of our systems' rates subject to the index, however, were below the index ceiling and were unchanged. Rate increases made under the index methodology are presumed to be just and reasonable and require a protesting party to demonstrate that the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline's increase in costs. Despite these procedural limits on challenging the indexing of rates, the overall rates are not entitled to any specific protection against rate challenges. Under the indexing rate methodology, in any year in which the index is negative, pipelines must file to lower their rates if those rates would otherwise be above the rate ceiling.

While common carrier pipelines often use the indexing methodology to change their rates, common carrier pipelines may elect to support proposed rates by using other methodologies such as cost-of-service ratemaking, market-based rates, and settlement rates. A common carrier pipeline can propose a cost-of-service approach when seeking to increase its rates above the rate ceiling (or when seeking to avoid lowering rates to the reduced rate ceiling), but must establish that a substantial divergence exists between the actual costs experienced by the pipeline and the rates resulting from application of the indexing methodology. A common carrier can charge market based rates if it establishes that it lacks significant market power in the affected markets. A common carrier can establish rates under settlement if agreed upon by all current shippers. Rates for a new service on a common carrier pipeline can be established through a negotiated rate with an unaffiliated shipper.

The rates shown in our FERC tariffs have been established using the indexing methodology, by settlement or by negotiation. If we used cost-of-service rate making to establish or support our rates on our different pipeline systems, the issue of the proper allowance for federal and state income taxes could arise. In 2005, FERC issued a policy statement stating that it would permit common carrier pipelines, among others, to include an income tax allowance in cost-of-service rates to reflect actual or potential tax liability attributable to a regulated entity's operating income, regardless of the form of ownership. Under FERC's policy, a tax pass-through entity seeking such an income tax allowance must establish that its partners or members have an actual or potential income tax liability on the regulated entity's income. Whether a pipeline's owners have such actual or potential income tax liability is subject to review by FERC on a case-by-case basis. Although this policy is generally favorable for common carrier pipelines that are organized as pass-through entities, it still entails rate risk due to FERC's case-by-case review approach. The application of this policy, as well as any decision by FERC regarding our cost of service, is also subject to review in the courts.

Under its current policy, FERC permits regulated interstate oil and gas pipelines, including those owned by master limited partnerships, to include an income tax allowance in their cost of service used to calculate cost-based transportation rates. The allowance is intended to reflect the actual or potential tax liability attributable to the regulated entity's operating income, regardless of the form of ownership. On July 1, 2016, in United Airlines, Inc. v FERC, the United States Court of Appeals for the D.C. Circuit vacated a pair of FERC orders to the extent they permitted an interstate refined petroleum products pipeline owned by a master limited partnership to include an income tax allowance in its cost-of-service-based rates. The D.C. Circuit held that FERC had failed to demonstrate that the inclusion of an income tax allowance in the pipeline's rates would not lead to an over-recovery of costs attributable to regulated service. The D.C. Circuit instructed FERC on remand to fashion a remedy to ensure that the pipeline's rates do not allow it to over-recover its costs. Following the D.C. Circuit's decision, FERC issued a Notice of Inquiry on December 15, 2016 in Docket No. PL17-1-000 requesting comments regarding how to address any double recovery from FERC's current income tax allowance and rate of return policies. Initial comments are due on March 8, 2017 and reply comments are due on April 7, 2017. The outcome of this proceeding could affect FERC's income tax allowance policy for cost-based rates charged by regulated pipelines going forward. To the extent that we charge cost-of-service based rates, those rates could be affected by any changes in FERC's income tax allowance policy to the extent our rates are subject to complaint or challenge by FERC acting on its own initiative, or to the extent that we propose new cost-of-service rates or changes to our existing rates.

On October 20, 2016, the Federal Energy Regulatory Commission issued an Advance Notice of Proposed Rulemaking ("ANOPR") in Docket No. RM17-1-000 regarding changes to the oil pipeline rate index methodology and data reporting on the Page 700 of the FERC Form No. 6. In an effort to improve the Commission's ability to ensure that oil pipeline rates are just and reasonable under the Interstate Commerce Act ("ICA"), the Commission is considering making the following changes to their current indexing methodologies for oil pipelines:

1) Deny index increases for any pipeline whose Form No. 6, Page 700 revenues exceed costs by 15% for both of the prior two years;
2) Deny index increases that exceed by 5% the cost changes reported on Page 700; and
3) Apply the new criteria to costs more closely associated with the pipeline's proposed rates than with total company-wide costs and revenues now reported on Page 700.

Initial comments were filed on January 19, 2017, and reply comments will be due March 17, 2017. We will continue to monitor developments in this area.

Intrastate services provided by certain of our pipeline systems are subject to regulation by state regulatory authorities, such as the Texas Railroad Commission, which currently regulates Zydeco and Colonial pipeline rates; and the Louisiana Public Service Commission, which currently regulates the Zydeco, Mars and Colonial pipeline rates. State agencies typically require intrastate petroleum pipelines to file their rates with the agencies and permit shippers to challenge existing rates and proposed rate increases. State agencies may also investigate rates, services, and terms and conditions of service on their own initiative. State regulatory commissions could limit our ability to increase our rates or to set rates based on our costs, or could order us to reduce our rates and require the payment of refunds to shippers. Further, rate investigations by FERC or a state commission could result in an investigation of our costs, including the:

- overall cost of service, including operating costs and overhead;
- allocation of overhead and other administrative and general expenses to the regulated entity;
- appropriate capital structure to be utilized in calculating rates;
- appropriate rate of return on equity and interest rates on debt;
- rate base, including the proper starting rate base;
- throughput underlying the rate; and
- proper allowance for federal and state income taxes.

Shippers can always file a complaint with FERC or a state agency challenging rates or conditions of services. If they were successful, FERC or a state agency could order reparations or service charge.

Certain of our pipelines, including Auger, Odyssey, Proteus, Endymion, Cleopatra and parts of Mars, are located offshore in the Outer Continental Shelf. As such, they are not subject to FERC or state rate regulation, but are subject to the Outer Continental Lands Act ("OCSLA"). Under the OCSLA, we must provide open and nondiscriminatory access to both pipeline owner and non-owner shippers, and comply with other requirements.

Pipeline Safety

Our assets are subject to increasingly strict safety laws and regulations. Our transportation and storage of crude oil and refined products involve a risk that hazardous liquids may be released into the environment, potentially causing harm to the public or the environment. In turn, such incidents may result in substantial expenditures for response actions, significant government penalties, liability to government agencies for natural resources damages, and significant business interruption. The Pipeline and Hazardous Materials Safety Administration ("PHMSA") of the Department of Transportation ("DOT") has adopted safety regulations with respect to the design, construction, operation, maintenance, inspection and management of our assets. These regulations contain requirements for the development and implementation of pipeline integrity management programs, which include the inspection and testing of pipelines and necessary maintenance or repairs. These regulations also require that pipeline operation and maintenance personnel meet certain qualifications and that pipeline operators develop comprehensive spill response plans.

We are subject to regulation by PHMSA under the Hazardous Liquid Pipeline Safety Act of 1979 ("HLPSA"). The HLPSA delegated to PHMSA through DOT the authority to develop, prescribe, and enforce federal safety standards for the transportation of hazardous liquids by pipeline. Congress also enacted the Pipeline Safety Act of 1992, which added the environment to the list of statutory factors that must be considered in establishing safety standards for hazardous liquid pipelines, required regulations be issued to define the term "gathering line" and establish safety standards for certain "regulated gathering lines," and mandated that regulations be issued to establish criteria for operators to use in identifying and inspecting pipelines located in High Consequence Areas ("HCAs"). In 1996, Congress enacted the Accountable Pipeline Safety and Partnership Act, which limited the operator identification requirement mandate to pipelines that cross a waterway where a substantial likelihood of commercial navigation exists, required that certain areas where a pipeline rupture would likely cause permanent or long-term environmental damage be considered in determining whether an area is unusually sensitive to environmental damage, and mandated that regulations be issued for the qualification and testing of certain pipeline personnel. The Pipeline Safety Improvement Act of 2002 established mandatory inspections for all United States oil transportation pipelines, and some gathering lines in HCAs. In the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006, Congress required mandatory inspections for certain U.S. crude oil and natural gas transmission pipelines in HCAs and mandated that regulations be issued for low-stress hazardous liquids pipelines and pipeline control room management. We are also subject to the Pipeline Safety Act of 2011, which reauthorized funding for federal pipeline safety programs through 2015, increased penalties for safety violations, established additional safety requirements for newly constructed pipelines, and required studies of certain safety issues that could result in the adoption of new regulatory requirements for existing pipelines.

PHMSA administers compliance with these statutes and has promulgated comprehensive safety standards and regulations for the transportation of hazardous liquids by pipeline, including regulations for the design and construction of new pipeline systems or those that have been relocated, replaced, or otherwise changed (Subparts C and D of 49 CFR § 195); pressure testing of new pipelines (Subpart E of 49 CFR § 195); operation and maintenance of pipeline systems, including inspecting and reburying pipelines in the Gulf of Mexico and its inlets, establishing programs for public awareness and damage prevention, managing the integrity of pipelines in HCAs, and managing the operation of pipeline control rooms (Subpart F of 49 CFR § 195); protecting steel pipelines from the adverse effects of internal and external corrosion (Subpart H of 49 CFR § 195); and integrity management requirements for pipelines in HCAs (49 CFR § 195.452). On January 13, 2017, PHMSA announced the issuance of the Pipeline Safety: Safety of Hazardous Liquids Pipelines final rule. The final rule addressed topics such as: reporting requirements for gravity and gathering lines, inspections of pipelines following extreme weather events, periodic assessment of pipelines not currently subject to integrity management, repair criteria, expanded use of leak detection systems, increased use of in-line inspection tools and other clarifications. On January 19, 2017, PHMSA announced the issuance of new operator qualification rules that clarify the current regulations. It is unclear when or if these rules will go into effect as, on January 20, 2017, the Trump Administration requested that all regulations that had been sent to the Office of the Federal Register, but not yet published, be immediately withdrawn for further review. In addition, on January 30, 2017, the Trump Administration issued an executive order directing agencies to identify two existing regulations to be repealed for every new regulation proposed for notice and comment, along with a zero sum incremental cost requirements for all regulations. It is unclear if these rules will be subject to one or both of these prescriptions.

The safety enhancement requirements and other provisions of the 2011 Pipeline Safety Act, as well as any implementation of PHMSA rules thereunder, could require us to install new or modified safety controls, pursue additional capital projects, or conduct maintenance programs on an accelerated basis; any or all of which tasks could result in our incurring increased operating costs that could be significant and have a material adverse effect on our results of operations or financial position. However, we do not anticipate we would be impacted by these regulatory initiatives to any greater degree than other similarly situated competitors. PHMSA also published an advisory bulletin providing guidance on verification of records related to pipeline maximum allowable operating pressure. We have performed hydrotests of our facilities to confirm the maximum allowable operating pressure and do not expect that any final rulemaking by PHMSA regarding verification of maximum allowable operating pressure would materially affect our operations or revenue. In addition, states have adopted regulations, similar to existing PHMSA regulations, for intrastate gathering and transmission lines. The states in which our assets are located, Texas and Louisiana, are among the states that have developed regulatory programs that parallel the federal regulatory scheme and are applicable to intrastate pipelines transporting crude oil.

On June 22, 2016, the Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2016 (“PIPES”) reauthorizing the federal pipeline safety program to 2019, was signed into law. PIPES increases oversight and reporting of the PHMSA completion of mandates assigned to it under the 2011 reauthorization bill, directs the General Accounting Office to study pipeline integrity management programs, requires timely PHMSA sharing of preliminary inspection results, creates a work group to make recommendations on voluntary sharing of safety information, requires PHMSA to set minimum safety standards for natural gas storage facilities, provides new authority to PHMSA to issue industry-wide emergency orders, and expands emergency response planning requirements for navigable waters, including those covered in part by ice. We do not expect any significant changes to our safety or integrity program as a direct result of PIPES but new PHMSA regulations issued in response could lead to additional costs or operational changes.

We monitor the structural integrity of our pipelines through a program of periodic internal assessments using a variety of internal inspection tools, as well as hydrostatic testing that conforms to federal standards. We accompany these assessments with a comprehensive data integration effort and repair anomalies, as required, to ensure the integrity of the pipeline. We conduct a thorough review of risks to the pipelines and perform sophisticated calculations to establish an appropriate reassessment interval for each pipeline. We use external coatings and impressed current cathodic protection systems to protect against external corrosion. We conduct all cathodic protection work in accordance with National Association of Corrosion Engineers standards and continually monitor, test and record the effectiveness of these corrosion inhibiting systems. We have robust third party damage prevention programs to help protect our lines from the risk of excavation and other outside force damage threats. Our tanks are inspected on a routine basis in compliance with PHMSA and U.S. Environmental Protection Agency (“EPA”) regulations. Every tank periodically receives a full out of service, internal inspection per American Petroleum Institute standard 653 and is repaired as necessary.

Product Quality Standards

Refined products that we transport are generally sold by our customers for consumption by the public. Various federal, state and local agencies have the authority to prescribe product quality specifications for refined products. Changes in product quality specifications or blending requirements could reduce our throughput volumes, require us to incur additional handling costs or require capital expenditures. For example, different product specifications for different markets affect the fungibility of the refined products in our system and could require the construction of additional storage. If we are unable to recover these costs through increased revenue, our cash flows and ability to pay cash distributions could be adversely affected. In addition, changes in the product quality of the refined products we receive on our refined product pipeline systems or at our tank farms could reduce or eliminate our ability to blend refined products.

Security

We are also subject to Department of Homeland Security Chemical Facility Anti-Terrorism Standards, which are designed to regulate the security of high-risk chemical facilities, and to Transportation Security Administration Pipeline Security Guidelines. We have an internal program of inspection designed to monitor and enforce compliance with all of these requirements. We believe that we are in material compliance with all applicable laws and regulations regarding the security of our facilities.

While we are not currently subject to governmental standards for the protection of computer-based systems and technology from cyber threats and attacks, proposals to establish such standards are being considered by the U.S. Congress and by U.S. Executive Branch departments and agencies, including the Department of Homeland Security, and we may become subject to such standards in the future. We are currently implementing our own cyber-security programs and protocols; however, we cannot guarantee their effectiveness. A significant cyber-attack could have a material effect on operations and those of our customers.

Environmental Matters

General. Our operations are subject to extensive and frequently-changing federal, state and local laws, regulations and ordinances relating to the protection of the environment. Among other things, these laws and regulations govern the emission or discharge of pollutants into or onto the land, air and water, the handling and disposal of solid and hazardous wastes and the remediation of contamination. As with the industry in general, compliance with existing and anticipated environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, operate and upgrade equipment and facilities. While these laws and regulations affect our maintenance capital expenditures and net income, we believe they do not affect our competitive position, as the operations of our competitors are similarly affected. We believe our facilities are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to changes, or to changes in the interpretation of such laws and regulations, by regulatory authorities, and continued and future compliance with such laws and regulations may require us to incur significant expenditures. Additionally, violation of environmental laws, regulations, and permits can result in the imposition of significant administrative, civil and criminal penalties, injunctions limiting our operations, investigatory or remedial liabilities or construction bans or delays in the construction of additional facilities or equipment. Additionally, a release of hydrocarbons or hazardous substances into the environment could, to the extent the event is not insured, subject us to substantial expenses, including costs to comply with applicable laws and regulations and to resolve claims by third parties for personal injury or property damage, or by the U.S. federal government or state governments for natural resources damages. These impacts could directly and indirectly affect our business and have an adverse impact on our financial position, results of operations and liquidity.

Air Emissions and Climate Change. Our operations are subject to the Clean Air Act and its regulations and comparable state and local statutes and regulations in connection with air emissions from our operations. Under these laws, permits may be required before construction can commence on a new source of potentially significant air emissions, and operating permits may be required for sources that are already constructed. These permits may require controls on our air emission sources, and we may become subject to more stringent regulations requiring the installation of additional emission control technologies.

Future expenditures may be required to comply with the Clean Air Act and other federal, state and local requirements for our various sites, including our pipeline and storage facilities. The impact of future legislative and regulatory developments, if enacted or adopted, could result in increased compliance costs and additional operating restrictions on our business, all of which could have an adverse impact on our financial position, results of operations and liquidity.

In December 2007, Congress passed the Energy Independence and Security Act that created a second Renewable Fuels Standard. This standard requires the total volume of renewable transportation fuels (including ethanol and advanced biofuels) sold or introduced annually in the U.S. to rise to 36 billion gallons by 2022. The requirements could reduce future demand for refined products and thereby have an indirect effect on certain aspects of our business.

Currently, various legislative and regulatory measures to address greenhouse gas emissions (including carbon dioxide, methane and other gases) are in various phases of discussion or implementation in the United States. These include requirements effective in 2010 to report emissions of greenhouse gases to the EPA on an annual basis, and proposed federal legislation and regulation as well as state actions to develop statewide or regional programs, each of which require or could require reductions in our greenhouse gas emissions. Requiring reductions in greenhouse gas emissions could result in increased costs to (i) operate and maintain our facilities, (ii) install new emission controls at our facilities and (iii) administer and manage any greenhouse gas emissions programs, including acquiring emission credits or allotments. These requirements may also significantly affect domestic refinery operations and may have an indirect effect on our business, financial condition and results of operations. We do not believe the federal greenhouse gas reporting rule, as described above, or the greenhouse gas "tailoring" rule, which subjects certain facilities to the additional permitting obligations under the New Source Review/Prevention of Significant Deterioration and Title V programs of the Clean Air Act based on a facility's greenhouse gas emissions, will have a material adverse effect on our operations.

In addition, the EPA has proposed and may adopt further regulations under the Clean Air Act addressing greenhouse gases, to which some of our facilities may become subject. For example, in May 2016, EPA finalized new rules for volatile organic compound and methane emissions from the oil and gas production, processing, transmission and storage industry. Prior to the inauguration of President Trump, EPA announced that it intends to develop methane emission standards for existing sources and issued information collection requests to companies with production, gathering and boosting, gas processing, storage, and transmission facilities. Congress continues to consider legislation on greenhouse gas emissions, which may include a delay in the implementation of greenhouse gas regulations by EPA or a limitation on EPA's authority to regulate greenhouse gases, although the ultimate adoption and form of any federal legislation cannot presently be predicted. In addition, in 2015, the United States participated in the United Nations Conference on Climate Change, which led to the creation of the Paris Agreement. The Paris Agreement, which was signed by the U.S. in April 2016, requires countries to review and "represent a progression" in their intended nationally determined contributions, which set greenhouse gas emission reduction goals, every five years beginning in 2020. The Trump Administration is considering withdrawal from the Paris Agreement. The impact of future regulatory and legislative developments, if adopted or enacted, could result in increased compliance costs, increased utility costs, additional operating restrictions on our business, and an increase in the cost of products generally. Although such costs may impact our business directly or indirectly by impacting our facilities or operations, the extent and magnitude of that impact cannot be reliably or accurately estimated due to the present uncertainty regarding the additional measures and how they will be implemented.

Waste Management and Related Liabilities. To a large extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater and surface water, and include measures to control pollution of the environment. These laws generally regulate the generation, storage, treatment, transportation, and disposal of solid and hazardous waste. They also require corrective action, including investigation and remediation, at a facility where such waste may have been released or disposed.

CERCLA. The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), which is also known as Superfund, and comparable state laws impose liability, without regard to fault or to the legality of the original conduct, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the former and present owner or operator of the site where the release occurred and the transporters and generators of the hazardous substances found at the site.

Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. In the course of our ordinary operations, we generate waste that falls within CERCLA's definition of a "hazardous substance" and, as a result, may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites. Pursuant to the omnibus agreement we entered into on November 3, 2014 with SPLC ("Omnibus Agreement"), SPLC indemnifies us and will fund all of the costs of required remedial action for our known historical and legacy spills and releases and, subject to a deductible of $0.5 million per claim and aggregate monetary cap of $15.0 million for all environmental, title and litigation claims, for spills and releases, if any, existing but unknown at the time of closing of the IPO to the extent such existing but unknown spills and releases are identified within three years after closing of the IPO.

RCRA. We also generate solid wastes, including hazardous wastes, that are subject to the requirements of the federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. From time to time, the EPA considers the adoption of stricter disposal standards for non-hazardous wastes. Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Any changes in the regulations could impact our maintenance capital expenditures and operating expenses. We continue to seek methods to minimize the

generation of hazardous wastes in our operations.
Hydrocarbon Wastes. We currently own and lease, and SPLC has in the past owned and leased, properties where hydrocarbons are being or for many years have been handled. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or waste may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where these hydrocarbons and wastes have been taken for

disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or wastes was not under our control. These properties and hydrocarbons and wastes disposed thereon may be subject to CERCLA, RCRA, and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater), or to perform remedial operations to prevent further contamination.

Environmental Indemnity. In connection with certain of our acquisitions from SPLC, SPLC has agreed to indemnify us for certain environmental liabilities arising before the closing date, subject to customary deductibles and caps.

In connection with our IPO, SPLC agreed to indemnify us for all known and certain unknown environmental liabilities that are associated with the ownership or operation of our assets and due to occurrences on or before November 3, 2014, the closing date of the IPO, subject to an aggregate deductible of $0.5 million and a cap of $15.0 million on title and litigation claims. Indemnification for any unknown environmental liabilities will be limited to liabilities due to occurrences on or before the closing of the IPO and identified prior to the third anniversary of the closing of the IPO (November 3, 2017). SPLC's indemnification for breaches of representations or warranties relating to environmental matters will terminate and expire on the third anniversary of the closing date of the IPO or related acquisitions, as applicable, and, to the extent they relate to Lockport, prior to the fourth anniversary, of the closing date of our acquisition of Pecten.

We will not be indemnified for any future spills or releases of hydrocarbons or hazardous materials at our facilities, or for any other environmental liabilities resulting from our own operations. In addition, we have agreed to indemnify SPLC for (i) events and conditions associated with the ownership or operation of our assets due to occurrences after the closing of the IPO, (ii) events and conditions associated with the ownership or operation of Auger and Lockport due to occurrences after October 1, 2015 and (iii) for environmental liabilities related to our assets to the extent SPLC is not required to indemnify us for such liabilities. Liabilities for which we will indemnify SPLC in connection with our IPO or the acquisition of Pecten are not subject to a deductible before SPLC is entitled to indemnification. There is no limit on the amount for which we will indemnify SPLC under the Omnibus Agreement and the contribution agreement in connection with the acquisition of Pecten. As a result, we may incur such expenses in the future, which may be substantial.

Water. Our operations can result in the discharge of pollutants, including crude oil and refined products. Regulations under the Water Pollution Control Act of 1972 ("Clean Water Act"), Oil Pollution Act of 1990 ("OPA-90") and state laws impose regulatory burdens on our operations. Spill prevention control and countermeasure requirements of federal laws and some state laws require containment to mitigate or prevent contamination of navigable waters in the event of an oil overflow, rupture, or leak. For example, the Clean Water Act requires us to maintain Spill Prevention Control and Countermeasure ("SPCC") plans at many of our facilities. We maintain numerous discharge permits as required under the National Pollutant Discharge Elimination System program of the Clean Water Act and have implemented tracking systems to oversee our compliance efforts. In addition, the Clean Water Act and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. We believe we are in substantial compliance with applicable storm water permitting requirements.

In addition, the transportation and storage of crude oil and refined products over and adjacent to water involves risk and subjects us to the provisions of OPA-90 and related state requirements. Among other requirements, OPA-90 requires the owner or operator of a tank vessel or a facility to maintain an emergency plan to respond to releases of oil or hazardous substances. Also, in case of any such release, OPA-90 requires the responsible company to pay resulting removal costs and damages. OPA-90 also provides for civil penalties and imposes criminal sanctions for violations of its provisions. We operate facilities at which releases of oil and hazardous substances could occur. We have implemented emergency oil response plans for all of our components and facilities covered by OPA-90 and we have established SPCC plans for facilities subject to Clean Water Act SPCC requirements.

Construction or maintenance of our pipelines, tank farms and storage facilities may impact wetlands, which are also regulated under the Clean Water Act by the EPA and the United States Army Corps of Engineers. Regulatory requirements governing wetlands (including associated mitigation projects) may result in the delay of our pipeline projects while we obtain necessary permits and may increase the cost of new projects and maintenance activities.

Employee Safety. We are subject to the requirements of the Occupational Safety and Health Act ("OSHA") and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with OSHA requirements, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances.

Endangered Species Act. The Endangered Species Act restricts activities that may affect endangered species or their habitats. While some of our facilities are in areas that may be designated as habitat for endangered species, we believe that we are in substantial compliance with the Endangered Species Act. If endangered species are located in areas of the underlying properties where we wish to conduct development activities, such work could be prohibited or delayed or expensive mitigation may be required. In addition, the designation of new endangered species could cause us to incur additional costs or become subject to operating or development restrictions or bans in the affected area.

Seasonality

We do not expect that our operations will be subject to significant seasonal variation in demand or supply.

Title to Properties and Permits

Substantially all of our pipelines are constructed on rights-of-way granted by the apparent record owners of the property and, in some instances, these rights-of-way are revocable at the election of the grantor. In many instances, lands over which rights-of-way have been obtained are subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained permits from public authorities to cross over or under, or to lay facilities in or along, watercourses, county roads, municipal streets, and state highways and, in some instances, these permits are revocable at the election of the grantor. We have also obtained permits from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor's election. In some states and under some circumstances, we have the right of eminent domain to acquire rights-of-way and lands necessary for our common carrier pipelines.

Future Financial Assurance

In July 2016, Bureau of Ocean and Energy Management (BOEM) issued Notice to Lessees and Operators 2016-NO1 ("NTL") that augments requirements for the posting of additional financial assurance by offshore lessees, among others, to assure that sufficient funds are available to perform decommissioning obligations with respect to platforms, pipelines and other facilities. In December 2016, BOEM issued individual Orders to Provide Supplemental Bonding, including to the operators of our offshore pipelines. On January 6, 2017, BOEM announced it was extending the implementation timeline for the NTL by an additional six months. The operators of each of our offshore pipelines are preparing for the implementation of the NTL. Possible actions include purchasing surety bonds or other forms of financial assurance, which could result in additional cost in the future.

Insurance

All assets in which we have an interest are insured for certain property damage, business interruption and third party liabilities, which include pollution liabilities, in amounts which management believes are reasonable and appropriate. Where assets are not insured at the entity-level, we carry insurance for the aforementioned risks (other than named windstorm coverage) for our pro-rata share of the liability.

Employees

We do not have any employees. We are managed and operated by the directors and officers of our general partner. See Part III, Item 10. Directors, Executive Officers and Corporate Governance — Management of Shell Midstream Partners, L.P. in this report.

Control Center Operations

Zydeco, Mars, Odyssey, Bengal's pipeline, Auger and Lockport are operated by SPLC pursuant to operating and maintenance agreements. The pipeline, storage and terminal systems that are operated by SPLC are controlled from a central control room located in Houston, Texas. Colonial operates its pipeline system and Bengal's tankage in a similar manner and has its own management team based in Alpharetta, Georgia. Explorer operates its pipeline system in a similar manner and has its own management team and control center operations in Tulsa, Oklahoma. Proteus and Cleopatra are operated by Mardi Gras and Endymion is operated by Mardi Gras Endymion, both affiliates of BP Pipelines, which operates in a similar manner. SPLC intends to assume operatorship of these BP Pipelines operated systems by the end of 2017. Poseidon is operated by Manta Ray Gathering Company, LLC, an affiliate of Genesis.

Website

Our Internet website address is http://www.shellmidstreampartners.com. Information contained on our Internet website is not part of this report. Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to these reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website, free of charge, as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. Alternatively, you may access these reports at the SEC's website at http://www.sec.gov. We also post our beneficial ownership reports filed by officers, directors, and principal security holders under Section 16(a) of the Securities Exchange Act of 1934, corporate governance guidelines, audit committee charter, code of business ethics and conduct, code of ethics for senior financial officers, and information on how to communicate directly with our board of directors on our website.

Item 1A. RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. If any of the following risks actually occur, they may materially harm our business and our financial condition and results of operations. In this event, we might not be able to pay distributions on our common units, and the trading price of our common units could decline.

Risks Related to Our Business

We may not have sufficient cash available for distribution following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner and its affiliates, to enable us to pay minimum quarterly distributions to our unitholders.

We may not generate sufficient cash flows each quarter to enable us to pay minimum quarterly distributions. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things, our throughput volumes, tariff rates and fees and prevailing economic conditions. In addition, the actual amount of cash flows we generate will also depend on other factors, some of which are beyond our control, including:

- the amount of our operating expenses and general and administrative expenses, including reimbursements to SPLC with respect to those expenses;
- the volume of crude oil, refined products and natural gas that we transport and the ability of our customers to meet their obligations under our contracts;
- actions by FERC or other regulatory bodies that reduce our rates or increase expenses;
- the amount and timing of expansion capital expenditures and acquisitions we make;
- the amount of maintenance capital expenditures we make;
- our debt service requirements and other liabilities, and restrictions contained in our debt agreements;
- fluctuations in our working capital needs;
- the amount of cash distributed to us by the entities in which we own a noncontrolling interest;
- the amount of cash reserves established by our general partner; and
- changes in, and availability to us, of the equity and debt capital markets.

We do not control certain of the entities that own our assets.

We have no significant assets other than our ownership interest in entities that own crude oil, refined products and natural gas pipelines and a crude tank storage and terminal system. As a result, our ability to make distributions to our unitholders depends on the performance of these entities and their ability to distribute funds to us. More specifically:

- many of the entities in which we own interests are managed by their respective governing board. Our ability to influence decisions with respect to the operation of such entities varies depending on the amount of control we exercise under the applicable governing agreement;
- we do not control the amount of cash distributed by several of the entities in which we own interests. We may influence the amount of cash distributed through our veto rights over the cash reserves made by certain of these entities;

- we may not have the ability to unilaterally require certain of the entities in which we own interests to make capital expenditures, and such entities may require us to make additional capital contributions to fund operating and maintenance expenditures, as well as to fund expansion capital expenditures, which would reduce the amount of cash otherwise available for distribution by us or require us to incur additional indebtedness;
- the entities in which we own interests may incur additional indebtedness without our consent, which debt payments would reduce the amount of cash that might otherwise be available for distribution;
- our assets are operated by entities that we do not control; and
- the operator of the assets held by each joint venture and the identity of our joint venture partners could change, in some cases without our consent.

For more information on the agreements governing the management and operation of the entities in which we own an interest, see Part III, Item 13. Certain Relationships and Related Party Transactions — Contracts with Affiliates and Part I, Items 1 and 2. Business and Properties — Our Assets and Operations in this report.

If we are unable to obtain needed capital or financing on satisfactory terms to fund expansions of our asset base, our ability to make or increase quarterly cash distributions may be diminished or our financial leverage could increase.

Other than our revolving credit facilities, we do not have any commitment with any of our affiliates to provide any direct or indirect financial assistance to us.

We will be required to do one of the following; use cash from our operations, incur borrowings or access the capital markets in order to fund our capital expenditures. If we do not make sufficient or effective capital expenditures, we may be unable to expand our business operations and may be unable to maintain or raise the level of our quarterly cash distributions. The entities in which we own an interest may also incur borrowings or access the capital markets to fund capital expenditures and may require that we fund our proportionate share of such expenditures. Our and their ability to obtain financing or access the capital markets may be limited by our financial condition at such time as well as the covenants in our debt agreements, general economic conditions and contingencies, or other uncertainties that are beyond our control. The recent decline in the debt and equity capital markets may increase the cost of financing and the risks of refinancing maturity debt. There can be no assurance that the capital markets will be available to us on acceptable terms or at all. The terms of any financing or the use of cash on hand could limit our ability to pay distributions to our common unitholders. Incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional limited partner interests may result in significant common unitholder dilution and increase the aggregate amount of cash required to maintain the then-current distribution rate, which could materially decrease our ability to pay distributions at the then-current distribution rate.

If we are unable to make acquisitions on economically acceptable terms from Shell or third parties, our future growth would be limited, and any acquisitions we may make may reduce, rather than increase, our cash flows and ability to make distributions to unitholders.

Our strategy to grow our business and increase distributions to unitholders is dependent in part on our ability to make acquisitions that result in an increase in cash available for distribution per unit. The consummation and timing of any future acquisitions will depend upon, among other things, whether we are able to:

- identify attractive acquisition candidates;
- negotiate acceptable purchase agreements;
- obtain financing for these acquisitions on economically acceptable terms, which may be more difficult at times when the capital markets are less accessible; and
- outbid any competing bidders.

We can offer no assurance that we will be able to successfully consummate any future acquisitions, whether from Shell or any third parties. If we are unable to make future acquisitions, our future growth and ability to increase distributions will be limited. Furthermore, even if we do consummate acquisitions that we believe will be accretive, they may in fact result in a decrease in cash available for distribution per unit as a result of incorrect assumptions in our evaluation of such acquisitions or unforeseen consequences or other external events beyond our control. We may incur difficulties and additional costs in connection with integrating an acquired asset or entity. Acquisitions involve numerous risks, inefficiencies and unexpected costs and liabilities.

Our operations are subject to many risks and operational hazards. If a significant accident or event occurs that results in a business interruption or shutdown for which we are not adequately insured, our operations and financial results could be materially and adversely affected.

Our operations are subject to all of the risks and operational hazards inherent in transporting and storing crude oil and refined products, including:

- damages to pipelines, facilities, offshore pipeline equipment and surrounding properties caused by third parties, severe weather, natural disasters, including hurricanes, and acts of terrorism;
- maintenance, repairs, mechanical or structural failures at our or SPLC’s facilities or at third-party facilities on which our customers’ or our operations are dependent, including electrical shortages, power disruptions and power grid failures;
- damages to, loss of availability of and delays in gaining access to interconnecting third-party pipelines, terminals and other means of delivering crude oil and refined products;
- costs and liabilities in responding to any soil and groundwater contamination that occurs on our terminal properties, even if the contamination was caused by prior owners and operators of our terminal system;
- disruption or failure of information technology systems and network infrastructure due to various causes, including unauthorized access or attack of the central control room from which some of our pipelines are remotely controlled;
- leaks of crude oil or refined products as a result of the malfunction or age of equipment or facilities;
- unexpected business interruptions;
- curtailments of operations due to severe seasonal weather; and
- riots, strikes, lockouts or other industrial disturbances.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage, as well as business interruptions or shutdowns of our facilities. Any such event or unplanned shutdown could have a material adverse effect on our business, financial condition, results of operations and cash flows, including our ability to make distributions.

If third-party pipelines, production platforms, refineries, caverns and other facilities interconnected to our pipelines and Lockport’s terminal facilities become unavailable to transport, produce, refine or store crude oil, or produce or transport refined product, our revenue and available cash could be adversely affected.

We depend upon third-party pipelines, production platforms, refineries, caverns and other facilities that provide delivery options to and from our pipelines and terminal facilities. For example, Mars depends on a natural gas supply pipeline connecting to the West Delta 143 platform to power its equipment to deliver the volumes it transports to salt dome caverns in Clovelly, Louisiana. Similarly, shutdown or blockage of pipelines moving offshore gas can result in curtailment or shut-in of offshore crude production. Because we do not own these third-party pipelines, production platforms, refineries, caverns or facilities, their continuing operation is not within our control. For example, production platforms in the offshore Gulf of Mexico may be required to be shut in by the Bureau of Safety and Environmental Enforcement (“BSEE”) or the Bureau of Ocean Energy Management (“BOEM”) of the U.S. Department of the Interior following incidents such as loss of well control. If these or any other pipeline or terminal connection were to become unavailable for current or future volumes of crude oil or refined product due to repairs, damage to the facility, lack of capacity, shut in by regulators or any other reason, or if caverns to which we connect have cracks, leaks or leaching or require shut-in due to regulatory action or changes in law, our ability to operate efficiently and continue to store or ship crude oil and refined products to major demand centers could be restricted, thereby reducing revenue. Disruptions at refineries that use our pipelines, such as strikes or ship channel incidents, can also have an adverse impact on the volume of products we ship. Any temporary or permanent interruption at any key pipeline or terminal interconnect, at any key production platform or refinery or at caverns to which we deliver could have a material adverse effect on our business, results of operations, financial condition or cash flows, including our ability to make distributions.

Lockport, our crude storage terminal, is located southwest of Chicago. Our terminal facilities depend on pipeline systems that are owned and operated by third parties. Any interruption of service on the pipeline or lateral connections or adverse change in the terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport product to and from our terminal facilities and have a corresponding material adverse effect on our revenues. Increases in the rates charged by the interconnected pipelines for transportation to and from our terminal facilities may reduce the utilization of Lockport.

Any significant decrease in production of crude oil in areas in which we operate could reduce the volumes of crude oil we transport and store, which could adversely affect our revenue and available cash.
Our crude oil pipelines and terminal system depend on the continued availability of crude oil production and reserves, particularly in the Gulf of Mexico. Low prices for crude oil could adversely affect development of additional reserves and continued production from existing reserves that are accessible by our assets.
Beginning in the fourth quarter of 2014, crude oil prices significantly declined and continued to decline through early 2016 to the lowest levels in recent history. High, low and average daily prices for West Texas Intermediate ("WTI") crude oil at Cushing, Oklahoma during 2015, 2016 and January 2017 were as follows:

	WTI Crude Oil Prices		
	High	Average	Low
January 2017	$53.98	$ 52.50	$50.82
2016	54.01	43.29	26.19
2015	61.36	48.66	34.55

In general terms, the prices of crude oil and other hydrocarbon products fluctuate in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control. These factors impacting crude oil prices include worldwide economic conditions; weather conditions and seasonal trends; the levels of domestic production and consumer demand; the availability of imported crude oil; the availability of transportation systems with adequate capacity; the volatility and uncertainty of regional basis differentials and premiums; actions by the Organization of the Petroleum Exporting Countries ("OPEC") and other oil producing nations; the price and availability of alternative fuels; the effect of energy conservation measures; the strength of the U.S. dollar; the nature and extent of governmental regulation and taxation; and the anticipated future prices of crude oil and other commodities.
Lower crude oil prices, or expectations of declines in crude oil prices, have had and may continue to have a negative impact on exploration, development and production activity, particularly in the continental United States. If lower prices are sustained, it could lead to a material decrease in such activity both onshore continental United States and in the Gulf of Mexico. Sustained reductions in exploration or production activity in our areas of operation could lead to reduced utilization of our pipeline and terminal systems or reduced rates under renegotiated transportation or storage agreements. Our customers may also face liquidity and credit issues that could impair their ability to meet their payment obligations under our contracts or cause them to renegotiate existing contracts at lower rates or for shorter terms. These conditions may lead some of our customers, particularly customers that are facing financial difficulties, to seek to renegotiate existing contracts on terms that are less attractive to us. Any such reduction in demand or less attractive terms could have a material adverse effect on our results of operations, financial position and ability to make or increase cash distributions to our unitholders.
In addition, production from existing areas with access to our pipeline and terminal systems will naturally decline over time. The amount of crude oil reserves underlying wells in these areas may also be less than anticipated, and the rate at which production from these reserves declines may be greater than anticipated. Accordingly, to maintain or increase the volume of crude oil transported, or throughput, on our pipelines, or stored in our terminal system, and cash flows associated with the transportation and storage of crude oil, our customers must continually obtain new supplies of crude oil. In addition, we will not generate revenue under our life-of-lease agreements that do not include a guaranteed return to the extent that production in the area we serve declines or is shut in.
If new supplies of crude oil are not obtained, including supplies to replace any decline in volumes from our existing areas of operations, the overall volume of crude oil transported or stored on our systems would decline, which could have a material adverse effect on our business, results of operations, financial condition or cash flows, including our ability to make distributions.
Any significant decrease in the demand for crude oil and refined products could reduce the volumes of crude oil and refined products that we transport, which could adversely affect our revenue and available cash.
The volumes of crude oil and refined products that we transport depend on the supply and demand for crude oil, gasoline, jet fuel and other refined products in our geographic areas. Demand for crude oil and refined products may

decline in the areas we serve as a result of, decreased production by our customers, depressed commodity price environment, increased competition, and adverse economic factors, affecting the exploration, production and refining industries.

If the demand for crude oil or refined products decreases significantly, or if there were a material increase in the price of crude oil supplied to our customers' refineries without an increase in the value of the products produced by those refineries, either temporary or permanent, it may cause our customers to reduce production of refined products at their refineries. If production of refined products declines, there would likely be a reduction in the volumes of crude oil and refined products that we transport. Any such reduction could have a material adverse effect on our results of operations, financial position and ability to make cash distributions.

Our insurance policies do not cover all losses, costs or liabilities that we may experience, and insurance companies that currently insure companies in the energy industry may cease to do so or substantially increase premiums.

Our assets other than Mars, Poseidon and Odyssey are insured at the entity level for certain property damage, business interruption and third-party liabilities, which includes pollution liabilities. Each of Mars', Poseidon's and Odyssey's current owners are required to carry insurance for their pro rata share. We carry commercial insurance for our pro rata portion of Mars', Poseidon's and Odyssey's potential liabilities, which will increase our general and administrative expenses. We do not carry named windstorm insurance for our assets located in the Gulf of Mexico.

All of the insurance policies relating to our assets and operations are subject to policy limits. In addition, the waiting period under the business interruption insurance policies of the entities in which we own an interest ranges from 21 days to 60 days. We and the entities in which we own an interest do not maintain insurance coverage against all potential losses and could suffer losses for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. Changes in the insurance markets subsequent to the September 11, 2001 terrorist attacks and Hurricanes Katrina, Rita, Gustav and Ike have made it more difficult and more expensive to obtain certain types of coverage, and we may elect to self-insure portions of our asset portfolio. Moreover, the offshore entities in which we own an interest do not maintain insurance coverage for named windstorms. The occurrence of an event that is not fully covered by insurance, or failure by one or more insurers to honor its coverage commitments for an insured event, could have a material adverse effect on our business, financial condition and results of operations. Insurance companies may reduce the insurance capacity they are willing to offer or may demand significantly higher premiums or deductibles to cover our assets. If significant changes in the number or financial solvency of insurance underwriters for the energy industry occur, we may be unable to obtain and maintain adequate insurance at a reasonable cost. We cannot assure you that the insurers of the entities in which we own an interest will renew their insurance coverage on acceptable terms, if at all, or that the entities in which we own an interest will be able to arrange for adequate alternative coverage in the event of non-renewal. The unavailability of full insurance coverage to cover events in which the entities in which we own an interest suffer significant losses could have a material adverse effect on our business, financial condition and results of operations, including our ability to make distributions.

We are exposed to the credit risks, and certain other risks, of our customers, and any material nonpayment or nonperformance by our customers could reduce our ability to make distributions to our unitholders.

We are subject to the risks of loss resulting from nonpayment or nonperformance by our customers. If any of our most significant customers default on their obligations to us, our financial results could be adversely affected. Our customers may be highly leveraged and subject to their own operating and regulatory risks. If any of our customers were to seek protection under the U.S. Bankruptcy Code or other insolvency laws, the court could void the customer's contracts with us or allow our customer to reject such contracts. For certain of our pipelines, we may have a limited pool of potential customers and may be unable to replace any customers who default on their obligations to us. Therefore, any material deterioration in the creditworthiness of our customers or any material nonpayment or nonperformance by our customers could have a material adverse effect on our business, financial condition and results of operations, including our ability to make distributions

Our expansion of existing assets and construction of new assets may not result in revenue increases and will be subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our operations and financial condition.

In order to optimize our existing asset base, we intend to evaluate and capitalize on organic opportunities for expansion projects in order to increase revenue on our assets. If we undertake these projects, they may not be completed on schedule or at all or at the budgeted cost.

We also intend to expand our existing pipelines and terminal, such as by adding horsepower, pump stations, new connections or additional tank storage. We expect to complete several expansion and upgrade projects, including new connections at Houma,the Houma land purchases, tank construction and possible pipeline expansion.

These expansion projects involve numerous regulatory, environmental, political and legal uncertainties, most of which are beyond our control.

Moreover, we may not receive sufficient long-term contractual commitments or spot shipments from customers to provide the revenue needed to support projects, and we may be unable to negotiate acceptable interconnection agreements with third-party pipelines to provide destinations for increased throughput. Even if we receive such commitments or spot shipments or make such interconnections, we may not realize an increase in revenue for an extended period of time. For example, we expanded pumping capacity on Zydeco to Clovelly and entered into a joint tariff agreement with LOCAP to enhance movements on Zydeco to St. James. However, anticipated volume increases may not materialize, and we may not realize an increase in revenue as a result of the expansion project and joint or realize the full benefit from this interconnection. As a result, new or expanded facilities may not be able to attract enough throughput to achieve our expected investment return, which could have a material adverse effect on our business, financial condition and results of operations, including our ability to make distributions.

We do not own all of the land on which our pipelines are located, which could result in disruptions to our operations.

We do not own all of the land on which our pipelines are located, and we are, therefore, subject to the possibility of more onerous terms and increased costs to retain necessary land use if we do not have valid leases or rights-of-way or if such rights-of-way lapse or terminate. We obtain the rights to construct and operate our pipelines on land owned by third parties and governmental agencies, and some of our agreements may grant us those rights for only a specific period of time. Our loss of these rights, through our inability to renew leases, right-of-way contracts or otherwise, or inability to obtain easements at reasonable costs could have a material adverse effect on our business, results of operations, financial condition and cash flows, including our ability to make cash distributions to our unitholders.

We are subject to pipeline safety laws and regulations, compliance with which may require significant capital expenditures, increase our cost of operations and affect or limit our business plans.

Our interstate and offshore pipeline operations are subject to pipeline safety regulations administered by the PHMSA of the DOT. These laws and regulations require us to comply with a significant set of requirements for the design, construction, operation, maintenance, inspection and management of our crude oil and refined products pipelines. Certain aspects of our offshore pipeline operations, such as new construction and modification, are also regulated by BOEM, BSEE and the U.S. Coast Guard.

PHMSA has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines, with enhanced measures required for pipelines located where a leak or rupture could harm an HCA. The regulations require operators to:

- perform ongoing assessments of pipeline integrity;
- identify and characterize applicable threats to pipeline segments that could affect an HCA;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and
- implement preventive and mitigating actions.

In addition, states have adopted regulations similar to existing PHMSA regulations for intrastate pipelines. For example, our intrastate pipelines in Louisiana are subject to pipeline integrity management regulations administered by the Office of Conservation of the Louisiana Department of Natural Resources.

At this time, we cannot predict the ultimate cost of compliance with applicable pipeline integrity management regulations, as the cost will vary significantly depending on the number and extent of any repairs found to be necessary as a result of the pipeline integrity testing. We will continue our pipeline integrity testing programs to assess and maintain the integrity of our pipelines. The results of these tests could cause us to incur significant and unanticipated capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of our pipelines. In addition, our actual implementation costs may be affected by industry-wide demand for the associated contractors and service providers. Additionally, should any of our assets fail to comply with PHMSA regulations, they could be subject to shut-down, pressure reductions, penalties and fines. Changes to pipeline safety laws and regulations that result in more stringent or costly safety standards could have a significant adverse effect on us and similarly situated midstream operators. For example, on January 13, 2017, PHMSA announced the issuance of the Pipeline Safety: Safety of Hazardous Liquids Pipelines final rule. The final rule addressed topics such as: reporting requirements for gravity and gathering lines, inspections of pipelines in following extreme weather events, periodic assessment of pipelines not currently subject to integrity management, repair criteria, expanded use of leak detection systems, increased use of in-line inspection tools and other clarifications. On January 19, 2017, PHMSA announced the issuance of new operator qualification rules that clarify the current regulations. It is unclear when or if these rules will go into effect as, on January 20, 2017, the Trump Administration requested that all regulations that had been sent to the Office of the Federal Register, but not yet published, be immediately withdrawn for further review. However, we cannot know for certain when and how these rules will ultimately take effect.

In this climate of increasingly stringent regulation, pipeline failures or failures to comply with applicable regulations could result in shut-downs, capacity constraints or operational limitations to our pipelines. Should any of these risks materialize, it could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions to our unitholders.

Compliance with and changes in environmental laws and regulations, including proposed climate change laws and regulations, could adversely affect our performance. Our customers are also subject to environmental laws and regulations, and any changes in these laws and regulations, including laws and regulations related to hydraulic fracturing, could result in significant added costs to comply with such requirements and delays or curtailment in pursuing production activities, which could reduce demand for our services.

The principal environmental risks associated with our operations are emissions into the air and releases into the soil, surface water or groundwater. Our operations are subject to extensive environmental laws and regulations, including those relating to the discharge and remediation of materials in the environment, greenhouse gas (“GHG”) emissions, waste management, species and habitat preservation, pollution prevention, pipeline integrity and other safety-related regulations and characteristics and composition of fuels. Certain of these laws and regulations could impose obligations to conduct assessment or remediation efforts at our facilities or third-party sites where we take wastes for disposal or where our wastes migrated, or could impose strict liability on us for the conduct of third parties or for actions that complied with applicable requirements when taken, regardless of negligence or fault. Our offshore operations are also subject to laws and regulations protecting the marine environment administered by the U.S. Coast Guard and BOEM. Failure to comply with these laws and regulations could lead to administrative, civil or criminal penalties or liability and imposition of injunctions, operating restrictions or the loss of permits.

Because environmental laws and regulations are becoming more stringent and new environmental laws and regulations are continuously being enacted or proposed, the level of expenditures required for environmental matters could increase in the future. Current and future legislative action and regulatory initiatives could result in changes to operating permits, material changes in operations, increased capital expenditures and operating costs, increased costs of the goods we transport, and decreased demand for products we handle that cannot be assessed with certainty at this time. We may be required to make expenditures to modify operations or install pollution control equipment or release prevention and containment systems that could materially and adversely affect our business, financial condition, results of operations and liquidity if these expenditures, as with all costs, are not ultimately reflected in the tariffs and other fees we receive for our services. For example, the EPA has, in recent years, adopted final rules making more stringent the National Ambient Air Quality Standards (“NAAQS”) for ozone, sulfur dioxide and nitrogen dioxide. Emerging rules implementing these revised air quality standards may require us to obtain more stringent air permits and install more stringent controls at our operations, which may result in increased capital expenditures.

Climate change legislation and regulations to address GHG emissions are in various phases of discussion or implementation in the United States. The outcome of federal, state and regional actions to address climate change could result in a variety of regulatory programs including potential new regulations to control or restrict emissions, taxes or other charges to deter emissions of GHGs, energy efficiency requirements to reduce demand, or other regulatory actions. These actions could result in increased compliance and operating costs or could adversely affect demand for the crude oil and refined products that we transport. Additionally, adoption of federal, state or regional requirements mandating a reduction in GHG emissions could have far-reaching impacts on the energy industry and the U.S. economy. We cannot predict the potential impact of such laws or regulations on our future consolidated financial condition, results of operations or cash flows. Finally, some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects were to occur, it is uncertain if they would have an adverse effect on our financial condition and operations.

Our customers are also subject to environmental laws and regulations that affect their businesses, and changes in these laws or regulations could materially adversely affect their businesses or prospects. Our crude oil pipelines serve customers who depend on production techniques, such as hydraulic fracturing, that are currently being scrutinized by federal, state and local authorities and that could be subjected to increased regulatory costs, delays or liabilities. The EPA released the final results of its comprehensive research study on the potential adverse impacts that hydraulic fracturing may have on drinking water resources in December 2016. The EPA concluded that hydraulic fracturing activities can impact drinking water resources under some circumstances, including large volume spills and inadequate mechanical integrity of wells. The results of EPA's study could spur action towards federal legislation and regulation of hydraulic fracturing or similar production operations. Any changes in laws or regulations that impose significant costs or liabilities on our customers, or that result in delays, curtailments or cancellations of their projects, could reduce their demand for our services and materially adversely affect our business, results of operations, financial position or cash flows, including our ability to make cash distributions on our common units.

Subsidence and coastal erosion could damage our pipelines along the Gulf Coast and offshore and the facilities of our customers, which could adversely affect our operations and financial condition.

Our pipeline operations along the Gulf Coast and offshore could be impacted by subsidence and coastal erosion. Such processes could cause serious damage to our pipelines, which could affect our ability to provide transportation services. Additionally, such processes could impact our customers who operate along the Gulf Coast, and they may be unable to utilize our services. Subsidence and coastal erosion could also expose our operations to increased risks associated with severe weather conditions, such as hurricanes, flooding and rising sea levels. As a result, we may incur significant costs to repair and preserve our pipeline infrastructure. Such costs could adversely affect our business, financial condition, results of operation or cash flows, including our ability to make cash distributions on our common units.

We may be unable to obtain or renew permits necessary for our operations or for growth and expansion projects, which could inhibit our ability to do business.

Our facilities operate under a number of federal and state permits, licenses and approvals with terms and conditions containing a significant number of prescriptive limits and performance standards in order to operate. In addition, we implement maintenance, growth and expansion projects as necessary to pursue business opportunities, and these projects often require similar permits, licenses and approvals. These permits, licenses, approval limits and standards require a significant amount of monitoring, record keeping and reporting in order to demonstrate compliance with the underlying permit, license, approval limit or standard. Noncompliance or incomplete documentation of our compliance status may result in the imposition of fines, penalties and injunctive relief. A decision by a government agency to deny or delay issuing a new or renewed permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on our ability to continue operations and on our business, financial condition, results of operations and cash flows, including our ability to make cash distributions on our common units.

Our assets were constructed over many decades which may cause our inspection, maintenance or repair costs to increase in the future. In addition, there could be service interruptions due to unknown events or conditions or increased downtime associated with our pipelines that could have a material adverse effect on our business and results of operations.

Our pipelines and storage terminals were constructed over many decades. Pipelines and storage terminals are generally long-lived assets, and construction and coating techniques have varied over time. Depending on the era of construction, some assets will require more frequent inspections, which could result in increased maintenance or repair expenditures in the future. Any significant increase in these expenditures could adversely affect our business, results of operations, financial condition or cash flows, including our ability to make cash distributions to our unitholders.

The tariff rates and rules and regulations for service of our regulated assets, as well as our business practices for our regulated assets, are subject to review, audit and possible adjustment by federal and state regulators, which could adversely affect our revenue and our ability to make distributions to our unitholders.

We provide both interstate and intrastate transportation services for refined products and crude oil. Our interstate and intrastate pipelines are common carriers and are required to provide service to any shipper similarly situated to an existing shipper that requests transportation services on our pipelines.

Zydeco, Bengal, Colonial, Explorer and portions of Mars provide interstate transportation services that are subject to regulation by FERC under the ICA. FERC uses prescribed rate methodologies for developing and changing regulated rates for interstate pipelines. Shippers may protest (and FERC may investigate) the lawfulness of existing, new or changed tariff rates.

FERC can suspend new or changed tariff rates, rules and regulations for up to seven months and can allow new rates to be implemented subject to refund of amounts collected in excess of the rate ultimately found to be just and reasonable. Shippers may also file complaints that existing rates are unjust and unreasonable. If FERC finds a rate to be unjust and unreasonable, it may order payment of reparations for up to two years prior to the filing of a complaint or investigation, and FERC may prescribe new rates prospectively. On November 3, 2015, Colonial made a rules and regulations tariff filing with FERC in Docket No. 16-61-000 to change, among other things, its capacity allocation and minimum tender procedures. Colonial made the filing to address chronic allocation on its system. Several shippers protested the filing, and FERC issued an order on December 3, 2015 suspending the effectiveness of the tariffs until July 4, 2016, subject to further order following a technical conference on the issues raised by the protestors. Because this proceeding is ongoing, the outcome is not known at this time.

We may at any time also be required to respond to governmental requests for information, including compliance audits conducted by FERC, such as the audit of Colonial. FERC's Office of Enforcement concluded an audit of Colonial in Docket No. FA14-4-000 and issued a letter order on June 17, 2015 adopting the audit's findings and recommendations. Colonial accepted the audit's findings and recommendations, which had no financial impact to us.

State agencies may regulate the rates, terms and conditions of service for our pipelines offering intrastate transportation services, and such agencies could limit our ability to increase our rates or order us to reduce our rates and pay refunds to shippers. State agencies can also regulate whether a service may be provided or cancelled. The FERC and most state agencies support light-handed regulation of common carrier pipelines and have generally not investigated the rates, terms and conditions of service of pipelines in the absence of shipper complaints, and generally resolve complaints informally. Louisiana's Public Service Commission has a more stringent review of rate increases and may prohibit or limit future rate increases for intrastate movements regulated by Louisiana.

Under our agreements with certain of our customers, we and the customer have agreed to base tariff rates for some of our pipelines, and our customers have agreed not to challenge the base tariff rates or changes to those rates during the term of the agreements, subject to certain exceptions. Some of these agreements and the underlying rates have been approved by FERC under a declaratory order. These agreements do not, however, prevent any other new or prospective shipper, FERC or a state agency from challenging our tariff rates or our terms and conditions of service on rates or services not covered by these agreements. Following the reversal of Zydeco, in December 2013, SPLC filed three related tariffs with FERC to establish rates for uncommitted service on Zydeco. The filed rates became effective on December 12, 2013 and were jointly protested in a FERC filing by Anadarko Petroleum Corporation, ConocoPhillips Company, Marathon Oil Company and Pioneer Natural Resources USA, Inc. (collectively, the "Liquid Shipper Group"). Zydeco later adopted those tariffs as part of its acquisition of the Ho-Ho pipeline, and Zydeco's rates for uncommitted service were also protested by the Liquid Shipper Group under Docket Numbers IS14-607-000, IS14-608-000, IS14-609-000, and IS14-610-000, filed on July 31, 2014. After adoption of the SPLC tariffs by Zydeco, the protest against SPLC was dismissed. On August 15, 2015, all parties reached a settlement agreement establishing maximum uncommitted rates for uncommitted shippers, providing rate refunds plus interest, and establishing a two year rate moratorium during which neither Zydeco or the Liquid Shipper Group may file to change or challenge the settlement rates, among other terms. FERC accepted the settlement by a letter order, and the approved settlement, including the revised rates, went into effect December 1, 2015.

Further, rate investigations by FERC or a state commission could result in an investigation of our costs, including the:

- overall cost of service, including operating costs and overhead;
- allocation of overhead and other administrative and general expenses to the regulated entity;
- appropriate capital structure to be utilized in calculating rates;
- appropriate rate of return on equity and interest rates on debt;
- rate base, including the proper starting rate base;
- throughput underlying the rate; and
- proper allowance for federal and state income taxes.

Shippers can always file a complaint with the FERC or a state agency challenging rates or conditions of services. If they were successful, the FERC or state agency could order reparations. A successful challenge of any of our rates, or any changes to FERC's approved rate or index methodologies, could adversely affect our revenue and our ability to make distributions to our unitholders. Similarly, if state agencies in the states in which we offer intrastate transportation services change their policies or aggressively regulate our rates or terms and conditions of service, it could also adversely affect our revenues, including our ability to make cash distributions to our unitholders.

If we lose any of our key personnel, our ability to manage our business and continue our growth could be negatively impacted.

We depend on our senior management team and key technical personnel. If their services are unavailable to us for any reason, we may be required to hire other personnel to manage and operate our company and to develop our products and technology. We cannot assure you that we would be able to locate or employ such qualified personnel on acceptable terms or at all.

Terrorist or cyber-attacks and threats, or escalation of military activity in response to these attacks, could have a material adverse effect on our business, financial condition or results of operations.

Terrorist attacks and threats, cyber-attacks, or escalation of military activity in response to these attacks, may have significant effects on general economic conditions, fluctuations in consumer confidence and spending and market liquidity, each of which could materially and adversely affect our business. Strategic targets, such as energy-related assets and transportation assets, may be at greater risk of future terrorist or cyber-attacks than other targets in the United States. We do not maintain specialized insurance for possible liability or loss resulting from a cyber-attack on our assets that may shut down all or part of our business. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital including our ability to repay or refinance debt. It is possible that any of these occurrences, or a combination of them, could have a material adverse effect on our business, results of operations, financial condition or cash flows, including our ability to make cash distributions to our unitholders.

Restrictions in our revolving credit facilities could adversely affect our business, financial condition, results of operations, ability to make cash distributions to our unitholders and the value of our units.

We will be dependent upon the earnings and cash flows generated by our operations in order to meet any debt service obligations and to allow us to make cash distributions to our unitholders. We entered into two revolving credit facilities and Zydeco has entered into a senior unsecured revolving credit facility with an affiliate of Shell with a total capacity of $970.0 million, under which a total of $686.9 million was drawn as of December 31, 2016. Borrowings under our revolving credit facilities were used to fund in part our acquisitions in 2016 and 2015. Borrowings under Zydeco's credit facility were used for capital projects and operating expenses. Restrictions in our revolving credit facilities and any future financing agreements could restrict our ability to finance our future operations or capital needs or to expand or pursue our business activities, which may, in turn, limit our ability to make cash distributions to our unitholders.

The restrictions in our revolving credit facilities could affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our revolving credit facilities could result in an event of default which would enable our lenders to declare the outstanding principal of that debt, together with accrued interest, to be immediately due and payable. If the payment of our debt is accelerated, defaults under our other debt instruments, if any, may be triggered, and our assets may be insufficient to repay such debt in full, and the holders of our units could experience a partial or total loss of their investment. See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity — Revolving Credit Facility Agreements in this report for additional information about our revolving credit facilities.

Increases in interest rates could adversely impact the price of our common units, our ability to issue equity or incur debt for acquisitions or other purposes and our ability to make cash distributions at our intended levels.

Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price is impacted by our level of cash distributions and implied distribution yield. The distribution yield is often used by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on the price of our common units, our ability to issue equity or incur debt for acquisitions or other purposes and our ability to make cash distributions at our intended levels.

Our product loss allowance exposes us to commodity risk.

Our long-term transportation agreements and tariffs for crude oil shipments include a product loss allowance. We collect product loss allowance to reduce our exposure to differences in crude oil measurement between origin and destination meters, which can fluctuate widely. This arrangement exposes us to risk of financial loss in some circumstances, including when the

crude oil is received from a ship or connecting carrier using different measurement techniques, or resulting from solids and water produced from the crude oil. It is not always possible for us to completely mitigate the measurement differential. If the measurement differential exceeds the loss allowance, the pipeline must make the customer whole for the difference in measured crude oil. Additionally, we take title to any excess product that we transport when product losses are within the allowed levels, and we sell that product several times per year at prevailing market prices. This allowance oil revenue is subject to more volatility than transportation revenue, as it is directly dependent on our measurement capability and commodity prices.

The lack of diversification of our assets and geographic locations could adversely affect our ability to make distributions to our common unitholders.

We rely on revenue generated from our pipelines, which are primarily located along the Texas and Louisiana Gulf Coast and offshore Louisiana, and from Lockport, which is located southwest of Chicago. Due to our lack of diversification in assets and geographic location, an adverse development in our businesses or areas of operations, including adverse developments due to catastrophic events, weather, regulatory action and decreases in demand for crude oil and refined products, could have a significantly greater impact on our results of operations and cash available for distribution to our common unitholders than if we maintained more diverse assets and locations.

If we are deemed an "investment company" under the Investment Company Act of 1940, it could have a material adverse effect on our business and the price of our common units.

Our assets include partial ownership interests in Zydeco, Mars, Bengal, Poseidon, Odyssey, Colonial, Explorer, Endymion, Proteus, Cleopatra and a wholly owned interest in Pecten. If a sufficient amount of our assets, or other assets acquired in the future, are deemed to be "investment securities" within the meaning of the Investment Company Act of 1940, we may have to register as an investment company under the Investment Company Act, claim an exemption, obtain exemptive relief from the SEC or modify our organizational structure or our contract rights. Registering as an investment company could, among other things, materially limit our ability to engage in transactions with affiliates, including the purchase and sale of certain securities or other property to or from our affiliates, restrict our ability to borrow funds or engage in other transactions involving leverage, and require us to add additional directors who are independent of us or our affiliates. The occurrence of some or all of these events would adversely affect the price of our common units and could have a material adverse effect on our business, results of operations, financial condition or cash flows, including our ability to make cash distributions to our unitholders.

Risks Inherent in an Investment in Us

Our general partner and its affiliates, including Shell, have conflicts of interest with us and limited duties to us and our unitholders, and they may favor their own interests to the detriment of us and our unitholders. Additionally, we have no control over the business decisions and operations of Shell, and it is under no obligation to adopt a business strategy that favors us.

As of December 31, 2016, SPLC owned a 49.2% limited partner interest in us and owned and controlled our general partner. Although our general partner has a duty to manage us in a manner that is not adverse to the best interests of us and our unitholders, the directors and officers of our general partner also have a duty to manage our general partner in a manner that is not adverse to the best interests of its owner, SPLC. Conflicts of interest may arise between SPLC and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts, the general partner may favor its own interests and the interests of its affiliates, including SPLC, over the interests of our common unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires SPLC to pursue a business strategy that favors us or utilizes our assets, which could involve decisions by SPLC to undertake acquisition opportunities for itself;
- SPLC's directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of SPLC, which may be contrary to our interests; in addition, many of the officers and directors of our general partner are also officers and/or directors of SPLC and will owe fiduciary duties to SPLC and its owners;
- SPLC may be constrained by the terms of its debt instruments from taking actions, or refraining from taking actions, that may be in our best interests;
- our partnership agreement replaces the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing its duties, limiting our general partner's liabilities and restricting the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;

- except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;
- disputes may arise under agreements pursuant to which SPLC and its affiliates are our customers;
- our general partner will determine the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and the creation, reduction or increase of cash reserves, each of which can affect the amount of cash that is distributed to our unitholders;
- our general partner will determine the amount and timing of many of our capital expenditures and whether a capital expenditure is classified as an expansion capital expenditure, which would not reduce operating surplus, or a maintenance capital expenditure, which would reduce our operating surplus. This determination can affect the amount of cash that is distributed to our unitholders;
- our general partner will determine which costs incurred by it are reimbursable by us;
- our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions;
- our partnership agreement permits us to classify up to $90.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions to our general partner in respect of the general partner units or the incentive distribution rights;
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;
- our general partner intends to limit its liability regarding our contractual and other obligations;
- our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if it and its affiliates own more than 75.0% of the common units;
- our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates, including under the Omnibus Agreements and our other agreements with SPLC;
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us; and
- our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our general partner's incentive distribution rights without the approval of the conflicts committee of the board of directors of our general partner, which we refer to as our conflicts committee, or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

Under the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers, directors and owners. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our unitholders.

Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions.

We expect that we will distribute all of our available cash to our unitholders and will rely primarily upon our cash reserves (including the net proceeds that we retained from the IPO) and external financing sources, including borrowings under our revolving credit facilities and the issuance of debt and equity securities, to fund future acquisitions and other expansion capital expenditures. To the extent we are unable to finance growth with external sources of capital, the requirement in our partnership agreement to distribute all of our available cash and our current cash distribution policy will significantly impair our ability to grow. In addition, because we will distribute all of our available cash, our growth may not be as fast as businesses that reinvest all of their available cash to expand ongoing operations.

Our revolving credit facilities restrict our ability to incur additional debt including the issuance of debt securities, except for incurring bank loans or loans from affiliates up to other certain levels. To the extent we issue additional units, the payment of

34

distributions on those additional units may increase the risk that we will be unable to maintain or increase our cash distributions per unit. There are no limitations in our partnership agreement on our ability to issue additional units, including units ranking senior to our common units, and our unitholders will have no preemptive or other rights (solely as a result of their status as unitholders) to purchase any such additional units. If we incur additional debt (under our revolving credit facilities or otherwise) to finance our growth strategy, we will have increased interest expense, which in turn will reduce the available cash that we have to distribute to our unitholders.

The fees and reimbursements due to our general partner and its affiliates, including SPLC, for services provided to us or on our behalf will reduce our cash available for distribution. In certain cases, the amount and timing of such reimbursements will be determined by our general partner and its affiliates, including SPLC.

Pursuant to our partnership agreement, we reimburse our general partner and its affiliates, including SPLC, for costs and expenses they incur and payments they make on our behalf. Pursuant to the Omnibus Agreement, we pay an annual fee, initially $8.5 million, to SPLC for general and administrative services. In addition, pursuant to the Omnibus Agreement, we reimburse our general partner for payments to SPLC for other expenses incurred by SPLC on our behalf to the extent the fees relating to such services are not included in the general and administrative services fee. Each of these payments will be made prior to making any distributions on our common units. The reimbursement of expenses and payment of fees to our general partner and its affiliates will reduce our cash available for distribution. There is no limit on the fee and expense reimbursements that we may be required to pay to our general partner and its affiliates.

Our partnership agreement replaces fiduciary duties applicable to a corporation with contractual duties and restricts the remedies available to holders of our common units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that replace fiduciary duties applicable to a corporation with contractual duties and restrict the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement provides that:

- whenever our general partner (acting in its capacity as our general partner), the board of directors of our general partner or any committee thereof (including the conflicts committee) makes a determination or takes, or declines to take, any other action in their respective capacities, our general partner, the board of directors of our general partner and any committee thereof (including the conflicts committee), as applicable, is required to make such determination, or take or decline to take such other action, in good faith, meaning that it subjectively believed that the decision was not adverse to our best interests, and, except as specifically provided by our partnership agreement, will not be subject to any other or different standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or at equity;
- our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as such decisions are made in good faith;
- our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers and directors, as the case may be, acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and
- our general partner will not be in breach of its obligations under the partnership agreement (including any duties to us or our unitholders) if a transaction with an affiliate or the resolution of a conflict of interest is:
- approved by the conflicts committee of the board of directors of our general partner, although our general partner is not obligated to seek such approval;
- approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and its affiliates;
- determined by the board of directors of our general partner to be on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- determined by the board of directors of our general partner to be fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable

or advantageous to us.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, any determination by our general partner or the conflicts committee must be made in good faith. If an affiliate transaction or the resolution of a conflict of interest is not approved by our common unitholders or the conflicts committee and the board of directors of our general partner determines that the resolution or course of action taken with respect to the affiliate transaction or conflict of interest satisfies either of the standards set forth in the third and fourth subbullet points above, then it will be presumed that, in making its decision, the board of directors of our general partner acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the Partnership challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

Units held by ineligible holders may be subject to redemption.

We have adopted certain requirements regarding those investors who may own our common units. Eligible taxable holders are limited partners whose, or whose owners', federal income tax status does not have or is not reasonably likely to have a material adverse effect on the rates that can be charged by us on assets that are subject to regulation by FERC or a similar regulatory body, as determined by our general partner with the advice of counsel. Ineligible holders are limited partners (a) who are not an eligible taxable holder or (b) whose nationality, citizenship or other related status would create a substantial risk of cancellation or forfeiture of any property in which we have an interest, as determined by our general partner with the advice of counsel. In certain circumstances set forth in our partnership agreement, units held by an ineligible holder may be redeemed by us at the then-current market price, which is the average of the daily closing prices for the 20 consecutive trading days immediately prior to the redemption date. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner.

Our partnership agreement restricts the voting rights of unitholders owning 20.0% or more of our common units.

Unitholders' voting rights are further restricted by a provision of our partnership agreement providing that any units held by a person that owns 20.0% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot be used to vote on any matter.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. For example, unlike holders of stock in a public corporation, unitholders will not have "say-on-pay" advisory voting rights. Unitholders did not elect our general partner or the board of directors of our general partner and will have no right to elect our general partner or the board of directors of our general partner on an annual or other continuing basis. The board of directors of our general partner is chosen by the member of our general partner, which is a wholly owned subsidiary of SPLC. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which our common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent.

Unitholders will be unable initially to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all outstanding common units is required to remove our general partner. As of February 17, 2017, the date on which our subordinated units converted into common units, our general partner and its affiliates owned 49.2% of our common units.

Furthermore, unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20.0% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter.

Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

Our general partner interest or the control of our general partner may be transferred to a third party without unitholder consent.

Our partnership agreement does not restrict the ability of SPLC to transfer all or a portion of its general partner interest or its ownership interest in our general partner to a third party. Our general partner, or the new owner of our general partner would then be in a position to replace the board of directors and officers of our general partner with its own designees and thereby exert significant control over the decisions made by the board of directors and officers.

The incentive distribution rights of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its incentive distribution rights to a third party at any time without the consent of our unitholders. If our general partner transfers its incentive distribution rights to a third party, it will have less incentive to grow our cash flows and increase distributions. A transfer of incentive distribution rights by our general partner could reduce the likelihood of Shell or SPLC selling or contributing additional assets to us, which in turn would impact our ability to grow our asset base.

We may issue additional units without unitholder approval, which would dilute unitholder interests.

At any time, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders, and our unitholders will have no preemptive or other rights (solely as a result of their status as unitholders) to purchase any such limited partner interests. Further, there are no limitations in our partnership agreement on our ability to issue equity securities that rank equal or senior to our common units as to distributions or in liquidation or that have special voting rights and other rights. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our existing unitholders' proportionate ownership interest in us will decrease;
- the amount of cash we have available to distribute on each unit may decrease;
- because the amount payable to holders of incentive distribution rights is based on a percentage of total available cash, the distributions to holders of incentive distribution rights will increase even if the per unit distribution on common units remains the same;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of our common units may decline.

SPLC may sell units in the public or private markets, and such sales could have an adverse impact on the trading price of the common units.

As of December 31, 2016, SPLC held 21,475,068 common units and 67,475,068 subordinated units. On February 17, 2017, all of the subordinated units converted into common units following the payment of the cash distribution for the fourth quarter of 2016. Additionally, we have agreed to provide SPLC with certain registration rights under applicable securities laws. The sale of these units in the public or private markets could have an adverse impact on the price of the common units or on any trading market that may develop.

Our general partner's discretion in establishing cash reserves may reduce the amount of cash we have available to distribute to unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus the cash reserves that it determines are necessary to fund our future operating expenditures. In addition, the partnership agreement permits the general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party, or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash we have available to distribute to unitholders.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 75.0% of our then-outstanding common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price, as calculated pursuant to the terms of our partnership agreement. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units. As of December 31, 2016, our general partner and its affiliates owned approximately 19.6% of our common units.

Our general partner, or any transferee holding a majority of the incentive distribution rights, may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to the incentive distribution rights, without the approval of the conflicts committee of our general partner or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

The holder or holders of a majority of the incentive distribution rights, which is initially our general partner, have the right, at any time when the holders have received incentive distributions at the highest level to which they are entitled (48% in addition to distributions paid on its 2% general partner interest) for each of the prior four consecutive fiscal quarters (and the aggregate amounts distributed in respect of such four-quarter period did not exceed adjusted operating surplus for such four-quarter period), to reset the minimum quarterly distribution and the initial target distribution levels at higher levels based on our cash distribution at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution will be reset to an amount equal to the average cash distribution per unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the “reset minimum quarterly distribution”), and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution. Our general partner has the right to transfer the incentive distribution rights at any time, in whole or in part, and any transferee holding a majority of the incentive distribution rights shall have the same rights as our general partner with respect to resetting target distributions.

In the event of a reset of the minimum quarterly distribution and the target distribution levels, the holders of the incentive distribution rights will be entitled to receive, in the aggregate, the number of common units equal to that number of common units which would have entitled the holders to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions on the incentive distribution rights in the prior two quarters. Our general partner will also be issued the number of general partner units necessary to maintain the same percentage general partner interest in us that existed immediately prior to the reset election. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal expansion projects that would not otherwise be sufficiently accretive to cash distributions per common unit. It is possible, however, that our general partner or a transferee could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued common units rather than retain the right to receive incentive distribution payments based on target distribution levels that are less certain to be achieved in the then-current business environment. This risk could be elevated if our incentive distribution rights have been transferred to a third party. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued common units to our general partner in connection with resetting the target distribution levels.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the counterparties to such arrangements have recourse only against our assets, and not against our general partner or its assets. Our general partner may therefore cause us to incur indebtedness or other obligations that are nonrecourse to our general partner. Our partnership agreement permits our general partner to limit its liability, even if we could have obtained more favorable terms without the limitation on liability. In addition, we are obligated to reimburse or indemnify our general partner to the extent that it incurs obligations on our behalf. Any such reimbursement or indemnification payments would reduce the amount of cash otherwise available for distribution to our unitholders.

Our partnership agreement replaces our general partner’s fiduciary duties to holders of our common units with contractual standards governing its duties.

Our partnership agreement contains provisions that eliminate the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law and replace those duties with several different contractual standards. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, free of any duties to us and our unitholders other than the implied contractual covenant of good faith and fair dealing, which means that a court will enforce the reasonable expectations of the partners where the language in the partnership agreement does not provide for a clear course of action. This provision entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples of decisions that our general partner may make in its individual capacity include:

- how to allocate corporate opportunities among us and its other affiliates;
- whether to exercise its limited call right;
- whether to seek approval of the resolution of a conflict of interest by the conflicts committee of the board of directors of our general partner;
- how to exercise its voting rights with respect to the units it owns;
- whether to exercise its registration rights;
- whether to elect to reset target distribution levels;
- whether to transfer the incentive distribution rights to a third party; and
- whether or not to consent to any merger or consolidation of the Partnership or amendment to the partnership agreement.

If we fail to develop or maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud, which would likely have a negative impact on the market price of our common units.

We are required to disclose material changes made in our internal control over financial reporting on a quarterly basis and we are required to assess the effectiveness of our controls annually. An effective system of internal controls is necessary for us to provide reliable and timely financial reports, prevent fraud and to operate successfully as a publicly traded partnership. We prepare our consolidated financial statements in accordance with GAAP, but our internal accounting controls may not meet all standards applicable to companies with publicly traded securities. Our efforts to develop and maintain our system of internal controls may not be successful, and we may be unable to maintain effective controls over our financial processes and reporting in the future or to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002. For example, Section 404 requires us, among other things, to annually review and report on the effectiveness of our system of internal controls over financial reporting. Any failure to develop, implement or maintain our effective internal controls or the failure to improve our system of internal controls could harm our operating results or cause us to fail to meet our reporting obligations.

A “material weakness” is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement in financial statements will not be prevented or detected on a timely basis.

We may incur significant costs in our efforts to comply with Section 404. Any failure to implement and maintain an effective system of internal controls over financial reporting will subject us to regulatory scrutiny and a loss of confidence in our reported financial information, which could have an adverse effect on our business and would likely have a negative effect on the trading price of our common units.

Unitholders’ liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. We are organized under Delaware law, and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. A unitholder could be liable for any and all of our obligations as if a unitholder were a general partner if a court or government agency were to determine that (i) we were conducting business in a state but had not complied with that particular state’s partnership statute; or (ii) a unitholder’s right to act with other unitholders to remove or replace our general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute “control” of our business.

Unitholders may have to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Transferees of common units

are liable both for the obligations of the transferor to make contributions to us that are known to the transferee at the time of the transfer and for unknown obligations if the liabilities could be determined from our partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

The NYSE does not require a publicly traded partnership like us to comply with certain of its corporate governance requirements.

Because we are a publicly traded partnership, the NYSE does not require us to have, and we do not intend to have, a majority of independent directors on our general partner's board of directors or to establish a compensation committee or a nominating and corporate governance committee. Additionally, any future issuance of additional common units or other securities, including to affiliates, will not be subject to the NYSE's shareholder approval rules that apply to a corporation. Accordingly, unitholders will not have the same protections afforded to certain corporations that are subject to all of the NYSE corporate governance requirements. See Part III, Item 10. Directors, Executive Officers and Corporate Governance in this report.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes. If the Internal Revenue Service, or IRS, were to treat us as a corporation for federal income tax purposes, which would subject us to entity-level taxation, or if we were otherwise subjected to a material amount of additional entity-level taxation, then our cash available for distribution would be substantially reduced.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes.

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. A change in our business or a change in current law could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35.0%, and would likely pay state and local income tax at varying rates. Distributions would generally be taxed again as corporate dividends (to the extent of our current and accumulated earnings and profits), and no income, gains, losses, deductions or credits would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution would be substantially reduced. In addition, several states are evaluating changes to current law which could subject us to additional entity-level taxation and further reduce the cash available for distribution to unitholders.

Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution levels may be adjusted to reflect the impact of that law on us.

The present federal income tax treatment of publicly traded partnerships or an investment in our common units may be modified by administrative, legislative or judicial changes or differing interpretations at any time. From time to time, members of the U.S. Congress propose and consider substantive changes to the existing federal income tax laws that affect publicly traded partnerships. If successful, such a proposal could eliminate the qualifying income exception to the treatment of all publicly-traded partnerships as corporations upon which we rely for our treatment as a partnership for U.S. federal income tax purposes. We are unable to predict whether any of these changes or other proposals will ultimately be enacted or will materially change interpretations of the current law, but it is possible that a change in law could affect us and may, if enacted, be applied retroactively. Any such changes would have a material adverse effect on our financial condition, cash flows, ability to make cash distributions to our unitholders and the value of an investment in our common units.

On January 24, 2017, final regulations by the IRS and the U.S. Department of the Treasury were published in the Federal Register that provide industry-specific guidance regarding whether income earned from certain activities will constitute qualifying income. We believe that we will continue to be able to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes under the new rules.

Our unitholders’ share of our income will be taxable to them for federal income tax purposes even if they do not receive any cash distributions from us.

Because a unitholder will be treated as a partner to whom we will allocate taxable income that could be different in amount than the cash we distribute, a unitholder’s allocable share of our taxable income will be taxable to it, which may require the payment of federal income taxes and, in some cases, state and local income taxes, on the unitholder’s share of our taxable income even if it receives no cash distributions from us. Our unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from that income.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution.

Any contest with the IRS, and the outcome of any IRS contest, may have a materially adverse impact on the market for our common units and the price at which our common units trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

Tax gain or loss on the disposition of our common units could be more or less than expected.

If our unitholders sell common units, the unitholders will recognize a gain or loss for federal income tax purposes equal to the difference between the amount realized and their tax basis in those common units. Because distributions in excess of a unitholder’s allocable share of our net taxable income decrease the unitholder’s tax basis in its common units, the amount, if any, of such prior excess distributions with respect to the common units a unitholder sells will, in effect, become taxable income to the unitholder if it sells such common units at a price greater than its tax basis in those common units, even if the price received is less than its original cost. In addition, because the amount realized includes a unitholder’s share of our nonrecourse liabilities, a unitholder that sells common units may incur a tax liability in excess of the amount of cash received from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning our common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file federal income tax returns and applicable state tax returns and pay tax on their share of our taxable income.

We will treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The U.S. Department of the Treasury recently adopted final Treasury Regulations allowing a similar monthly simplifying convention for taxable years beginning on or after August 3, 2015. However, such final regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration method or new Treasury regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

If the IRS makes audit adjustments to our income tax returns for tax years beginning after 2017, it (and some states) may collect any resulting taxes (including any applicable penalties and interest) directly from us, in which case our cash available for distribution to our unitholders might be substantially reduced.

Pursuant to the Bipartisan Budget Act of 2015, if the IRS makes audit adjustments to our income tax returns for tax years beginning after 2017, it may collect any resulting taxes (including any applicable penalties and interest) directly from us. We will generally have the ability to shift any such tax liability to our general partner and our unitholders in accordance with their interests in us during the year under audit, but there can be no assurance that we will be able to do so (and will choose to do so) under all circumstances, or that we will be able to (or choose to) effect corresponding shifts in state income or similar tax liability resulting from the IRS adjustment in states in which we do business in the year under audit or in the adjustment year. If we make payments of taxes, penalties and interest resulting from audit adjustments, our cash available for distribution to our unitholders might be substantially reduced.

A unitholder whose common units are loaned to a "short seller" to effect a short sale of common units may be considered as having disposed of those common units. If so, the unitholder would no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.

Because a unitholder whose common units are loaned to a "short seller" to effect a short sale of common units may be considered as having disposed of the loaned common units, the unitholder may no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income.

We have adopted certain valuation methodologies in determining a unitholder's allocations of income, gain, loss and deduction. The IRS may challenge these methodologies, which could adversely affect the value of the common units.

In determining the items of income, gain, loss and deduction allocable to our unitholders, we must routinely determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. The IRS may challenge our valuation methods and allocations of taxable income, gain, loss and deduction between our general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of taxable gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

The sale or exchange of 50.0% or more of our capital and profits interests during any twelve month period will result in the termination of our partnership for federal income tax purposes. The sale or exchange of 50.0% or more of the capital and profits interests in any entity in which we own an interest that is treated as a partnership for federal income tax purposes during any twelve month period will result in the termination of such partnership for federal income tax purposes.

We will be considered to have technically terminated our existing partnership and having formed a new partnership for federal income tax purposes if there is a sale or exchange of 50.0% or more of the total interests in our capital and profits within a twelve month period. Our technical termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1 if certain relief were unavailable) for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in the unitholder's taxable income for the year of termination. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred.

We own material interests in entities treated as partnerships for federal income tax purposes. Any of these entities will be considered to have technically terminated and to have formed a new partnership for federal income tax purposes if there is a sale or exchange of 50.0% or more of the total interests in such entity's capital and profits within a twelve month period. Such a termination could result in a deferral of depreciation deductions allowable in computing our taxable income.

If our assets were subjected to a material amount of additional entity-level taxation by individual states, it would reduce our cash available for distribution to you.

If our assets are subjected to a material amount of additional entity-level taxation by individual states, our cash available for a distribution to you would be reduced. Currently, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. We currently own assets and conduct business in Illinois, Louisiana and Texas. Illinois imposes an entity-level tax on partnerships at a rate of 1.5% of partnership income apportioned to Illinois, and Texas imposes a franchise tax on all business entities (including partnerships) at a maximum effective rate of 0.5% of the business' gross income apportioned to Texas. In the future, we may expand our operations. Imposition of a similar tax on us in other jurisdictions that we may expand to could substantially reduce our cash available for distribution to you.

As a result of investing in our common units, a unitholder may become subject to state and local taxes and return filing requirements in jurisdictions where we operate or own or acquire properties.

In addition to federal income taxes, our unitholders will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or control property now or in the future, even if the unitholders do not live in any of those jurisdictions. Our unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. We conduct business and/or control assets in Illinois, Louisiana and Texas. Illinois and Louisiana currently impose a personal income tax on individuals. As we make acquisitions or expand our business, we may control assets or conduct business in additional states that impose a personal income tax. It is each unitholder's responsibility to file all federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units. Prospective unitholders should consult their own tax advisors regarding such matters.

Entity level taxes on income from C corporation subsidiaries will reduce cash available for distribution, and an individual unitholder's share of dividend and interest income from such subsidiaries would constitute portfolio income that could not be offset by the unitholder's share of our other losses or deductions.

A portion of our taxable income is earned through Colonial and Explorer, both C corporations. Such C corporations are subject to federal income tax on their taxable income at the corporate tax rate, which is currently a maximum of 35.0%, and will likely pay state (and possibly local) income tax at varying rates, on their taxable income. Any such entity level taxes will reduce the cash available for distribution to our unitholders. Distributions from any such C corporation will generally be taxed again to unitholders as dividend income to the extent of current and accumulated earnings and profits of such C corporation. As of December 31, 2016, the maximum federal income tax rate applicable to such qualified dividend income which is allocable to individuals was generally 20.0%. An individual unitholder's share of dividend and interest income from Colonial, Explorer or other C corporation subsidiaries would constitute portfolio income that could not be offset by the unitholder's share of our other losses or deductions.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 3. LEGAL PROCEEDINGS

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the ordinary course of business, we are not a party to any litigation or governmental or other proceeding that we believe will have a material adverse impact on our financial position, results of operations, or cash flows. In addition, pursuant to the terms of the various agreements under which we acquired assets from SPLC or SOPUS since the IPO, SPLC or SOPUS, as applicable, will indemnify us for certain liabilities relating to litigation and environmental matters attributable to the ownership or operation of the acquired assets prior to our acquisition of those assets.

Effective July 31, 2014, a rate case was filed against Zydeco with FERC. The rate case was resolved by a settlement approved by FERC which established maximum uncommitted (or non-contract) rates for uncommitted shippers effective December 1, 2015. The settlement also provided for rate refunds for shippers of the difference between the higher pre-settlement uncommitted (or non-contract) rates and the lower settlement rates for the period from July 31, 2014 to November 30, 2015 (plus interest). For more information on the rate case, see Item 1A. Risk Factors — Risks Related to Our Business in this report. We accrued $2.3 million for the settlement as of December 31, 2015 which was paid in January 2016. We have the right under the Omnibus Agreement to seek indemnity from SPLC for some of the costs incurred. We filed claims for

reimbursement of $1.4 million in 2015 from SPLC, and we received reimbursement in 2016. On a prospective basis, a successful challenge of any of our rates, or any changes to FERC's approved rate or index methodologies, could adversely affect our revenue and cash flows, including our ability to make distributions to our unitholders.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Common Unit Prices and Cash Distributions Per Unit

On October 29, 2014, our common units began trading on the NYSE under the symbol "SHLX." The following table reflects intraday high and low sales prices per common unit and cash distributions declared to unitholders for each quarter:

	Common Unit Price		
	High	Low	Quarterly Cash Distribution per Limited Partner Unit (1)
2016			
First Quarter	$42.29	$30.05	$ 0.23500
Second Quarter	38.49	31.02	0.25000
Third Quarter	34.25	29.47	0.26375
Fourth Quarter	32.19	25.42	0.27700
2015			
First Quarter	$42.83	$35.00	$ 0.17500
Second Quarter	49.77	36.27	0.19000
Third Quarter	48.39	25.13	0.20500
Fourth Quarter	41.86	29.11	0.22000
2014			
Fourth Quarter (October 29 - December 31, 2014)	$41.46	$31.50	$ 0.10420

(1) The fourth quarter 2014 minimum quarterly distribution was prorated for the 59-day period from November 3, 2014 to December 31, 2014 in accordance with our partnership agreement.

As of February 23, 2017, SPLC owned all of our incentive distribution rights, 88,950,136 common units, no subordinated units and 3,618,723 general partner units, (representing the 2% general partner interest), which together constitutes a 51.2% ownership interest in us. On February 15, 2017, all of the subordinated units converted into common units following the payment of the cash distribution for the fourth quarter of 2016. As of February 1, 2017, we had three holders of record of our common units. In determining the number of unitholders, we consider clearing agencies and security position listings as one unitholder for each agency or listing.

Distributions of Available Cash

General

Our partnership agreement requires us to distribute all of our available cash to unitholders of record on the applicable record date, within 60 days after the end of each quarter.

Definition of Available Cash

Available cash generally means, for any quarter, all cash and cash equivalents on hand at the end of that quarter:

- less, the amount of cash reserves established by our general partner to:
  - provide for the proper conduct of our business (including reserves for our future maintenance and expansion capital expenditures, future acquisitions and anticipated future debt service requirements and refunds of collected rates reasonably likely to be refunded as a result of a settlement or hearing related to FERC rate proceedings or rate proceedings under applicable law) subsequent to that quarter;

- comply with applicable law, any of our or our subsidiaries' debt instruments or other agreements; or
- provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters (provided that our general partner may not establish cash reserves for distributions if the effect of the establishment of such reserves will prevent us from making the minimum quarterly distribution on all common units and any cumulative arrearages on such common units for the current quarter);
- plus, all cash on hand on the date of determination resulting from dividends or distributions received after the end of the quarter from equity interests in any person other than a subsidiary in respect of operations conducted by such person during the quarter;
- plus, if our general partner so determines, all or any portion of the cash on hand on the date of determination resulting from working capital borrowings after the end of the quarter.

The purpose and effect of the last bullet point above is to allow our general partner, if it so decides, to use cash from working capital borrowings made after the end of the quarter but on or before the date of determination of available cash for that quarter to pay distributions to unitholders. Under our partnership agreement, working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners, and with the intent of the borrower to repay such borrowings within twelve months with funds other than from additional working capital borrowings.

Intent to Distribute the Minimum Quarterly Distribution

We intend to make a minimum quarterly distribution to the holders of our common units of $0.1625 per unit, or $0.6500 per unit on an annualized basis, to the extent we have sufficient available cash after the establishment of cash reserves and the payment of costs and expenses, including reimbursements of expenses to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on our units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement. See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity — Revolving Credit Facility Agreements in this report, for a discussion of the restrictions included in our revolving credit facilities that may restrict our ability to make distributions.

General Partner Interest and Incentive Distribution Rights

Initially, our general partner is entitled to 2% of all quarterly distributions since our inception that we make prior to our liquidation. This general partner interest is represented by 3,618,723 general partner units. Our general partner has the right, but not the obligation, to contribute up to a proportionate amount of capital to us to maintain its current general partner interest. The general partner's initial 2% interest in these distributions will be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 48.0%, of the cash we distribute from operating surplus (as defined in our partnership agreement) in excess of $0.186875 per unit per quarter. The maximum distribution of 48.0% does not include any distributions that our general partner or its affiliates may receive on common or general partner units that they own.

Percentage Allocations of Available Cash from Operating Surplus

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Target Quarterly Distribution per Unit Target Amount. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2% general partner interest and assume that our general partner has contributed any additional capital necessary to maintain its 2% general partner interest, our general partner has not transferred its incentive distribution rights and that there are no arrearages on common units.

	Target Quarterly Distribution per Unit Target Amount		Marginal Percentage Interest in Distributions LP Unitholders	General Partner
Minimum Quarterly Distribution	$ 0.162500		98%	2%
First Target Distribution	above $ 0.162500	up to $ 0.186875	98%	2%
Second Target Distribution	above $ 0.186875	up to $ 0.203125	85%	15%
Third Target Distribution	above $ 0.203125	up to $ 0.243750	75%	25%
Thereafter	above $ 0.243750		50%	50%

Expiration of Subordination Period

On February 15, 2017, all of the subordinated units converted into common units following the payment of the cash distribution for the fourth quarter of 2016. Each of our 67,475,068 outstanding subordinated units converted into one common unit. The converted units will participate pro rata with the other common units in distributions of available cash. The conversion of the subordinated units does not impact the amount of cash distributions paid by us or the total number of outstanding units.

Equity Compensation Plan

The information relating to our equity compensation plan required by Item 5 is incorporated by reference to such information as set forth in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this report.

Item 6. SELECTED FINANCIAL DATA

Please read the selected financial data presented below in conjunction with Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included in Part II, Item 8 of this report.

(in millions of dollars, except per unit data)	2016	2015	2014	2013	2012
Statements of Income					
Total revenue	$291.3	$326.5	$250.3	$147.8	$169.6
Total costs and expenses	130.8	128.7	108.5	77.2	85.1
Operating income	160.5	197.8	141.8	70.6	84.5
Investment, dividend and other income	117.2	79.3	7.5	—	—
Net income	265.4	272.9	148.9	70.5	84.4
Net income attributable to the Partnership	244.9	167.1	13.4	N/A[1]	N/A[1]
Net income per Limited Partner Unit - Basic and Diluted (in dollars):					
Common	$1.32	$1.16	$0.10	N/A[1]	N/A[1]
Subordinated	$1.27	$1.14	$0.10	N/A[1]	N/A[1]
Cash distributions declared per limited partner unit [2]	$1.0258	$0.7900	$0.1042	N/A[1]	N/A[1]
Property, plant and equipment, net	$398.0	$392.9	$372.2	$323.7	$212.3
Total assets	$865.6	$714.9	$730.1	$357.4	$254.7
Debt payable - related party	$686.0	$457.6	$—	$—	$—
Lease liability - related party	$24.9	$22.8	$—	$—	$—
Total equity	$119.9	$207.1	$681.9	$317.2	$235.3

(1) Information is not applicable for periods prior to the IPO.

(2) 2014 distributions per limited partner unit represents the pro-rated minimum quarterly distribution for the period from November 3, 2014 and December 31, 2014.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Management's Discussion and Analysis of Financial Condition and Results of Operations are the analysis of our financial performance, financial condition, and significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of this report. It should also be read together with "Risk factors" and "Cautionary Statement Regarding Forward-Looking Statements" in this report.

Partnership Overview

We are a fee-based, growth-oriented master limited partnership formed by Shell to own, operate, develop and acquire pipelines and other midstream assets. Our assets consist of interests in entities that own crude oil, refined products and natural gas pipelines, and a crude tank storage and terminal system. Our pipelines and crude tank storage and terminal system serve as key infrastructure to transport and store onshore and offshore crude oil production, to deliver Gulf Coast natural gas production to market hubs, and to deliver refined products from Gulf Coast refiners to major demand markets.

For a description of our assets, please see Part I, Item 1 - Business and Properties of this report.

2016 developments include:

- Proteus, Endymion and Cleopatra Pipelines Acquisition. On December 27, 2016, we acquired a 10.0% interest in Proteus, a 10.0% interest in Endymion and a 1.0% interest in Cleopatra from subsidiaries of BP Pipelines (North America) Inc. for $42.0 million in cash.

- Odyssey and Mars Acquisition. On October 3, 2016, we acquired a 49.0% interest in Odyssey and an additional 20.0% interest in Mars from SPLC for $350.0 million in cash.

- Explorer Acquisition. On August 9, 2016, we acquired a 2.62% equity interest in Explorer from SPLC for $26.2 million in cash.

- Zydeco, Bengal and Colonial Acquisition and Equity Offering. On May 23, 2016, we acquired an additional 30.0% interest in Zydeco, an additional 1.0% interest in Bengal and an additional 3.0% interest in Colonial from SPLC for $700.0 million in cash. In connection with this acquisition we completed a public offering of 12,075,000 common units for $397.6 million net proceeds.

- Equity Offering. On March 29, 2016, we closed on a public offering of 12,650,000 common units for $395.1 million net proceeds.

- ATM Program. On March 2, 2016, we commenced an "at the market" equity distribution program for up to $300.0 million in gross proceeds. In March 2016 we completed the sale of 750,000 common units under this program for $25.4 million net proceeds.

- Increase in Borrowing Capacity. On September 27, 2016, we amended and restated our Five Year Revolver to increase our borrowing capacity under that agreement from $400.0 million to $760.0 million.

We generate revenue primarily by charging tariffs and fees for transporting crude oil and refined petroleum products through our pipelines, and terminaling and storing crude oil and refined petroleum products at our terminals and storage facilities. For the most part we do not own any of the crude oil or refined petroleum products we handle, nor do we engage in the trading of these commodities. We therefore have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

We generate a substantial portion of our revenue under long-term agreements by charging fees for the transportation and storage of crude oil and refined products through our assets. Our revenue is generated from customers in the same industry, our Parent’s affiliates, integrated oil companies, marketers, and independent exploration, production and refining companies primarily within the Gulf Coast region of the United States. We believe these agreements promote stable and predictable cash flows. We have several other agreements with Shell, including an omnibus agreement and operating agreements relating to some of our assets.

Executive Overview

Net income was $265.4 million and net income attributable to the Partnership was $244.9 million in 2016. We generated cash from operations of $293.0 million, and we raised $818.1 million from public offerings. This cash was primarily used to fund strategic acquisitions of businesses and assets, pay down debt with affiliates, and fund capital expenditures. As of December 31, 2016, we had cash and cash equivalents of $121.9 million, total debt of $686.0 million, and unused capacity under our revolving credit facilities of $283.1 million.

Our 2016 operations and strategic initiatives demonstrated our continuing focus on our business strategies:

- Operational Excellence. Our first priority is the safety, reliability and efficiency of our operations. SPLC, the operator of our Shell-operated assets, is an industry-recognized operator with over 100 years' experience in the pipeline business. We benefit from Shell's leadership in operational excellence, and leverage Shell's industry leading operating and asset integrity processes.

- Fee-based businesses supported by long-term contracts with credit worthy counterparties. We are focused on generating stable and predictable cash flows by providing fee-based transportation and midstream services to Shell and third parties. We believe these agreements will substantially mitigate volatility in our cash flows by reducing our direct exposure to commodity price fluctuations.

- Growth through strategic acquisitions in key geographies. We plan to pursue strategic acquisitions of assets from Shell and third parties. We believe our Sponsor Shell will offer us opportunities to purchase additional midstream assets that it currently owns or that it may acquire or develop in the future. We also may have opportunities to pursue the acquisition or development of additional assets jointly with Shell.

- Optimize existing assets and pursue organic growth opportunities. We will seek to enhance the profitability of our existing assets by pursuing opportunities to increase throughput and storage volumes, by expanding our midstream service offerings, and by managing costs and improving operating efficiencies. We also intend to consider opportunities to increase our revenues by evaluating and capitalizing on organic expansion projects. We pursue a corridor strategy in the offshore, owning the trunk pipelines that aggregate and transport produced volumes to major onshore markets. These corridors are designed to maintain relatively constant to growing volumes despite individual well and field declines by attracting new Gulf of Mexico production. Producers in new fields seek to reduce their costs and improve their market access by connecting to existing corridors.

How We Generate Revenue

Crude Oil Pipelines

Onshore Crude Pipeline

Our Zydeco pipeline system generates the majority of its revenue from long-term transportation services agreements. Zydeco also transports volumes on a spot basis.

While a few rates on our assets were reduced to comply with the negative FERC index in 2016, such as the spot rates on Zydeco out of Houma, most rates on our assets were not affected due to the fact that the index did not apply to them or they were already below the index ceiling level. Additionally, our spot rates on Zydeco that were subject to the rate case filed against Zydeco with the FERC are not subject to adjustment through November 2017.

Zydeco's FERC-approved transportation services agreements entitle the customer to a specified amount of guaranteed capacity on the pipeline. This capacity cannot be pro-rated even if the pipeline is oversubscribed. In exchange, the customer makes a specified monthly payment regardless of the volume transported. If the customer does not ship its full guaranteed volume in a given month, it makes the full monthly cash payment and it may ship the unused volume in a later month for no additional cash payment for up to 12 months, subject to availability on the pipeline. The cash payment received is recognized as deferred revenue, and thereby not included in revenue or net income until the earlier of the shipment of the unused volumes or the expiration of the 12-month period, as provided for in the applicable contract. If there is insufficient capacity on the pipeline to allow the unused volume to be shipped, the customer forfeits its right to ship such unused volume. We do not refund any cash payments relating to unused volumes.

When our transportation services agreements expire, they will most likely be replaced with throughput and deficiency agreements. Throughput and deficiency agreements establish a minimum annual average volume for each year during a fixed period. If the customer falls below the minimum volume in a year, it is required to pay a deficiency payment equal to the difference at the end of the year, which may impact the timing of cash flows. Under current regulations, the rate under a throughput and deficiency agreement may be less than the equivalent spot rate, however, we do not expect the transition from transportation services agreements to throughput and deficiency agreements to significantly impact revenues in the system. Typically, surplus volumes in a year can be reserved for use in subsequent years where there is a deficiency. We refer to our transportation services agreements and throughput and deficiency agreements as "ship-or-pay" contracts.

Offshore Crude Pipelines

Our offshore crude pipelines generate revenue under three types of long-term transportation agreements: life-of-lease agreements, life-of-lease agreements with a guaranteed return and buy-sell agreements. Some crude oil also moves on our offshore pipelines under posted tariffs. In addition, Mars charges inventory management fees.

Our life-of-lease agreements have a term equal to the life of the applicable mineral lease. Our life of lease agreements require producers to transport all production from the specified fields connected to the pipeline for the entire life of the lease. This means that the dedicated production cannot be transported by any other means, such as barges or another pipeline. Some of these agreements can also include provisions to guarantee a return to the pipeline to enable the pipeline to recover its investment in the initial years despite the uncertainty in production volumes by providing for an annual transportation rate adjustment over a fixed period of time to achieve a fixed rate of return. The calculation for the fixed rate of return is usually based on actual project costs and operating costs. At the end of the fixed period, some rates will be locked in at the last calculated rate and adjusted thereafter based on the FERC index.

Odyssey, Poseidon, Proteus and Endymion provide for the transportation of crude oil through the use of buy-sell arrangements where crude is purchased at the receipt location into the pipeline and sold back to the counterparty at the destination at that price plus a transportation differential.

We expect to continue extending our corridor pipelines to provide developing growth regions in the Gulf of Mexico with access via our existing corridors to onshore refining centers and market hubs. We believe this strategy will allow our offshore business to grow profitably throughout demand cycles.

Product Loss Allowance

The majority of our long-term transportation agreements and tariffs for crude oil transportation include product loss allowance ("PLA"). PLA is an allowance for volume losses due to measurement difference set forth in crude oil transportation agreements, including long-term transportation agreements and tariffs for crude oil shipments. PLA is intended to assure proper measurement of the crude oil despite solids, water, evaporation and variable crude types that can cause mismeasurement. The PLA provides additional revenue for us if product losses on our pipelines are within the allowed levels; however, we are required to compensate our customers for any product losses that exceed the allowed levels. We take title to any excess loss allowance when product losses are within the allowed levels, and we sell that product several times per year at prevailing market prices.

Products Pipeline

Our refined products pipeline systems are held through our ownership in Bengal, Colonial and Explorer. The Bengal and Colonial systems connect Gulf Coast and southeastern U.S. refineries to major demand centers from Alabama to New York, while Explorer serves more than 70 major cities in 16 states from the Gulf Coast to the Midwest. All three of these systems provide transportation under throughput and deficiency agreements and on a spot basis. All three systems are FERC regulated, with Explorer's rates being entirely market based while Colonial having a mix of market based and indexed rates.

Natural Gas Pipeline

The Cleopatra natural gas gathering system, in which we own a 1.0% interest, generates revenue under gas gathering agreements. These agreements are similar to the agreements that govern our offshore crude oil pipelines. We expect income from our natural gas pipeline to be insignificant for the year ending December 31, 2017.

Terminals and Storage Facilities

At Lockport, our storage tanks continue to be utilized at 100% capacity via three service and throughput contracts. Two of the contracts expire in 2017; they are currently under re-negotiation. The third contract expires on December 31, 2019. In addition to these three contracts, we are actively developing new business for the facility.

How We Evaluate Our Operations

Our management uses a variety of financial and operating metrics to analyze our performance. These metrics are significant factors in assessing our operating results and profitability and include: (i) revenue (including PLA) from contracted capacity and throughput; (ii) operations and maintenance expenses (including capital expenses); (iii) Adjusted EBITDA (defined below); and (iv) cash available for distribution.

Contracted Capacity and Throughput

The amount of revenue our assets generate primarily depends on our long-term transportation and storage service agreements with shippers and the volumes of crude oil and refined products that we handle through our pipelines and storage tanks. If shippers do not meet the minimum contracted volume commitments under our ship-or-pay contracts, we have the right to charge for reserved capacity or for deficiency payments as described in "-How We Generate Revenue." Our assets also earn revenue by shipping crude oil and refined products on a spot rate basis in accordance with our tariff or posted rate sheets and under buy-sell agreements.

The commitments under our long-term transportation and storage service agreements with shippers and the volumes which we handle in our pipelines and storage tanks are primarily affected by the supply of, and demand for, crude oil, natural gas and refined products in the markets served directly or indirectly by our assets. This supply and demand is impacted by the market prices for crude oil, natural gas and refined products in the markets we serve. The results of our operations will be impacted by our ability to:

- maintain utilization of and rates charged for our pipelines and storage facilities;
- utilize the remaining uncommitted capacity on, or add additional capacity to, our pipeline systems;
- increase throughput volumes on our pipeline systems by making connections to existing or new third party pipelines or other facilities, primarily driven by the anticipated supply of, and demand for, crude oil and refined products; and
- identify and execute organic expansion projects.

Operations and Maintenance Expenses

Our management seeks to maximize our profitability by effectively managing operations and maintenance expenses. These expenses are comprised primarily of labor expenses (including contractor services), utility costs (including electricity and fuel) and repairs and maintenance expenses. Utility costs fluctuate based on throughput volumes and the grades of crude oil and types of refined products we handle. Our other operations and maintenance expenses generally remain relatively stable across broad ranges of throughput and storage volumes, but can fluctuate from period to period depending on the mix of activities, particularly maintenance activities, performed during that period.

Adjusted EBITDA and Cash Available for Distribution

Adjusted EBITDA and cash available for distribution have important limitations as analytical tools because they exclude some, but not all, items that affect net income and net cash provided by operating activities. You should not consider Adjusted EBITDA or cash available for distribution in isolation or as a substitute for analysis of our results as reported under GAAP. Additionally, because Adjusted EBITDA and cash available for distribution may be defined differently by other companies in our industry, our definition of Adjusted EBITDA and cash available for distribution may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The GAAP measures most directly comparable to Adjusted EBITDA and cash available for distribution are net income and net cash provided by operating activities. Adjusted EBITDA and cash available for distribution should not be considered as an alternative to GAAP net income or net cash provided by operating activities. Please refer to "Results of Operations - Reconciliation of Non-GAAP Measures" for the reconciliation of GAAP measures net income and cash provided by operating activities to non-GAAP measures Adjusted EBITDA and cash available for distribution.

We define Adjusted EBITDA as net income before income taxes, net interest expense, gain or loss from dispositions of fixed assets, allowance oil reduction to net realizable value, and depreciation, amortization and accretion, plus cash distributed to us from equity investments for the applicable period, less income from equity investments. We define Adjusted EBITDA attributable to the Partnership as Adjusted EBITDA less Adjusted EBITDA attributable to noncontrolling interests.

We define cash available for distribution as Adjusted EBITDA attributable to the Partnership less maintenance capital expenditures attributable to the Partnership, net interest paid, cash reserves and income taxes paid, plus net adjustments from volume deficiency payments attributable to the Partnership and certain one-time payments received. Cash available for distribution will not reflect changes in working capital balances.

We believe that the presentation of these non-GAAP supplemental financial measures provides useful information to management and investors in assessing our financial condition and results of operations. We present these financial measures because we believe replacing our proportionate share of our equity investments' net income with the cash received from such equity investments more accurately reflects the cash flow from our business, which is meaningful to our investors.

Adjusted EBITDA and cash available for distribution are non-GAAP supplemental financial measures that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess:

- our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods;
- the ability of our business to generate sufficient cash to support our decision to make distributions to our unitholders;
- our ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

Factors Affecting Our Business and Outlook

Substantially all of our revenue is derived from long-term transportation service agreements with shippers, including ship-or-pay agreements and life-of-lease agreements, some of which provide a guaranteed return, and storage service agreements with marketers, pipelines and refiners. We believe the commercial terms of these long-term transportation and storage service agreements substantially mitigate volatility in our cash flows by limiting our direct exposure to reductions in volumes due to supply or demand variability. Our business can, however, be negatively affected by sustained downturns or sluggishness in commodity prices or the economy in general, and is impacted by shifts in supply and demand dynamics, the mix of services requested by the customers of our pipelines, competition and changes in regulatory requirements affecting our operations.

We believe key factors that impact our business are the supply of, and demand for, crude oil, natural gas and refined products in the markets in which our business operates. We also believe that our customers' requirements, competition and government regulation of crude oil and refined products pipelines play an important role in how we manage our operations and implement our long-term strategies. These factors are discussed in more detail below.

Changes in Crude Oil Sourcing and Refined Product Demand Dynamics

To effectively manage our business, we monitor our market areas for both short-term and long-term shifts in crude oil and refined products supply and demand. Changes in crude oil supply such as new discoveries of reserves, declining production in older fields and the introduction of new sources of crude oil supply, affect the demand for our services from both producers and consumers. One of the strategic advantages of our crude oil pipeline systems is their ability to transport attractively priced crude oil from multiple supply markets to key refining centers along the Gulf Coast. Our crude oil shippers periodically change the relative mix of crude oil grades delivered to the refineries and markets served by our pipelines. They also occasionally choose to store crude longer term when the forward price is higher than the current price (a "contango market"). While these changes in the sourcing patterns of crude oil transported or stored are reflected in changes in the relative volumes of crude oil by type handled by our pipelines, our total crude oil transportation revenue is primarily affected by changes in overall crude oil supply and demand dynamics.

Similarly, our refined products pipelines have the ability to serve multiple major demand centers. Our refined products shippers periodically change the relative mix of refined products shipped on our refined products pipelines, as well as the destination points, based on changes in pricing and demand dynamics. While these changes in shipping patterns are reflected in relative types of refined products handled by our various pipelines, our total product transportation revenue is primarily affected by changes in overall refined products supply and demand dynamics. Demand can also be greatly affected by refinery performance in the end market, as refined products pipeline demand will increase to fill the supply gap created by refinery issues.

We can also be constrained by asset integrity considerations in the volumes we ship. We may elect to reduce cycling on our systems to reduce asset integrity risk, which in turn would likely result in lower revenues.

As these supply and demand dynamics shift, we anticipate that we will continue to actively pursue projects that link new sources of supply to producers and consumers. Similarly, as demand dynamics change, we anticipate that we will create new services or capacity arrangements that meet customer requirements.

Changes in Commodity Prices and Customers' Volumes

Crude oil prices declined substantially during 2015 and have fluctuated throughout 2016. The current global geopolitical and economic uncertainty may contribute to continued volatility in financial and commodity markets in the near to medium term. Our direct exposure to commodity price fluctuations is limited to the PLA provisions in our tariffs. We have indirect exposure to commodity price fluctuations to the extent such fluctuations affect the shipping patterns of our customers. Our assets benefit from long-term fee based arrangements, and are strategically positioned to connect crude oil volumes originating from key onshore and offshore production basins to the Texas and Louisiana refining markets, where demand for throughput has remained strong. We have not experienced a material decline in throughput volumes on our crude oil pipeline systems as a result of lower crude oil prices. However, if crude oil prices remain at low levels for a sustained period, we could see a reduction in our transportation volumes if production coming into our systems is deferred and our associated allowance oil sales decrease. Our customers may also experience liquidity and credit problems, which could cause them to defer development or repair projects, avoid our contracts in bankruptcy, or renegotiate our contracts on terms that are less attractive to us or impair their ability to perform under our contracts.

Our throughput volumes on our refined products pipeline systems depend primarily on the volume of refined products produced at connected refineries and the desirability of our end markets. These factors in turn are driven by refining margins, maintenance schedules and market differentials. Refining margins depend on the cost of crude oil or other feedstocks and the price of refined products. These margins are affected by numerous factors beyond our control, including the domestic and global supply of and demand for crude oil and refined products. We are currently experiencing relatively high demand for our pipeline systems which service refineries.

Other Changes in Customers' Volumes

Transportation volumes on Auger were lower in 2016 than in 2015 due to rework of certain wells and declining production volumes. In addition, certain connected producers directed flow to other markets in response to local market pricing changes. Revenue on Auger also declined as the surcharge to recover costs for enhancements on the system expired. Transportation volumes on Lockport were lower in 2016 compared to 2015 due to increased storage in the contango market and a competitor pipeline that connects to Patoka. At Lockport, our storage tanks continue to be utilized at 100% capacity via three service and throughput contracts. Two of the contracts expire in 2017; they are currently under re-negotiation. The third contract expires December 31, 2019. In addition to these three contracts, we are actively developing new business for the facility. Volumes on Zydeco were slightly lower in 2016 than in 2015 between Nederland and Lake Charles due to the use of an alternate route, as well as lower spot market demand out of Houston. Zydeco's volumes have benefited from connections with multiple pipelines out of the Houston and Nederland/Port Neches areas of Texas seeking access to the Louisiana refining market. Completion of the Pt. Neches connection to the Sunoco Nederland terminal and a debottlenecking project out of Houma in September 2016 is expected to enhance volumes able to access the important Clovelly and St. James, Louisiana markets. Volumes on Poseidon were higher in 2016 than in 2015 as the platform work for a new well connection and planned maintenance on Poseidon was completed. Poseidon transportation volumes have also experienced an increase in the near term as significant deepwater production areas ramp up production. Although Mars experienced higher demand for storage as shippers took advantage of the contango market in the first half of 2016, shippers have recently moved volume out of storage thereby increasing transportation volumes.

In September 2016, approximately 25% of allocated capacity between Houma and St. James went unused, resulting in lower revenues for Zydeco. Effective for December 2016 nominations, all shippers on Zydeco must agree to submit a binding
nomination within two days of allocation notice and will be charged the tariff rate for 95% of binding nomination if they ship less than their allocated nomination amount.

Major Maintenance Projects

We currently have two major maintenance projects planned in 2017.

On the Zydeco pipeline system, we are currently in the execution stage of a directional drill project to address soil erosion over a two-mile section of our 22-inch diameter pipeline under the Atchafalaya River and Bayou Shaffer in Louisiana (the "directional drill project"). In December 2016, the necessary permits were received, and the directional drill project is anticipated to commence in the first half of 2017 to allow performance of the work during optimal weather and water conditions. Zydeco expects to incur approximately $24.0 million in maintenance capital expenditures for the total project, of which approximately $22.2 million would be attributable to our ownership share. During late 2015 and 2016, Zydeco incurred $3.4 million of capitalized costs related to this project. In connection with the acquisition of additional interests in Zydeco in May 2015 and May 2016, SPLC agreed to reimburse us against our proportionate share of certain costs and expenses with respect to this project. We intend to finance our pro rata share of these expenditures which are not covered by reimbursement by SPLC from cash on hand or borrowings under our working capital facility. During 2016 and 2015, we filed claims for reimbursement from SPLC of $1.4 million and $2.3 million, respectively.

We expect Lockport's maintenance capital expenditures to be approximately $5.0 million in 2017. This includes electrical improvements and tank inspection and maintenance.

Major Expansion Projects

Zydeco is planning a tank expansion project in Houma to address future capacity shortfalls during tank maintenance which will allow us to service additional capacity, as well as allow for existing tanks to come out of service for regularly scheduled inspection and maintenance. We plan to build two 250,000 barrel working tanks at the existing Houma facility for a total of $44.1 million, of which $19.8 million is associated with 2017 activity, the remaining spend is currently estimated for 2018. The scope includes interconnecting piping, dike expansion and associated facility work.

Customers

We transport and store crude oil and refined products for a broad mix of customers, including producers, refiners, marketers and traders, and are connected to other crude oil and refined products pipelines. In addition to serving directly-connected Gulf Coast markets, our pipelines have access to customers in various regions of the United States through interconnections with other major pipelines. Our customers use our transportation and storage services for a variety of reasons. Refiners typically require a secure and reliable supply of crude oil over a prolonged period of time to meet the needs of their specified refining diet and frequently enter into long-term firm transportation agreements to ensure a ready supply of crude oil, rate surety and sometimes sufficient transportation capacity over the life of the contract. Producers of crude oil and natural gas require the ability to deliver their product to market and frequently enter into firm transportation contracts to ensure that they will have sufficient capacity available to deliver their product to delivery points with greater market liquidity. Marketers and traders generate income from buying and selling crude oil and refined products to capitalize on price differentials over time or between markets. Our customer mix can vary over time and largely depends on the crude oil and refined products supply and demand dynamics in our markets.

Competition

Our pipeline systems compete primarily with other interstate and intrastate pipelines and with marine and rail transportation. Some of our competitors may expand or construct transportation systems that would create additional competition for the services we provide to our customers. In addition, future pipeline transportation capacity could be constructed in excess of actual demand, which could reduce the demand for our services, in the market areas we serve, and could lead to the reduction of the rates that we receive for our services. As a result of a substantial majority of our capacity being reserved on a long-term, fixed-rate basis, our revenue is not significantly affected by variation in customers' actual usage.

Our Lockport storage terminal competes with surrounding providers of storage tank services. Some of our competitors have expanded terminals and built new pipeline connections, and third parties may construct pipelines that bypass our location. These, or similar events, could have a material impact on our Lockport operations due to the expiration of certain of our contracts beginning in early 2017.

Regulation

Our assets are subject to regulation by various federal, state and local agencies. For more information on federal, state and local regulations affecting our business, see Part I, Items 1 and 2. Business and Properties in this report.

Acquisition Opportunities

We plan to pursue acquisitions of complementary assets from SPLC and other subsidiaries of Shell, as well as from third parties. We also may pursue acquisitions jointly with SPLC. Given the size and scope of SPLC's footprint and its significant ownership interest in us, we expect acquisitions from SPLC will be an important growth mechanism over the next few years. Neither SPLC nor any of its affiliates is under any obligation, however, to sell or offer to sell us additional assets or to pursue acquisitions jointly with us, and we are under no obligation to buy any additional assets from them or to pursue any joint acquisitions with them. We will continue to focus our acquisition strategy on transportation and midstream assets. We believe that we will be well positioned to acquire midstream assets from SPLC, other subsidiaries of Shell, and third parties should such opportunities arise. Identifying and executing acquisitions is a key part of our strategy. However, if we do not make acquisitions on economically acceptable terms or if we incur a substantial amount of debt in connection with the acquisitions, our future growth will be limited, and the acquisitions we do make may reduce, rather than increase, our available cash.

Seasonality

We do not expect that our operations will be subject to significant seasonal variation in demand or supply.

Results of Operations			
(in millions of dollars)	2016	2015	2014
Revenue	$291.3	$326.5	$250.3
Costs and expenses			
Operations and maintenance	67.6	64.8	63.3
Loss from disposition of fixed assets	0.1	—	0.2
General and administrative	31.2	34.8	20.4
Depreciation, amortization and accretion	23.7	21.6	18.4
Property and other taxes	8.2	7.5	6.2
Total costs and expenses	130.8	128.7	108.5
Operating income	160.5	197.8	141.8
Income from equity method investments	101.1	70.1	6.7
Dividend income from cost investments	16.1	9.2	0.8
Investment, dividend and other income	117.2	79.3	7.5
Interest expense, net	12.3	4.3	0.2
Income before income taxes	265.4	272.8	149.1
Income tax expense (benefit)	—	(0.1)	0.2
Net income	265.4	272.9	148.9
Less: Net income attributable to the Parent	—	39.3	124.1
Less: Net income attributable to noncontrolling interests	20.5	66.5	11.4
Net income attributable to the Partnership	$244.9	$167.1	$13.4
General partner's interest in net income attributable to the Partnership	$25.0	$5.0	$0.3
Limited Partners' interest in net income attributable to the Partnership	$219.9	$162.1	$13.1
Adjusted EBITDA attributable to the Partnership [1]	$294.9	$189.0	$17.0
Cash available for distribution attributable to the Partnership[1]	$273.2	$182.7	$16.5

[1] Please read "—Reconciliation of Non-GAAP Measures."

Pipeline throughput (thousands of barrels per day) [1]	2016	2015	2014
Zydeco - Ho-Ho mainlines	568	560	487
Zydeco - Other segments	478	526	492
Zydeco total system	1,046	1,086	979
Mars total system	388	342	281
Bengal total system	547	554	506
Poseidon total system	265	261	210
Auger total system	114	136	107
Odyssey total system	107	77	48
Terminals [2]			
Lockport terminaling throughput and storage volumes	188	242	252
Revenue per barrel ($ per barrel)			
Zydeco total system [3]	$0.57	$0.57	$0.50
Mars total system [3]	1.41	1.57	1.54
Bengal total system [3]	0.34	0.34	0.34
Auger total system [3]	1.13	1.28	1.30
Odyssey total system [3]	0.95	0.94	0.90
Lockport total system [4]	0.27	0.20	0.19

(1) Pipeline throughput is defined as the volume of delivered barrels.

(2) Terminaling throughput is defined as the volume of delivered barrels and storage is defined as the volume of stored barrels.

(3) Based on reported revenues from transportation and allowance oil divided by delivered barrels over the same time period. Actual tariffs charged are based on shipping points along the pipeline system, volume and length of contract.

(4) Based on reported revenues from transportation and storage divided by delivered and stored barrels over the same time period. Actual rates are based on contract volume and length.

57

Reconciliation of Non-GAAP Measures

The following tables present a reconciliation of Adjusted EBITDA and cash available for distribution to net income and net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

Please read "—Adjusted EBITDA and Cash Available for Distribution" for more information.

(in millions of dollars)	2016	2015	2014
Reconciliation of Adjusted EBITDA and Cash Available for Distribution to Net Income			
Net income	$265.4	$272.9	$148.9
Add:			
Loss from disposition of fixed assets	0.1	—	0.2
Allowance oil reduction to net realizable value	—	1.6	4.4
Depreciation, amortization and accretion	23.7	21.6	18.4
Interest expense, net	12.3	4.3	0.2
Income tax expense (benefit)	—	(0.1)	0.2
Cash distribution received from equity investments	117.9	76.3	8.3
Less:			
Income from equity investments	101.1	70.1	6.7
Adjusted EBITDA	318.3	306.5	173.9
Less:			
Adjusted EBITDA attributable to Parent [1][2]	—	44.9	142.9
Adjusted EBITDA attributable to noncontrolling interests	23.4	72.6	14.0
Adjusted EBITDA attributable to the Partnership	294.9	189.0	17.0
Less:			
Net interest paid attributable to the Partnership	9.4	3.9	0.6
Income taxes paid attributable to the Partnership	—	—	—
Maintenance capex attributable to the Partnership	22.6	6.1	0.3
Add:			
Net adjustments from volume deficiency payments attributable to the Partnership	7.5	(9.2)	0.4
Reimbursements from Parent included in partners' capital	2.8	8.4	—
Waiver payment included in partners' capital	—	4.5	—
Cash available for distribution attributable to the Partnership [3]	$273.2	$182.7	$16.5

(1) Adjusted EBITDA attributable to Parent for 2015 is entirely attributable to Shell Auger and Lockport Operations through September 30, 2015.

(2) Adjusted EBITDA attributable to Parent for 2014 includes $47.7 million attributable to Shell Auger and Lockport Operations prior to the acquisition and $95.2 million attributable to Zydeco and Ho-Ho prior to the IPO.

(3) Excluding non-recurring items (reimbursements from Parent), cash available for distribution attributable to the Partnership would be $270.4 million for 2016. Excluding non-recurring items (reimbursements from Parent and waiver payments), cash available for distribution attributable to the Partnership would be $169.8 million for 2015.

(in millions of dollars)	2016	2015	2014
Reconciliation of Adjusted EBITDA and Cash Available for Distribution to Net Cash Provided by Operating Activities			
Net cash provided by operating activities [1]	$293.0	$282.7	$167.0
Add:			
Interest expense, net	12.3	4.3	0.2
Income tax expense (benefit)	—	(0.1)	0.2
Return of investment	15.0	6.8	2.1
Less:			
Change in deferred revenue	8.2	(13.8)	20.0
Amortization of credit facility issuance costs	2.7	—	—
Allowance oil reduction to net realizable value	—	1.6	4.4
Change in other assets and liabilities	(8.9)	(0.6)	(28.8)
Adjusted EBITDA	318.3	306.5	173.9
Less:			
Adjusted EBITDA attributable to Parent [2] [3]	—	44.9	142.9
Adjusted EBITDA attributable to noncontrolling interests	23.4	72.6	14.0
Adjusted EBITDA attributable to the Partnership	294.9	189.0	17.0
Less:			
Net interest paid attributable to the Partnership	9.4	3.9	0.6
Income taxes paid attributable to the Partnership	—	—	—
Maintenance capex attributable to the Partnership	22.6	6.1	0.3
Add non-recurring items:			
Net adjustments from volume deficiency payments attributable to the Partnership	7.5	(9.2)	0.4
Reimbursements from Parent included in partners' capital	2.8	8.4	—
Waiver payment included in partners' capital	—	4.5	—
Cash available for distribution attributable to the Partnership [4]	$273.2	$182.7	$16.5

(1) Net cash provided by operating activities includes $1.8 million, $(0.6) million, and $(0.5) million of distributions in excess of (less than) income in 2016, 2015 and 2014, respectively.

(2) Adjusted EBITDA attributable to Parent for 2015 is entirely attributable to Shell Auger and Lockport Operations through September 30, 2015.

(3) Adjusted EBITDA attributable to Parent for 2014 includes $47.7 million attributable to Shell Auger and Lockport Operations prior to the acquisition and $95.2 attributable to Zydeco and Ho-Ho prior to the IPO.

(4) Excluding non-recurring items (reimbursements from Parent), cash available for distribution attributable to the Partnership would be $270.4 million for 2016. Excluding non-recurring items (reimbursements from Parent), cash available for distribution attributable to the Partnership would be $169.8 million for 2015.

2016 compared to 2015

Revenues

Total revenue decreased by $35.2 million, or 10.8%, comprised of $36.2 million attributable to transportation services revenue, partially offset by an increase of $1.0 million related to storage service revenues at Lockport due to an electrical upgrade project.

Zydeco recognized an overall decrease in transportation services revenue of $20.1 million, comprised of a decrease in revenue from expiring credits on committed transportation agreements of $13.9 million, and decreased revenues related to delivered volumes of $6.2 million. The decreases in revenue related to delivered volumes primarily resulted from decreased spot shipments attributable to changes in certain customers' sourcing strategies and tightening of certain spreads throughout 2016 causing a change in shipping behavior. Shipments on non-mainlines decreased due to a variety of maintenance events at

refineries in our destination markets. These decreases were offset partially by increases in committed shippers' delivered volumes on our mainline segments.

Pecten recognized a decrease in transportation services revenue of $16.1 million primarily attributable to expiration of the surcharge on Auger rates related to the recovery of earlier improvements on the line and a well shut-in during 2016.

Costs and Expenses

Total costs and expenses increased $2.1 million due to $2.8 million of higher operations and maintenance expenses and $2.1 million of additional depreciation primarily due to the commencement of a capital lease for storage tanks in December 2015, $0.7 million of higher property and other taxes due to changes in Zydeco property tax appraisal estimates and $0.1 million of Loss from disposition of fixed assets. This increase is offset by $3.6 million lower general and administrative expenses.

Operations and maintenance expenses increased by $2.8 million related to higher project development, maintenance and insurance costs in 2016, partially offset by gains on pipeline operations related to allowance oil in 2016 and higher outside service costs in 2015.

General and administrative expenses decreased by $3.6 million due to decreased legal and expert fees in connection with the FERC rate case and costs associated with the settlement of the FERC rate case that were included in 2015 but not in 2016. The decrease was partially offset by increased costs in 2016 associated with equity issuances.

Other Income and Expenses

Investment, dividend and other income in 2016 is primarily comprised of earnings from Mars, Bengal, Poseidon and Odyssey equity investments and the dividend income from Colonial and Explorer. The 2016 earnings from Mars, Bengal, Poseidon and Odyssey increased by $31.0 million primarily due to our investment in Poseidon effective July 1, 2015, the acquisitions of an additional 20.0% interest in Mars and a 49.0% interest in Odyssey in 2016, as well as an increase in storage volumes at Mars resulting from the contango market conditions. The increase was partially offset by tank farm flooding and related costs impacting Bengal. The increase of $6.9 million in dividend income is due to our acquisition of an additional 3.0% interest in Colonial and a 2.62% interest in Explorer in 2016.

Interest expense increased $8.0 million due to increased borrowings outstanding during 2016 for acquisitions in May, October and December 2016, partially offset by a repayment in March 2016.

2015 compared to 2014

Revenues

Total revenue increased by $76.2 million primarily due to $67.8 million in higher third-party transportation services by
Zydeco. Total transportation services revenue increased by $77.9 million, or 33.5%, primarily due to a 10.9% increase in
delivered volumes and higher revenue from incremental committed transportation agreements related to Zydeco. Additionally,
Zydeco's tariffs escalated at the start of the third quarter 2015 in line with FERC escalation rates generating higher revenue in

the second half of 2015, and we also recognized revenue associated with expiring credits on Zydeco's committed transportation agreements.

Costs and Expenses

Total costs and expenses were $20.2 million higher in 2015 primarily due to $1.5 million of higher operations and maintenance expenses, $14.4 million of additional general and administrative expenses, $1.3 million in higher property taxes from higher property appraisals of the Zydeco assets, and $3.2 million depreciation expense due to capital additions related to the Zydeco pipeline expansion projects.

Operations and maintenance expenses increased by $1.5 million primarily due to:

- $3.1 million higher power and fuel expense due to increased throughput volumes;
- $1.6 million higher maintenance expense;

- $0.3 million higher insurance cost; and

- partially offset by $3.5 million lower loss on pipeline operations related to allowance oil reduction due to lower oil prices and smaller net realizable value adjustment in 2015.

General and administrative expenses increased by $14.4 million primarily due to:

- $7.1 million of the administrative fee payable to SPLC under the Omnibus Agreement;

- $2.9 million of professional fees and director fees;

- $3.9 million of management fees payable to SPLC under our operating and management agreement with SPLC;

- $2.9 million of higher legal and expert fees in connection with the FERC rate case and costs associated with the settlement of the FERC rate case; and

- partially offset by;

- $2.0 million of lower salaries, burden and wages in 2015; and

- $0.4 million of lower travel, meal, and vehicle expenses.

Investment, dividend and other income in 2015 was $79.3 million due to the earnings from Mars, Bengal and Poseidon
equity investments and the dividend from Colonial. Our investment, dividend and other income in 2014 was $7.5 million, as we
did not have an investment in Mars, Bengal or Colonial until our IPO in 2014. Our investment ownership in Colonial increased
on April 1, 2015 from 1.612% to 3.0%, and our investment in Poseidon commenced on July 1, 2015.

Capital Resources and Liquidity

We expect our ongoing sources of liquidity to include cash generated from operations, borrowings under our credit facilities and accessing the capital markets. In addition, we believe this access to credit along with cash generated from operations will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements and to make quarterly cash distributions. Our liquidity as of December 31, 2016 was $405.0 million consisting of $121.9 million cash on hand and $283.1 million available capacity under our revolving credit facilities.

On March 1, 2017, our $180.0 million 364-day facility will expire; we are in the process of negotiating with an affiliate of Shell to replace this borrowing capacity and increase overall borrowing capacity through the addition of a new five-year $600.0 million fixed rate term debt facility. This new term debt facility is expected to be effective March 1, 2017 and will add $420.0 million borrowing capacity over December 31, 2016 levels. On a pro forma basis, assuming the $600.0 million facility had been in place at December 31, 2016 and the $180.0 million facility had expired, available debt capacity would have been $703.1 million.

Credit Facility Agreements

Five-Year Revolver

To provide additional liquidity following the IPO, we entered into a revolving credit facility agreement (the “Five-Year Revolver”) with Shell Treasury Centre (West) Inc. (“STCW”) with an initial borrowing capacity of $300.0 million. Loans advanced under the initial agreement had up to a six-month term.

On May 12, 2015, we and STCW amended and restated the Five-Year Revolver to increase the borrowing capacity amount from $300.0 million to $400.0 million. In connection with this amendment and restatement of the Five-Year Revolver, we paid an issuance fee of $0.2 million. On February 22, 2016, we and STCW amended and restated the Five-Year Revolver to provide that loans advanced under the facility would have maturity dates selected by us up to October 31, 2019, the maturity date of the Five-Year Revolver. This amendment and restatement allows us to roll over the outstanding balance until the maturity date of the Five-Year Revolver. On September 27, 2016, we and STCW again amended and restated the Five Year Revolver to increase the borrowing capacity amount from $400.0 million to $760.0 million. In connection with this amendment and restatement of the Five Year Revolver, we incurred an issuance fee of $0.6 million, which was paid on October 3, 2016. All other terms and conditions of the agreement are materially unchanged.

The Five-Year Revolver, as amended and restated, provides for covenants such as restricting additional indebtedness above other certain levels and requiring pari passu ranking with any new indebtedness, and contains customary events of default, such as nonpayment of principal when due; nonpayment of interest, fees or other amounts; violation of covenants, and cross-payment default (due to indebtedness in excess of $100.0 million). Borrowings under the Five-Year Revolver bear interest at the three-month LIBOR rate plus a margin. The Five-Year Revolver also provides for customary fees, including issuance and commitment fees. Commitment fees began to accrue on the date we entered into the Five-Year Revolver. There were $686.9 million outstanding borrowings as of December 31, 2016, and $320.8 million outstanding borrowings as of December 31, 2015 (before unamortized debt issuance costs).

364-Day Revolver

On June 29, 2015, in connection with the July 2015 Acquisition, we entered into an additional revolving credit facility (the “364-Day Revolver”) with STCW with an initial borrowing capacity of $100.0 million. All other terms and conditions are materially the same as those of the Five-Year Revolver.

On November 11, 2015, we and STCW amended and restated the 364-Day Revolver to increase the borrowing capacity amount from $100.0 million to $180.0 million. In connection with this amendment and restatement of the 364-Day Revolver, we paid an issuance fee of $0.1 million. On February 22, 2016, we and STCW again amended and restated the 364-Day Revolver to extend its maturity date to March 1, 2017. All other terms and conditions of the agreement were unchanged. There were no outstanding borrowings under this facility as of December 31, 2016, and $137.4 million of outstanding borrowings as of December 31, 2015.

Zydeco Revolver

Zydeco entered into a revolving credit facility (the “Zydeco Revolver”) with STCW, as the lender. The Zydeco Revolver has a borrowing capacity of $30.0 million. Borrowings under the credit facility bear interest at the three-month LIBOR rate plus a margin. The credit agreement governing the Zydeco Revolver provides for covenants such as requiring pari passu ranking with any new indebtedness and contains customary events of default, such as nonpayment of principal when due, nonpayment of interest, fees or other amounts, violation of covenants, and cross-payment default (due to indebtedness in excess of $100.0 million). The Zydeco Revolver also requires payment of customary fees, including issuance and commitment fees and matures on August 6, 2019. There were no outstanding borrowings on the Zydeco Revolver as of December 31, 2016 and 2015.

Total Debt Payable—Related Party

Borrowings under our debt facilities bear interest at the three-month LIBOR rate plus a margin. Our weighted average interest rate for 2016 and 2015 was 2.1% and 1.7%, respectively. The weighted average interest rate includes drawn and undrawn interest fees, but does not consider the amortization of debt issuance costs or capitalized interest. A 1/8 percentage point (12.5 basis points) increase in the interest rate on the total debt of $686.9 million as of December 31, 2016 would increase our consolidated annual interest expense by approximately $0.9 million. Our current interest rates for outstanding and future borrowings are 2.30% under our Five-Year Revolver and 2.50% under the Zydeco Revolver.

Our Five-Year Revolver and our 364-Day Revolver mature in October 31, 2019 and March 1, 2017, respectively. We will need to rely on the willingness and ability of our related party lender to secure additional debt, our ability to use cash from operations and/or obtain new debt from other sources to repay/refinance such loans when they come due and/or to secure additional debt as needed.

As of December 31, 2016, we were in compliance with the covenants contained in the Five-Year Revolver and the 364-Day Revolver, and Zydeco was in compliance with the covenants contained in the Zydeco Revolver.

Cash Flows from Our Operations

Operating Activities. We generated $293.0 million in cash flow from operating activities in 2016 compared to $282.7 million in 2015. The $10.3 million increase in cash flows was primarily driven by increases in dividends and working capital, partially offset by a decrease in operating income and an increase in interest paid.

We generated $282.7 million in cash flow from operating activities in 2015, compared with $167.0 million in 2014. The $115.7 million increase in cash flows primarily resulted from higher third-party transportation services revenue, dividends from equity investments and nonrecurring decreases in liabilities related to the repair costs incurred in 2014 for the Zydeco reversal. These increases were partially offset by higher general and administrative expenses and recognition of deferred revenues due to expiration of committed shipper credits.

Investing Activities. Our cash flow used in investing activities was $228.1 million in 2016 compared to $201.1 million in 2015. The increase in cash flow used in investing activities was primarily due to our acquisitions in 2016 and an increase in expansion capital expenditures on Zydeco, partially offset by the payment of Pre-IPO distributions from investments in 2015. See Note 3 – Acquisitions in the Notes to Consolidated Financial Statements in Part II, Item 8 of this report for additional information.

Our cash flow used in investing activities was $201.1 million in 2015, compared with $61.5 million in 2014. The increase in cash flow used in investing activities was primarily due to our acquisitions in 2015 and the payment of pre-IPO distributions from investments, partially offset by a decrease in expansion capital expenditures on the Zydeco pipeline system. See Note 3 – Acquisitions in the Notes to Consolidated Financial Statements in Part II, Item 8 of this report for additional information.

Financing Activities. Our cash flow used in financing activities was $36.0 million in 2016 compared to $138.8 million used in financing activities in 2015. The decrease in cash flow used in financing activities was primarily due to higher net proceeds from equity issuances, an increase in borrowings under our revolving credit facilities, a decrease in capital distributions to the general partner, a decrease in distributions paid to noncontrolling interests, an increase in contributions from general partner and a decrease in net distribution to Parent. These increases in cash flow provided by financing activities were partially offset by the repayments of borrowings under our revolving credit facilities and an increase in distributions paid to the unitholders and the general partner.

Our cash flow used in financing activities was $138.8 million in 2015 compared to $44.7 million provided by financing activities in 2014. The increase in cash flow used in financing activities was primarily due to the capital distributions to the general partner, quarterly distributions paid to the unitholders and the general partner, and distributions paid to the noncontrolling interest, partially offset by net proceeds from a private placement and public offering of common units, borrowings on the revolvers, reimbursements from Parent and cash contributions from our general partner.

Capital Expenditures

Our operations can be capital intensive, requiring investments to expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements consist of maintenance capital expenditures and expansion capital expenditures. Examples of maintenance capital expenditures are those made to acquire, replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. In contrast, expansion capital expenditures are those made to increase system volumes and related cash flows by acquiring additional assets, expanding and upgrading our systems and facilities or constructing new systems or facilities.

We incurred capital expenditures of $28.8 million, $19.1 million and $55.6 million for 2016, 2015 and 2014, respectively. The increase in capital expenditures from 2015 to 2016 is primarily due to Houma, Port Neches and Caillou Island improvement expenditures for Zydeco, electrical and storm water improvements for Lockport and control system improvements, safety system improvements and personnel escape pods at Ship Shoal 28 for Auger in 2016. Phase II and III of the Zydeco expansion and reversal project were completed in 2014 resulting in the decrease in capital expenditures from 2014 to 2015.

A summary of our capital expenditures for 2016, 2015 and 2014, is shown in the table below (in millions):

	2016	2015	2014
Expansion capital expenditures	$4.0	$5.1	$61.2
Maintenance capital expenditures	24.3	11.1	7.5
Total capital expenditures paid	28.3	16.2	68.7
Increase (decrease) in accrued capital expenditures	0.5	2.9	(13.1)

Total capital expenditures incurred	$28.8	$19.1	$55.6

Our capital expenditures for 2016 were $28.8 million, primarily associated with the following projects:
Zydeco's expansion capital expenditures of $3.9 million related to a new connection, upgrades and expansion at Houma.
Zydeco's maintenance capital expenditures of $14.5 million related to improvements at Houma, Port Neches and Calliou Island, and $1.6 million for the directional drill project. In connection with both the May 2015 Acquisition and the May 2016 Acquisition, SPLC agreed to reimburse us for our proportionate share of certain costs and expenses incurred by Zydeco with respect to the directional drill project. During 2016 we filed claims for reimbursement from SPLC of $1.4 million.
Lockport's maintenance capital expenditures of $4.9 million related to electrical and storm water improvements, and Auger's $3.9 million for control system improvements, safety system improvements, and personnel escape pods at Ship Shoal 28. In connection with the acquisition of Pecten, SPLC agreed to reimburse us for certain costs and expenses incurred by Pecten for storm water upgrades at Lockport. During 2016 we filed claims for reimbursement from SPLC of $1.6 million.
We expect total capital expenditures to be approximately $60.5 million for 2017, a summary of which is shown in table below:

	Actual Capital Expenditures 2016	Expected Capital Expenditures 2017
(in millions of dollars)		
Expansion capital expenditures		
Zydeco	$ 3.9	$ 20.1
Lockport	—	2.9
Total expansion capital expenditures	3.9	23.0
Maintenance capital expenditures		
Zydeco [(1)]	16.1	31.7
Lockport	4.9	5.0
Auger	3.9	0.8
Total maintenance capital expenditures	24.9	37.5
Total capital expenditures	$ 28.8	$ 60.5

[(1)] Approximately $15.4 million of Zydeco's 2017 maintenance capital expenditures is reimbursable by SPLC for our respective share of the directional drill project discussed below.
We expect Zydeco's expansion capital expenditures to be $20.1 million in 2017 primarily for the Houma tank expansion project. We expect Lockport's expansion capital expenditures to be $2.9 million for a new pipeline connection in 2017.
We expect Zydeco's maintenance capital expenditures to be approximately $31.7 million for 2017, of which approximately $16.6 million is for the directional drill project. In connection with both the May 2015 Acquisition and the May 2016 Acquisition, SPLC agreed to reimburse us for our proportionate share of certain costs and expenses incurred by Zydeco with respect to the directional drill project. The majority of the remaining capital expenditures of $15.1 million for 2017 is related to various Houma maintenance and pipeline integrity projects.
We expect Auger and Lockport's maintenance capital expenditures to be approximately $5.8 million for 2017. This includes $5.0 million for electrical improvements at Lockport, and $0.8 million for piping modifications for Auger.
With the exception of the Zydeco directional drill project, we anticipate that both maintenance and expansion capital expenditures for the remainder of the year will be funded primarily with cash from operations.
Contractual Obligations
A summary of our contractual obligations, as of December 31, 2016, is shown in the table below (in millions):

	Total	Less than 1 year	1 year to 3 years	4 years to 5 years	More than 5 years
Operating lease for land	$0.7	$ 0.5	$0.2	$—	$ —
Capital lease for Port Neches storage tanks [1]	74.0	5.0	10.1	10.1	48.8
Joint tariff agreement	49.7	5.1	10.3	10.3	24.0
Debt obligation [2]	686.9	—	686.9	—	—
Total contractual obligations	$811.3	$ 10.6	$707.5	$20.4	$ 72.8

(1) Includes $40.2 million in interest, $22.8 million in principal and $11.0 million in executory costs.
(2) See Note 8 – Related Party Debt in the Notes to Consolidated Financial Statements in Part II, Item 8 of this report for additional information.

On December 1, 2014, we entered into a terminal services agreement with a related party in which we were to take possession of certain storage tanks located in Port Neches, Texas, effective December 1, 2015. On October 26, 2015, the terminal services agreement was amended to provide for an interim in-service period for the purposes of commissioning the tanks in which we paid a nominal monthly fee. Our capitalized costs and related capital lease obligation commenced effective December 1, 2015. Upon the in-service date of September 1, 2016, our monthly lease payment was increased to $0.4 million. In the eighteenth month after the in-service date, actual fixed and variable costs will be compared to premised costs. If the actual and premised operating costs differ by more than 5.0%, the lease will be adjusted accordingly and this adjustment will be effective for the remainder of the lease. The imputed interest rate on the capital portion of the lease is 15.0%.

On September 1, 2016, which is the in-service date of the capital lease for the Port Neches storage tanks, a joint tariff agreement with a third party became effective and requires monthly payments of approximately $0.4 million. The tariff will be analyzed annually and updated based on the FERC indexing adjustment to rates effective July 1 of each year. The initial term of the agreement is ten years with automatic one year renewal terms with the option to cancel prior to each renewal period.

Off-Balance Sheet Arrangements

We have not entered into any transactions, agreements or other contractual arrangements that would result in off-balance sheet liabilities.

Inflation

Inflation did not have a material impact on our results of operations in 2016.

Environmental Matters and Compliance Costs

We are subject to extensive federal, state and local environmental laws and regulations. These laws, which change frequently, regulate the discharge of materials into the environment or otherwise relate to protection of the environment. Compliance with these laws and regulations may require us to obtain permits or other approvals to conduct regulated activities, remediate environmental damage from any discharge of petroleum or chemical substances from our facilities or install additional pollution control equipment on our equipment and facilities. Our failure to comply with these or any other environmental or safety-related regulations could result in the assessment of administrative, civil or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of injunctions that may subject us to additional operational constraints. Please see FERC and State Common Carrier Regulations Part I, Items 1 and 2. Business and Properties.

Future additional expenditures may be required to comply with the Clean Air Act and other federal, state and local requirements for our assets. These requirements could result in additional compliance costs and additional operating restrictions on our business, each of which could have an adverse impact on our financial position, results of operations and liquidity.

If we do not recover these expenditures through the rates and other fees we receive for our services, our operating results will be adversely affected. We believe that our competitors must comply with similar environmental laws and regulations. However, the specific impact on each competitor may vary depending on a number of factors, including, but not limited to, the type of competitor and location of its operating facilities.

We accrue for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs can be reasonably estimated. As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. New or expanded environmental requirements, which could increase our environmental costs, may arise in the future. We believe we comply with all legal requirements regarding the environment, but since not all of them are fixed or presently determinable (even under existing legislation) and may be affected by future legislation or regulations, it is not possible to predict all of the ultimate costs of compliance, including remediation costs that may be incurred and penalties that may be imposed.

Critical Accounting Policies and Estimates

Critical accounting policies are those that are important to our financial condition and require management’s most difficult, subjective or complex judgments. Different amounts would be reported under different operating conditions or under alternative assumptions. We have evaluated the accounting policies used in the preparation of the consolidated financial statements of Shell Midstream Partners, L.P. and related notes thereto and believe those policies are reasonable and appropriate.

We apply those accounting policies that we believe best reflect the underlying business and economic events, consistent with GAAP. Our more critical accounting policies include those related to long-lived assets, revenue recognition, allowance oil, and environmental and legal obligations. Inherent in such policies are certain key assumptions and estimates. We periodically update the estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment. Our significant accounting policies are summarized in Note 2 - Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. We believe the following to be our most critical accounting policies applied in the preparation of our financial statements.

Long-Lived Assets

Key estimates related to long-lived assets include useful lives, recoverability of carrying values and existence of any retirement obligations. Such estimates could be significantly modified. The carrying values of long-lived assets could be impaired by significant changes or projected changes in supply and demand fundamentals of oil (which could have a negative impact on operating rates or margins), new technological developments, new competitors, adverse changes associated with the United States and global economies and with governmental actions.

We evaluate long-lived assets for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, including when negative conditions such as significant current or projected operating losses exist. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and the operational performance of our businesses. Actual impairment losses incurred could vary significantly from amounts estimated. Long-lived assets assessed for impairment are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Additionally, future events could cause us to conclude that impairment indicators exist and that associated long-lived assets of our businesses are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

The estimated useful lives of long-lived assets range from five to 40 years. Depreciation of these assets under the straight-line method over their estimated useful lives totaled $23.7 million, $21.6 million and $18.4 million for 2016, 2015 and 2014, respectively. If the useful lives of the assets were found to be shorter than originally estimated, depreciation charges would be accelerated. Additional information concerning long-lived assets and related depreciation and amortization appears in Note 6 — Property, Plant and Equipment, in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

We record liabilities for obligations related to the retirement and removal of long-lived assets used in our businesses at fair value on a discounted basis when they are incurred and can be reasonably estimated, which is typically at the time the assets are installed or acquired. Our asset retirement obligations relate to our exclusive right of use of a portion of the Garden Banks 128 “A” Platform (GB 128A), where we operate facilities relating to the Auger pipeline system. We have determined that a significant portion of our assets utilizing GB 128A have an indeterminate life, and as such, the fair values of those associated retirement obligations are not reasonably estimable. Our right of use agreement provides that we pay our share of the GB 128A decommissioning costs when and if that platform ceases operation. Although the individual assets that constitute Zydeco will be replaced as needed, the pipeline will continue to exist for an indefinite useful life. As such, there is uncertainty around the timing of those asset retirement activities. As a result, we determined that there is not sufficient information to make a reasonable estimate of the asset retirement obligation. We have recognized asset retirement obligations of $1.4 million and $1.3 million as of December 31, 2016 and 2015, respectively.

Revenue Recognition

We generate the majority of our revenue under long-term transportation agreements by charging fees for the transportation of crude oil and refined products through our pipelines. Contract obligations are billed monthly. Transportation revenue is billed as services are rendered, and we accrue revenue based on nominations for that accounting month. We estimate this revenue based on contract data, regulatory information, and preliminary throughput and allocation measurements, among other items.

At Lockport, our storage tanks continue to be leased at 100% capacity via three contracts. Two of the contracts expire in 2017; they are currently under re-negotiation. The third contract expires December 31, 2019. In addition to these three contracts, we are actively developing new business for the facility.

As a result of FERC regulations, revenue we collect may be subject to refund. We establish reserves for these potential refunds based on actual expected refund amounts on the specific facts and circumstances. We had no third and related-party payables as of December 31, 2016 and $2.3 million of third and related-party payables for potential refunds as of December 31, 2015.

Our ship-or-pay contracts provide a minimum volume commitment to our customers. Under these contracts, our customers agree to ship a minimum volume of crude oil on our pipeline system. If shippers do not meet the minimum contracted volume commitments under our ship-or-pay contracts, we receive deficiency payments as described in — How We Generate Revenue.

Cash collected from customers for shortfalls under these agreements are recorded as deferred revenue. We recognize deferred revenue under these arrangements into revenue once all contingencies or potential performance obligations associated with the related volumes have been satisfied or expired.

Our long-term transportation agreements and tariffs for crude oil transportation include a product loss allowance, or PLA. PLA is intended to assure proper measurement of the crude oil despite solids, water, evaporation and variable crude types that can cause mismeasurement. The PLA provides additional revenue for us if product losses on our pipelines are within the allowed levels, and we are required to compensate our customers for any product losses that exceed the allowed levels. We take title to any excess loss allowance when product losses are within the allowed levels, and we convert that product to cash several times per year at prevailing market prices to a related party.

In May 2014, the FASB issued Accounting Standard Update 2014-09, Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under GAAP. The update's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. For additional information see Note 2 - Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Allowance Oil

A PLA factor per barrel is incorporated into applicable crude oil tariffs to cover evaporation and other losses in transit. Allowance oil represents the net difference between the tariff PLA volumes and the actual volumetric losses. Our allowance oil is valued at cost using the average market price of the relevant type of crude oil during the month product was transported.

Environmental and Legal Obligations

We consult with various professionals to assist us in making estimates relating to environmental costs and legal proceedings. We accrue an expense when we determine that it is probable that a liability has been incurred and the amount is reasonably estimable. While we believe that the amounts recorded in the accompanying consolidated financial statements related to these contingencies are based on the best estimates and judgments available, the actual outcomes could differ from our estimates. Additional information about certain legal proceedings and environmental matters appears in Note 13 — Commitments and Contingencies in Part II, Item 8 to the consolidated financial statements and notes thereto included elsewhere in this report.

Recent Accounting Pronouncements

Please read Note 2 — Summary of Significant Accounting Policies — Recent Accounting Pronouncements in Part II, Item 8 of this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. Since, except for buy/sell arrangements on some of our offshore pipelines, we do not take ownership of the crude oil or refined products that we transport and store for our customers, and we do not engage in the trading of any commodities, we have limited direct exposure to risks associated with fluctuating commodity prices.

Our long-term transportation agreements and tariffs for crude oil shipments include a product loss allowance. The PLA provides additional revenue for us at a stated factor per barrel. If product losses on our pipelines are within the allowed levels we retain the benefit, otherwise we are required to compensate our customers for any product losses that exceed the allowed levels. We take title to any excess product that we transport when product losses are within allowed level, and we sell that product several times per year at prevailing market prices. This allowance oil revenue, which accounted for 5.2% and 5.9% of our total revenue in 2016 and 2015, respectively, is subject to more volatility than transportation revenue, as it is directly dependent on our measurement capability and commodity prices. As a result, the income we realize under our loss allowance provisions will increase or decrease as a result of changes in measurement accuracy and underlying commodity prices. We do not intend to enter into any hedging agreements to mitigate our exposure to decreases in commodity prices through our loss allowances.

Debt that we incur under our revolving credit facility that bears interest at a variable rate will expose us to interest rate risk. We do not currently intend to enter into any interest rate hedging agreements, but will continue to monitor interest rate exposure.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
SHELL MIDSTREAM PARTNERS, L.P.
INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors of Shell Midstream Partners GP LLC and Unitholders of Shell Midstream Partners, L.P.

We have audited Shell Midstream Partners, L.P.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Shell Midstream Partners, L.P.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Shell Midstream Partners, L.P. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Shell Midstream Partners, L.P. as of December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year ended December 31, 2016 and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 23, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors of Shell Midstream Partners GP LLC and Unitholders of Shell Midstream Partners, L.P.

We have audited the accompanying consolidated balance sheet of Shell Midstream Partners, L.P. as of December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year ended December 31, 2016. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Poseidon Oil Pipeline Company, L.L.C., a 36% equity investment of the Partnership. In the consolidated financial statements, the Partnership’s investment in Poseidon Oil Pipeline Company, L.L.C. is stated at $13.2 million as of December 31, 2016, and the Partnership’s equity in the net income of Poseidon Oil Pipeline Company, L.L.C. is stated at $29.7 million for the year ended December 31, 2016. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Poseidon Oil Pipeline Company, L.L.C., is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shell Midstream Partners, L.P. at December 31, 2016, and the consolidated results of its operations and its cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Shell Midstream Partners, L.P.’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 23, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors of Shell Midstream Partners GP LLC and Unitholders of Shell Midstream Partners, L.P.

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated balance sheet and the related consolidated statements of income, changes in equity and cash flows present fairly, in all material respects, the financial position of Shell Midstream Partners, L.P. (the “Partnership”) and its subsidiaries at December 31, 2015, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Bengal Pipeline Company LLC (“Bengal”), a 49% equity investment of the Partnership, as of and for the year ended December 31, 2015, which is reflected in the consolidated financial statements of the Partnership as an equity method investment of $75.6 million at December 31, 2015 and income from equity investments of $20.8 million for the year ended December 31, 2015. We also did not audit the financial statements of Poseidon Oil Pipeline Company, L.L.C. (“Poseidon”), a 36% equity investment of the Partnership, as of and for the year ended December 31, 2015, which is reflected in the consolidated financial statements of the Partnership as an equity method investment of $25.4 million at December 31, 2015 and income from equity investments of $16.1 million for the year ended December 31, 2015. The financial statements of Bengal and Poseidon were audited by the other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the amounts included for Bengal and Poseidon, is based solely on the reports of the other auditors. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Houston, Texas
February 26, 2016

Report of Independent Registered Public Accounting Firm

To the Management Committee of
Poseidon Oil Pipeline Company, L.L.C.
Houston, Texas

We have audited the balance sheets of Poseidon Oil Pipeline Company L.L.C. (the "Company") as of December 31, 2016 and December 31, 2015, and the related statements of operations, cash flows, and members' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Poseidon Oil Pipeline Company L.L.C. as of December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 17, 2017

Report of Independent Registered Public Accounting Firm

The Board of Managers and Members
Bengal Pipeline Company LLC

We have audited the balance sheet of Bengal Pipeline Company LLC as of December 31, 2015 and the related statements of income, members' equity and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bengal Pipeline Company LLC at December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Atlanta, Georgia
February 12, 2016

SHELL MIDSTREAM PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
	(in millions of dollars)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 121.9	$ 93.0
Accounts receivable - third parties, net	18.4	18.8
Accounts receivable - related parties	10.1	9.8
Allowance oil	9.0	4.2
Prepaid expenses	6.0	5.0
Total current assets	165.4	130.8
Equity method investments	262.4	185.0
Property, plant and equipment, net	398.0	392.9
Cost investments	39.8	6.2
Total assets	$ 865.6	$ 714.9
LIABILITIES		
Current liabilities		
Accounts payable - third parties	$ 1.5	$ 0.2
Accounts payable - related parties	5.2	9.3
Deferred revenue - third parties	6.0	2.6
Deferred revenue - related parties	7.9	3.6
Accrued liabilities - third parties	5.6	6.8
Accrued liabilities - related parties	5.1	3.6
Total current liabilities	31.3	26.1
Noncurrent liabilities		
Debt payable - related party	686.0	457.6
Lease liability - related party	24.9	22.8
Asset retirement obligations	1.4	1.3
Other unearned income	2.1	—
Total noncurrent liabilities	714.4	481.7
Total liabilities	745.7	507.8
Commitments and Contingencies (Note 13)		
EQUITY		
Common unitholders – public (88,367,308 and 62,892,308 units issued and outstanding as of December 31, 2016 and December 31, 2015)	2,485.7	1,637.5
Common unitholder – SPLC (21,475,068 units issued and outstanding as of December 31, 2016 and December 31, 2015)	(124.1)	(130.4)
Subordinated unitholder – SPLC (67,475,068 units issued and outstanding as of December 31, 2016 and December 31, 2015)	(389.6)	(409.8)
General partner – SPLC (3,618,723 and 3,098,825 units issued and outstanding as of December 31, 2016 and December 31, 2015)	(1,873.7)	(998.6)
Total partners' capital	98.3	98.7
Noncontrolling interest	21.6	108.4
Total equity	119.9	207.1
Total liabilities and equity	$ 865.6	$ 714.9

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

75

SHELL MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF INCOME

	2016	2015	2014
	(in millions of dollars, except per unit data)		
Revenue			
Third parties	$201.5	$222.8	$155.0
Related parties	89.8	103.7	95.3
Total revenue	291.3	326.5	250.3
Costs and expenses			
Operations and maintenance - third parties	46.9	46.3	41.6
Operations and maintenance - related parties	20.7	18.5	21.7
Loss from disposition of fixed assets	0.1	—	0.2
General and administrative - third parties	8.1	10.2	3.4
General and administrative - related parties	23.1	24.6	17.0
Depreciation, amortization and accretion	23.7	21.6	18.4
Property and other taxes	8.2	7.5	6.2
Total costs and expenses	130.8	128.7	108.5
Operating income	160.5	197.8	141.8
Income from equity method investments	101.1	70.1	6.7
Dividend income from cost investments	16.1	9.2	0.8
Investment, dividend and other income	117.2	79.3	7.5
Interest expense, net	12.3	4.3	0.2
Income before income taxes	265.4	272.8	149.1
Income tax expense (benefit)	—	(0.1)	0.2
Net income	265.4	272.9	148.9
Less: Net income attributable to the Parent	—	39.3	124.1
Less: Net income attributable to noncontrolling interests	20.5	66.5	11.4
Net income attributable to the Partnership	$244.9	$167.1	$13.4
General partner's interest in net income attributable to the Partnership	$25.0	$5.0	$0.3
Limited Partners' interest in net income attributable to the Partnership	$219.9	$162.1	$13.1
Net income per Limited Partner Unit - Basic and Diluted (in dollars):			
Common	$1.32	$1.16	0.10
Subordinated	$1.27	$1.14	0.10
Distributions per Limited Partner unit (in dollars):	$1.0258	$0.7900	0.1042
Weighted average Limited Partner Units outstanding - Basic and Diluted (in millions):			
Common units - public	80.4	51.9	46.0
Common units - SPLC	21.5	21.5	21.5
Subordinated units - SPLC	67.5	67.5	67.5

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

76

SHELL MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2016	2015	2014
	(in millions of dollars)		
Cash flows from operating activities			
Net income	$265.4	$272.9	$148.9
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	23.7	21.6	18.4
Loss from disposition of fixed assets	0.1	—	0.2
Non-cash interest expense	2.7	—	—
Allowance oil reduction to net realizable value	—	1.6	4.4
Undistributed equity earnings	1.8	(0.6)	(0.5)
Changes in operating assets and liabilities			
Accounts receivable	0.1	—	(14.4)
Allowance oil	(4.8)	(2.8)	2.4
Prepaid expenses	(1.0)	(1.2)	(1.5)
Accounts payable	(1.5)	(4.5)	7.6
Deferred revenue and other unearned income	8.2	(13.8)	20.0
Accrued liabilities	(1.7)	9.5	(18.5)
Net cash provided by operating activities	293.0	282.7	167.0
Cash flows from investing activities			
Capital expenditures	(28.3)	(16.2)	(68.7)
Acquisitions	(214.8)	(179.8)	—
Return of investment	15.0	6.8	2.1
Payment of pre-IPO distributions from investments to SPLC	—	(11.9)	5.1
Net cash used in investing activities	(228.1)	(201.1)	(61.5)
Cash flows from financing activities			
Net proceeds from IPO, net of offering costs of $46.3 million	—	—	1,011.7
Net proceeds from private equity placement	—	297.4	—
Net proceeds from public equity offerings	818.1	296.8	—
Borrowings under credit facilities	638.7	458.2	—
Contributions from general partner	9.8	6.1	—
Repayment of credit facilities	(410.0)	—	—
Proceeds from IPO distributed to Parent	—	—	(911.7)
Capital distributions to general partner	(896.3)	(1,002.1)	—
Distributions to noncontrolling interest	(20.3)	(67.1)	(25.2)
Distributions to unitholders and general partner	(179.9)	(96.5)	—
Other contributions from Parent	4.6	11.1	—
Credit facilities issuance costs	(0.6)	(0.3)	(0.5)
Capital lease payments	(0.1)	—	—
Net distributions to Parent	—	(42.4)	(27.8)
Distribution of working capital to Parent	—	—	(1.8)
Net cash (used in) provided by financing activities	(36.0)	(138.8)	44.7
Net increase (decrease) in cash and cash equivalents	28.9	(57.2)	150.2
Cash and cash equivalents at beginning of the period	93.0	150.2	—
Cash and cash equivalents at end of the period	$121.9	$93.0	$150.2

Supplemental Cash Flow Information			
Non-cash investing and financing transactions:			
Change in accrued capital expenditures	$0.5	$2.9	$(13.1)
Contribution of fixed assets from Parent	—	0.4	11.4
Amount payable to SPLC for pre-IPO distribution	—	—	(6.8)
Contribution of investments upon IPO	—	—	166.0
Commencement of capital lease	—	22.8	—
Other non-cash contributions from Parent	0.2	1.8	—
Other non-cash capital distributions to general partner	(7.1)	—	—
Other non-cash contribution from general partner	7.1	—	—
Distribution of working capital to Parent	—	(6.4)	—

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

MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of dollars)	Partnership Common Unitholders Public	Common Unitholder SPLC	Subordinated Unitholder SPLC	General Partner SPLC	Noncontrolling Interest	Net Parent Investment	Total
Balance as of December 31, 2013	$—	$—	$—	$—	$ —	$ 317.2	$ 317.2
Net income	4.5	2.1	6.5	0.3	11.4	124.1	148.9
Net distributions to the parent	—	—	—	—	—	(27.8)	(27.8)
Distribution of working capital to the parent	—	—	—	—	—	(1.8)	(1.8)
Contribution of fixed assets from the parent	—	—	—	—	—	11.4	11.4
Allocation of net parent investment to unitholders - Zydeco	—	32.2	101.3	4.1	182.5	(320.1)	—
Contribution of ownership interests in equity and cost method investments	—	38.9	122.1	5.0	—	—	166.0
Net proceeds from the IPO, net of offering costs of $46.3 million	1,011.7	—	—	—	—	—	1,011.7
Proceeds from the IPO distributed to the parent	—	(213.5)	(670.8)	(27.4)	—	—	(911.7)
Distributions to noncontrolling interest	—	—	—	—	(32.0)	—	(32.0)
Balance as of December 31, 2014	1,016.2	(140.3)	(440.9)	(18.0)	161.9	103.0	681.9
Net income	61.1	24.4	76.6	5.0	66.5	39.3	272.9
Net proceeds from private placement	297.4	—	—	—	—	—	297.4
Net proceeds from public offerings	296.8	—	—	—	—	—	296.8
Contributions from general partner	—	—	—	6.1	—	—	6.1
Other contributions from parent	—	—	—	12.9	—	0.4	13.3
Distribution to noncontrolling interest	—	—	—	—	(67.1)	—	(67.1)
Distributions to unitholders and general partner	(34.0)	(14.5)	(45.5)	(2.5)	—	—	(96.5)
Acquisition of noncontrolling interest	—	—	—	—	(52.9)	—	(52.9)
Capital distributions to general partner	—	—	—	(1,002.1)	—	—	(1,002.1)
November 2015 Acquisition	—	—	—	—	—	(93.9)	(93.9)
Distributions to parent	—	—	—	—	—	(42.4)	(42.4)
Distribution of working capital to parent	—	—	—	—	—	(6.4)	(6.4)
Balance as of December 31, 2015	1,637.5	(130.4)	(409.8)	(998.6)	108.4	—	207.1
Net income	107.2	27.2	85.5	25.0	20.5	—	265.4
Net proceeds from public offerings	818.1	—	—	—	—	—	818.1
Contributions from general partner	—	—	—	16.9	—	—	16.9
Other contributions from parent	—	—	—	3.0	—	—	3.0
Distributions to unitholders and general partner	(77.1)	(20.9)	(65.3)	(16.6)	—	—	(179.9)
	—	—	—	—	(20.3)	—	(20.3)

Distribution to noncontrolling interest							
Capital distributions to general partner	—	—	—	(903.4)	—	—	(903.4)
Acquisition of noncontrolling interest	—	—	—	—	(87.0)	—	(87.0)
Balance as of December 31, 2016	$2,485.7	$(124.1)	$(389.6)	$(1,873.7)	$ 21.6	$ —	$119.9

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

79

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business and Basis of Presentation

Shell Midstream Partners, L.P. (“we,” “us,” “our” or “the Partnership”) is a Delaware limited partnership formed on March 19, 2014 to own and operate assets, including certain assets received from Shell Pipeline Company LP (“SPLC”). We conduct our operations through our wholly owned subsidiary Shell Midstream Operating, LLC (“Operating Company”). Our general partner is Shell Midstream Partners GP LLC (“general partner”). References to “Shell” or “Parent” refer collectively to Royal Dutch Shell plc (“RDS”) and its controlled affiliates, other than us, our subsidiaries and our general partner. On November 3, 2014, we completed our IPO and our common units trade on the New York Stock Exchange under the symbol “SHLX.”

Description of Business

We are a fee-based, growth-oriented master limited partnership formed by Shell to own, operate, develop and acquire pipelines and other midstream assets. Our assets consist of interests in entities that own crude oil and refined products pipelines serving as key infrastructure to transport onshore and offshore crude oil production to Gulf Coast and Midwest refining markets and to deliver refined products from those markets to major demand centers. As of December 31, 2016, we own interests in seven crude oil pipeline systems, three refined products systems, one natural gas gathering pipeline system and a crude tank storage and terminal system. The crude oil pipeline systems include the Auger Pipeline System (“Auger”), held by Pecten Midstream LLC (“Pecten”), Zydeco Pipeline Company LLC (“Zydeco”), Odyssey Pipeline LLC (“Odyssey”), Mars Oil Pipeline Company (“Mars”), Poseidon Oil Pipeline Company LLC (“Poseidon”), Proteus Oil Pipeline Company, LLC (“Proteus”), and Endymion Oil Pipeline Company, LLC (“Endymion”), are strategically located along the Texas and Louisiana Gulf Coast and in the Gulf of Mexico. These systems link major onshore and offshore production areas with key refining markets. The refined products pipeline systems, which are held by Bengal Pipeline Company LLC (“Bengal”) and Colonial Pipeline Company (“Colonial”), connect Gulf Coast and southeastern U.S. refineries to major demand centers from Alabama to New York, and Explorer Pipeline Company (“Explorer”) which serves more than 70 major cities in 16 states from the Gulf Coast to the Midwest. The natural gas pipeline system, Cleopatra Gas Gathering Company, LLC (“Cleopatra”), brings Gulf of Mexico gas production to the market hub at Ship Shoal 332. The crude storage terminal, Lockport Terminal (“Lockport”), is located southwest of Chicago and serves Midwest refineries.

As of December 31, 2016, we own a 100.0% interest in Pecten, a 92.5% interest in Zydeco, a 50.0% interest in Bengal, a 49.0% interest in Odyssey, a 48.6% interest in Mars, a 36.0% interest in Poseidon, a 10.0% interest in Proteus, a 10.0% interest in Endymion, a 6.0% interest in Colonial a 2.62% interest in Explorer and a 1.0% interest in Cleopatra. Each of Pecten and Zydeco is consolidated within our consolidated financial statements as a subsidiary. The 7.5% ownership interest in Zydeco retained by SPLC is reflected as noncontrolling interest in our consolidated financial statements. We account for each of our investments in Bengal, Odyssey, Mars, Poseidon, Proteus and Endymion using the equity method of accounting, and we account for each of our investments in Colonial, Explorer and Cleopatra using the cost method of accounting.

We generate the majority of our revenue under long-term agreements by charging fees for the transportation and storage of crude oil and refined products through our pipelines and storage tanks, and from income from our equity and cost method investments. Our operations consist of one reportable segment.

Basis of Presentation

Our consolidated financial statements include all majority owned and non-majority owned subsidiaries required to be consolidated under generally accepted accounting principles in the United States (“GAAP”). Our reporting currency is U.S. dollars, and all references to dollars are U.S. dollars. The accompanying consolidated financial statements and related notes have been prepared under the rules and regulations of the Securities and Exchange Commission (the “SEC”). These rules and regulations conform to the accounting principles contained in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification, the single source of GAAP.

Our consolidated subsidiaries include Pecten, Zydeco and the Operating Company. Acquisitions of additional interests in previously consolidated subsidiaries and interests in cost and equity method investments are accounted for as asset acquisitions. Accordingly, these assets are included in the financial statements prospectively from the effective date of each acquisition. See Note 3 – Acquisitions for additional information.

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following businesses were acquired from our Parent and accounted for as acquisitions between entities under common control. As such, our consolidated financial statements include the financial results of these businesses, which were derived from the financial statements and accounting records of SPLC and Shell for the periods prior to acquisition. Specifically, such acquisitions are reflected for the following periods prior to the effective date of such acquisition:

- Houston-to-Houma crude oil pipeline system ("Ho-Ho") for periods prior to July 1, 2014 (Ho-Ho, now referred to as "Zydeco pipeline" or "Zydeco pipeline system");
- Zydeco Pipeline Company LLC ("Zydeco") for the period from July 1, 2014 through November 2, 2014; and
- Shell Auger and Lockport Operations (the "Shell Auger and Lockport Operations" or "Auger and Lockport") for periods prior to October 1, 2015.

Our consolidated statements of income exclude the results of these businesses from net income attributable to the Partnership for the periods indicated above by allocating these results to our Parent.
All financial information represents the consolidated statements of income, balance sheets and cash flows accordingly:

- Our consolidated statements of income and cash flows for 2015 consist of the combined results of the Shell Auger and Lockport Operations prior to the acquisition date and the consolidated activity of the Partnership. Our consolidated statements of income and cash flows for 2014 consist of the consolidated results of the Partnership for the period from November 3, 2014 through December 31, 2014, the results of the Shell Auger and Lockport Operations for the entirety of 2014, and the combined results of Ho-Ho and Zydeco for the period from January 1, 2014 through November 2, 2014.
- Our consolidated statement of changes in equity for 2015 consists of the combined results of the Shell Auger and Lockport Operations prior to the acquisition date and the consolidated activity of the Partnership. Our consolidated statement of changes in equity for 2014 consists of both the combined activity for the Shell Auger and Lockport Operations, Ho-Ho and Zydeco prior to November 3, 2014, and the consolidated activity for the Shell Auger and Lockport Operations and the Partnership completed subsequent to the IPO on November 3, 2014.

Expense Allocations. Our consolidated statements of income also include expense allocations for certain functions performed by SPLC and Shell on behalf of the above businesses prior to their respective dates of acquisition us. Such costs are included in either general and administrative expenses or operations and maintenance expenses in the accompanying consolidated statements of income, depending on the nature of the employee's role in our operations. The expense allocations have been determined on a basis that we, SPLC and Shell consider to be a reasonable reflection of the utilization of the services provided or the benefit received during the periods presented. Nevertheless, the consolidated financial statements may not include all of the expenses that would have been incurred as a separate, publicly-traded company during the periods prior to November 3, 2014 and may not reflect our consolidated statements of income and cash flows as a separate, publicly-traded company during the periods prior to November 3, 2014.

Beginning from July 1, 2014, Zydeco entered into an operating and management agreement with SPLC (the "Management Agreement") under which SPLC provides general management and administrative services to us. Therefore, we no longer receive allocated corporate expenses from SPLC. We will continue to receive direct and allocated field and regional expenses from SPLC including payroll expenses not covered under the operating and management agreement. In addition, beginning from October 1, 2015, Pecten entered into an operating and management agreement under which we receive direct and allocated field and regional expenses from SPLC. See details of related party transactions in Note 4 — Related Party Transactions.

Cash. Prior to the contribution of fixed assets and certain agreements on July 1, 2014, regarding Zydeco, and October 1, 2015, regarding the Shell Auger and Lockport Operations, the cash generated and used by our operations was deposited to SPLC's centralized account which was comingled with the cash of other pipeline entities controlled by SPLC. SPLC funded our operating and investing activities as needed. Accordingly, we did not record any cash and cash equivalents held by SPLC on our behalf for any period prior to July 1, 2014, regarding Zydeco, and October 1, 2015, regarding the Shell Auger and Lockport Operations. We reflected the cash generated by our operations and expenses paid by SPLC on behalf of our operations as Other contributions from Parent within the accompanying consolidated statements of changes in equity and consolidated statements of cash flows. On July 1, 2014, regarding Zydeco, and October 1, 2015, regarding the Shell Auger and Lockport Operations, we established our own cash accounts for the funding of our operating and investing activities, with the exception of the capital expenditures incurred by SPLC on our behalf and then contributed to us.

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

Principles of Consolidation

Our consolidated financial statements include all subsidiaries where we have control. The assets and liabilities in the accompanying consolidated financial statements have been reflected on a historical basis. All significant intercompany accounts and transactions are eliminated upon consolidation. We own 92.5% of the ownership interest in Zydeco. We record a noncontrolling interest for the 7.5% ownership interest in Zydeco retained by SPLC. We obtained control of Zydeco via the voting agreement between SPLC and us under which we have voting power over the ownership interests retained by SPLC in Zydeco. We own 100.0% of the ownership interest in Pecten.

Regulation

Certain businesses are subject to regulation by various authorities including, but not limited to the Federal Energy Regulatory Commission ("FERC"). Regulatory bodies exercise statutory authority over matters such as construction, rates and ratemaking and agreements with customers.

Net Parent Investment

Net Parent Investment represents SPLC's historical investment in us, our accumulated net earnings through the date which we obtained control of the respective subsidiaries, and the net effect of transactions with, and allocations from, SPLC and Shell Oil Company. Retrospectively adjusted financial information from prior to the acquisition of the Shell Auger and Lockport Operations is included in Net Parent Investment.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

Common Control Transactions

Assets and businesses acquired from our Parent and its subsidiaries are accounted for as common control transactions whereby the net assets acquired are combined with ours at their historical carrying value. If any recognized consideration transferred in such a transaction exceeds the carrying value of the net assets acquired, the excess is treated as a capital distribution to our General Partner, similar to a dividend. If the carrying value of the net assets acquired exceeds any recognized consideration transferred including, if applicable, the fair value of any limited partner units issued, then that excess is treated as a capital contribution from our General Partner. To the extent that such transactions require prior periods to be retrospectively adjusted, historical net equity amounts prior to the transaction date are reflected in "Net Parent Investment." Cash consideration up to the carrying value of net assets acquired is presented as an investing activity in our consolidated statement of cash flows. Cash consideration in excess of the carrying value of net assets acquired is presented as a financing activity in our consolidated statement of cash flows.

Revenue Recognition

Our revenues are primarily generated from crude oil transportation services and also storage services. In general, we recognize revenue from customers when all of the following criteria are met: (1) persuasive evidence of an exchange arrangement exists; (2) delivery or storage has occurred or services have been rendered; (3) the price is fixed or determinable; and (4) collectability is reasonably assured. We record revenue for crude oil transportation and storage services over the period in which they are earned (i.e., either physical delivery or storage of product has taken place or the services designated in the contract have been performed). We accrue revenue based on services rendered but not billed for that accounting month. Additionally, we provide crude storage rental services to third parties and related parties under long-term contracts.

As a result of FERC regulations, revenues we collect may be subject to refund. We establish reserves for these potential refunds based on actual expected refund amounts on the specific facts and circumstances. We had no reserves for potential refunds as of December 31, 2016 and 2015.

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our FERC-approved transportation services agreements on Zydeco entitle the customer to a specified amount of guaranteed capacity on a pipeline. This capacity cannot be pro-rated even if the pipeline is oversubscribed. In exchange, the customer makes a specified monthly payment regardless of the volume transported. If the customer does not ship its full guaranteed volume in a given month, it makes the full monthly cash payment and may ship the unused volume in a later month for no additional cash payment for up to 12 months, subject to availability on the pipeline. If there is insufficient capacity on the pipeline to allow the unused volume to be shipped, the customer forfeits its right to ship such unused volume.

Cash collected from customers for shortfalls under these agreements is recorded as deferred revenue. We recognize deferred revenue under these arrangements into revenue once all contingencies or potential performance obligations associated with the related volumes have either (1) been satisfied through the transportation of future excess volumes of crude oil, or (2) expired (or lapsed) through the passage of time pursuant to the terms of the FERC-approved transportation services agreement. Because the expiration of a customer’s right to utilize shortfall payments is twelve months or less, we classify deferred revenue as a short term liability. Deferred revenue balance was $13.9 million and $6.2 million as of December 31, 2016 and 2015, respectively.

Our long-term transportation agreements and tariffs for crude oil transportation include a product loss allowance, or “PLA.” PLA is intended to assure proper measurement of the crude oil despite solids, water, evaporation and variable crude types that can cause mismeasurement. The PLA provides additional revenue for us if product losses on our pipelines are within the allowed levels, and we are required to compensate our customers for any product losses that exceed the allowed levels. We take title to any excess loss allowance when product losses are within an allowed level, and we convert that product to cash several times per year at prevailing market prices to a related party.

Revenues for the indicated years comprise the following:

	2016	2015	2014
Transportation revenue - third party	$193.1	$214.3	$146.5
Transportation revenue - related party	81.2	96.2	86.1
Total transportation revenue	274.3	310.5	232.6
Storage services revenue - third party	8.4	8.5	8.5
Storage services revenue - related party	8.6	7.5	9.2
Total storage revenue	17.0	16.0	17.7
Total revenue	$291.3	$326.5	$250.3

Cash and cash equivalents

Our cash and cash equivalents includes cash and short-term highly liquid overnight deposits.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable represent valid claims against customers for products sold or services rendered, net of allowances for doubtful accounts. We assess the creditworthiness of our counterparties on an ongoing basis and require security, including prepayments and other forms of collateral, when appropriate. We establish provisions for losses on accounts receivable due from shippers and operators if we determine that we will not collect all or part of the outstanding balance. Outstanding customer receivables are regularly reviewed for possible nonpayment indicators, and allowances for doubtful accounts are recorded based upon management’s estimate of collectability at each balance sheet date. As of December 31, 2016 and 2015, we did not have any allowance for doubtful accounts.

Allowance Oil

A PLA factor per barrel is incorporated into applicable crude oil tariffs to cover evaporation and other loss in transit. Allowance oil represents the net difference between the tariff PLA volumes and the actual volumetric losses. Our allowance oil is valued at the lower of cost or net realizable value using the average market price of the relevant type of crude oil during the month product was transported. Gains and losses from the conversion of allowance oil to cash are calculated using the specific cost per barrel based on the month of accumulation. Gains and losses from the conversion of allowance oil to cash and gains and losses from pipeline operations that relate to allowance oil are recorded in Operations and maintenance expenses in the accompanying consolidated statements of income.

Equity Method Investments

We generally account for investments in 50.0% or less-owned affiliates, where we have the ability to exercise significant influence, but not control, under the equity method of accounting. Income from equity method investments represents our proportionate share of net income generated by the equity method investees. Equity method investments are assessed for impairment whenever changes in the facts and circumstances indicate a loss in value has occurred, if the loss is deemed to be other than temporary. When the loss is deemed to be other than temporary, the carrying value of the equity method investment is written down to fair value, and the amount of the write-down is included in net income. Differences in the basis of the investments and the separate net asset value of the investees, if any, are amortized into net income over the remaining useful lives of the underlying assets.

Property, Plant and Equipment

Our property, plant and equipment is recorded at its historical cost of construction or, upon acquisition, at either the fair value of the assets acquired or the historical carrying value to the entity that placed the asset in service. Expenditures for major renewals and betterments are capitalized while those minor replacement, maintenance, and repairs which do not improve or extend asset life are expensed when incurred. For constructed assets, we capitalize all construction-related direct labor and material costs, as well as indirect construction costs.

We use the straight-line method to depreciate property, plant and equipment based on the estimated useful life of the asset. We report gains or losses on dispositions of fixed assets as loss (gain) from disposition of fixed assets in the accompanying consolidated statements of income.

Impairment of Long-lived Assets

We evaluate long-lived assets of identifiable business activities for impairment when events or changes in circumstances indicate, in our management's judgment, that the carrying value of such assets may not be recoverable. These events include market declines that are believed to be other than temporary, changes in the manner in which we intend to use a long-lived asset, decisions to sell an asset and adverse changes in the legal or business environment such as adverse actions by regulators. If an event occurs, which is a determination that involves judgment, we perform an impairment assessment by comparing our management's estimate of forecasted undiscounted future cash flows associated with the asset to the asset's net book value. If the net book value exceeds our estimate of forecasted undiscounted cash flows, an impairment is calculated as the amount the net book value exceeds the estimated discounted future cash flows associated with the asset. We determined that there were no asset impairments in 2016, 2015 or 2014.

Income Taxes

We are not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Taxes on our net income are generally borne by our partners through the allocation of taxable income. Our income tax expense results from partnership activity in the state of Texas, as conducted by Zydeco.

Cost Method Investments

We account for investments in entities where we do not have control or significant influence under the cost method. We monitor the operating environment of these investments for change in circumstances or the occurrence of events that suggest the total carrying value of these investments may not be recoverable. The carrying value of cost method investments is not adjusted if there are no identified events or changes in circumstances that may have a material effect on the fair value of the investments. Cost method investments are reported as Cost investments in our consolidated balance sheets. Our cost investments include the following:

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31,			
	2016		2015	
	Ownership	Amount	Ownership	Amount
Colonial	6.0%	$ 11.4	3.0%	$ 6.2
Explorer	2.62%	26.3	—%	—
Cleopatra	1.0%	2.1	—%	—
		$ 39.8		$ 6.2

Obligations

Asset retirement obligations represent legal and constructive obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. We record liabilities for obligations related to the retirement and removal of long-lived assets used in our businesses at fair value on a discounted basis when they are incurred and can be reasonably estimated. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when settled at the time the asset is taken out of service.

Our asset retirement obligations relate to our exclusive right of use of a portion of the Garden Banks 128 “A” Platform (GB 128A), where we operate facilities relating to the Auger pipeline system. Our right of use agreement provides that we pay our share of the GB 128A decommissioning costs when and if that platform ceases operation. We have determined that a significant portion of our assets utilizing GB 128A have an indeterminate life, and as such, the fair values of those associated retirement obligations are not reasonably estimable. These assets include offshore pipelines pump and meter stations whose retirement dates will depend mostly on the various supply sources that connect to our systems and the ongoing demand for usage in the markets we serve. We expect these supply sources and market demands to continue for the foreseeable future, therefore we are unable to estimate retirement dates that would result in asset retirement obligations.

Asset retirement obligations are adjusted each period for liabilities incurred or settled during the period, accretion expense and any revisions made to the estimated cash flows.

Our asset retirement obligations were $1.4 million and $1.3 million, respectively as of December 2016 and 2015. During 2016, 2015 and 2014 accretion expense was $0.1 million, less than $0.1 million and $0.1 million, respectively.

We continue to evaluate our asset retirement obligations and future developments could impact the amounts we record. The demand for our pipelines depends on the ongoing demand to move crude oil and refined products through the system. Although individual assets will be replaced as needed, our pipelines will continue to exist for an indefinite useful life. As such, there is uncertainty around the timing of any asset retirement activities. As a result, with the exception of the platform related asset retirement obligations stated above, we determined that there is not sufficient information to make a reasonable estimate of the asset retirement obligations for our remaining assets as of December 31, 2016 and 2015.

Pensions and Other Postretirement Benefits

We do not have our own employees. Employees that work on our pipelines or terminal are employees of SPLC and we share employees with other SPLC-controlled and non-controlled entities. For presentation of these accompanying consolidated financial statements, our portion of payroll costs and employee benefit plan costs have been allocated as a charge to us by SPLC and Shell Oil Company. Shell Oil Company sponsors various employee pension and postretirement health and life insurance plans. For purposes of these accompanying consolidated financial statements, we are considered to be participating in the benefit plans of Shell Oil Company. We participate in the following defined benefits plans: Shell Oil Pension Plan, Shell Oil Retiree Health Care Plan, and Pennzoil-Quaker State Retiree Medical & Life Insurance. As a participant in these benefit plans, we recognize as expense in each period an allocation from Shell Oil Company, and we do not recognize any employee benefit plan assets or liabilities. See Note 4 — Related Party Transactions for total pension and benefit expenses under these plans.

Legal

85

We are subject to litigation and regulatory proceedings as the result of our business operations and transactions. We use both internal and external counsel in evaluating our potential exposure to adverse outcomes from orders, judgments or settlements. In general, we expense legal costs as incurred. When we identify specific litigation that is expected to continue for a significant period of time, is reasonably possible to occur and may require substantial expenditures, we identify a range of possible costs expected to be required to litigate the matter to a conclusion or reach an acceptable settlement, and we accrue for the lower end of the range. To the extent that actual outcomes differ from our estimates, or additional facts and circumstances cause us to revise our estimates, our earnings will be affected.

Environmental Matters

We are subject to federal, state, and local environmental laws and regulations. Environmental expenditures are expensed or capitalized depending on their economic benefit. We expense costs such as permits, compliance with existing environmental regulations, remedial investigations, soil sampling, testing and monitoring costs to meet applicable environmental laws and regulations where prudently incurred or determined to be reasonably possible in the ordinary course of business. We are permitted to recover such expenditure through tariff rates charged to customers. We also expense costs that relate to an existing condition caused by past environmental incidents, which do not contribute to current or future revenue generation. We record environmental liabilities when environmental assessments and/or remedial efforts are probable and we can reasonably estimate the costs. Generally, our recording of these accruals coincides with our completion of a feasibility study or our commitment to a formal plan of action. We recognize receivables for anticipated associated insurance recoveries when such recoveries are deemed to be probable. For 2016 and 2015 we did not incur any environmental cleanup costs, and in 2014, we incurred $3.0 million of environmental cleanup costs. Due to the formation of Zydeco via the contribution of fixed assets and certain agreements from SPLC, Zydeco was indemnified by SPLC against environmental cleanup costs for incidents that occurred prior to Zydeco's formation on July 1, 2014. In addition, as a result of the contribution of Pecten from SPLC, SHLX was indemnified by SPLC against cleanup costs for incidents that occurred at Auger or Lockport prior to the contribution of Pecten on October 1, 2015. There were no environmental incidents related to Auger or Lockport during the periods presented. As of December 31, 2016 and 2015, we had no accruals for environmental clean-up costs. Refer to Note 4 — Related Party Transactions under the Omnibus Agreement for additional details.

We routinely conduct reviews of potential environmental issues and claims that could impact our assets or operations. These reviews assist us in identifying environmental issues and estimating the costs and timing of remediation efforts. In making environmental liability estimations, we consider the material effect of environmental compliance, pending legal actions against us and potential third-party liability claims. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in our income in the period in which they are probable and reasonably estimable.

Other Contingencies

We recognize liabilities for other contingencies when we have an exposure that indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Where the most likely outcome of a contingency can be reasonably estimated, we accrue a liability for that amount. Where the most likely outcome cannot be estimated, a range of potential losses is established and if no one amount in that range is more likely than any other, the lower end of the range is accrued.

Fair Value Estimates

We measure assets and liabilities requiring fair value presentation or disclosure using an exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability) and disclose such amounts according to the quality of valuation inputs under the following hierarchy:

Level 1: Quoted prices in an active market for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are directly or indirectly observable.

Level 3: Unobservable inputs that are significant to the fair value of assets or liabilities.

We classify the fair value of an asset or liability based on the lowest level of input significant to its measurement. A fair value initially reported as Level 3 will be subsequently reported as Level 2 if the unobservable inputs become inconsequential

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to its measurement, or corroborating market data becomes available. Asset and liability fair values initially reported as Level 2 will be subsequently reported as Level 3 if corroborating market data becomes unavailable.

The carrying amounts of our accounts receivable, accounts payable, and accrued liabilities approximate their fair values due to their short term nature. The carrying amount of our revolving credit agreements approximate their fair values due to utilization of a three-month LIBOR rate that resets quarterly when calculating interest.

Nonrecurring Fair Value Measurements — Fair value measurements are applied with respect to our nonfinancial assets and liabilities measured on a nonrecurring basis, which consist primarily of asset retirement obligations. Nonrecurring fair value measurements are also applied, when applicable, to determine the fair value of our long-lived assets.

Net income per limited partner unit

Net income per unit applicable to common limited partner units and to subordinated limited partner units is computed by dividing the respective limited partners' interest in net income for the period subsequent to the IPO by the weighted average number of common units and subordinated units, respectively, outstanding for the period. Because we have more than one class of participating securities, we use the two-class method when calculating the net income per unit applicable to limited partners. The classes of participating securities include common units, subordinated units, general partner units, and incentive distribution rights. Basic and diluted net income per unit are the same because we do not have any potentially dilutive units outstanding for the period presented.

Comprehensive Income

We have not reported comprehensive income due to the absence of items of other comprehensive income in the periods presented.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued accounting standards update (ASU 2017-01) to topic 805, Business Combinations, to clarify the definition of a business and to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This provision is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption of this guidance is permitted. The revised definitions provided in this update will be applied to future transactions upon adoption.

In October 2016, the FASB issued accounting standards update (ASU 2016-17) to topic 810, Consolidation, making changes on how a reporting entity should treat indirect interests in an entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of a VIE. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Adoption of this update is not expected to have a material impact on our financial statements.

In August 2016, the FASB issued accounting standards update (ASU 2016-15) to topic 230, Statement of Cash Flows, making changes to the classification of certain cash receipts and cash payments in order to reduce diversity in presentation. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The update addresses eight specific cash flow issues, of which only one is applicable to our financial statements. The applicable update relates to distributions received from equity method investees and prescribes two options for presenting these cash flows: cumulative earnings approach or nature of the distribution approach. We currently apply cumulative earnings approach, where the distributions received are considered returns on investment and classified as cash inflows from operating activities. Adoption of this update will not have a material impact on our financial statements.

In March 2016, the FASB issued accounting standards update (ASU 2016-07) to topic 323, Investments – Equity Method and Joint Ventures, to eliminate the need for an entity to retroactively adopt the equity method of accounting when an investment becomes qualified for the use of the equity method of accounting due to an increase in level of ownership or degree of influence. This provision is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. We are currently evaluating the effect of adoption of this guidance on our financial position or results of operations.

In February 2016, the FASB issued accounting standards update to topic 842, Leases, which requires lessees to recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. This update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This provision is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that adopting this new standard will have on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued accounting standards update (ASU 2016-01) to topic 825, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Additionally, the update allows equity investments that do not have readily determinable fair values to be re-measured at fair value either upon the occurrence of an observable price change or upon identification of impairment, and requires additional disclosure around those investments. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the effect of this guidance which is not expected to have a significant impact on our financial position or results of operations.

In February 2015, the FASB issued an accounting standards update (ASU 2015-02) making targeted changes to the current consolidation guidance. The new standard changes the considerations related to substantive rights, related parties, and decision making fees when applying the variable interest entity consolidation model and eliminates certain guidance for limited partnerships and similar entities under the voting interest consolidation model. The update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Adoption of this standard did not have a material impact on the consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued Accounting Standard Update 2014-09, Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under GAAP. The update's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. The update allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. We have not yet selected a transition method nor have we determined the effect of the update on our consolidated results of operations, financial position or cash flows.

3. Acquisitions

On December 27, 2016, we acquired the following: (a) a 10.0% interest in Endymion from Mardi Gras Endymion Oil Pipeline Company, LLC, (b) a 10.0% interest in Proteus from Mardi Gras Transportation System Inc. ("Mardi Gras") and (c) a 1.0% interest in Cleopatra from Mardi Gras. Each acquisition closed pursuant to their respective purchase agreements for an aggregate purchase price of $42.0 million (the “December 2016 Acquisition”). We have determined we have significant influence over the financial and operating policies of Proteus and Endymion and we therefore account for these investments under the equity method. We do not have control or significant influence over Cleopatra and therefore account for this investment under the cost method. We funded the December 2016 Acquisition with borrowings under the Five Year Revolver (as defined in Note 8—Related Party Debt). The terms of the December 2016 Acquisition were approved by the board of directors of our general partner (the “Board”).

In connection with the December 2016 Acquisition we acquired the following:

Cost investments [1]	$2.1
Equity method investments [2]	39.9
December 2016 Acquisition	$42.0

(1) $2.1 million purchase price of 1.0% in Cleopatra.
(2) $20.8 million purchase price of 10.0% in Endymion and $19.1 million purchase price of 10.0% interest in Proteus.

On October 3, 2016, we acquired a 49.0% interest in Odyssey from Shell Oil Products US ("SOPUS") and an additional 20.0% interest in Mars from SPLC for $350.0 million (the "October 2016 Acquisition"). The October 2016 Acquisition closed pursuant to a purchase and sale agreement dated September 27, 2016 ("Odyssey and Mars Purchase and Sale Agreement")

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

among us, the Operating Company, SPLC and SOPUS, and is accounted for as a transaction between entities under common control. We funded the October 2016 Acquisition with $50.0 million of cash on hand and $300.0 million in borrowings under the Five Year Revolver (as defined in Note 8—Related Party Debt). The terms of the October 2016 Acquisition were approved by the Board and by the conflicts committee of the Board, which consists entirely of independent directors. The conflicts committee engaged an independent financial advisor and legal counsel. In accordance with the Odyssey and Mars Purchase and Sale Agreement, SPLC has agreed to pay us up to $10.0 million if Mars inventory management fees do not meet certain levels in aggregate for the calendar years ending 2017 through 2021. At this time there is no estimate of the amount, if any, to be received.

In connection with the October 2016 Acquisition, we acquired net assets under common control and recorded at their historical carrying value as follows:

Equity method investments [1] [2]	$54.3
October 2016 Acquisition	$54.3

[1] $51.3 million historical carrying value of 20.0% additional interest in Mars contributed by SPLC.
[2] $3.0 million historical carrying value of 49.0% interest in Odyssey contributed by SOPUS.

On August 9, 2016, we acquired a 2.62% equity interest in Explorer from SPLC (the “August 2016 Acquisition”) for $26.2 million. The August 2016 Acquisition was made in connection with SPLC’s right, as a current shareholder of Explorer, to acquire a portion of the equity interest being divested by another shareholder of Explorer. SPLC separately owns a 35.97% equity interest in Explorer. The August 2016 Acquisition closed on August 9, 2016 pursuant to a Share Purchase and Sale Agreement among us, the Operating Company and SPLC, and is accounted for as a transaction between entities under common control. We funded the August 2016 Acquisition with $26.3 million of cash on hand. Total transaction costs of $0.1 million were incurred. The terms of the August 2016 Acquisition were approved by the Board.

On May 23, 2016, we acquired an additional 30.0% interest in Zydeco, an additional 1.0% interest in Bengal and an additional 3.0% interest in Colonial for $700.0 million in consideration (the “May 2016 Acquisition”). The May 2016 Acquisition closed pursuant to a Contribution Agreement (the “May 2016 Contribution Agreement”) dated May 17, 2016 among us, the Operating Company and SPLC, and is accounted for as a transaction between entities under common control. We funded the May 2016 Acquisition with $345.8 million from the net proceeds of a registered public offering of 10,500,000 common units representing limited partner interests in us (the “May 2016 Offering”), $50.4 million of cash on hand and $296.7 million in borrowings under the Five Year Revolver (as defined in Note 8—Related Party Debt). The remaining $7.1 million in consideration consisted of an issuance of 214,285 general partner units to our general partner in order to maintain its 2% general partner interest in us. Total transaction costs of $0.4 million were incurred in association with the May 2016 Acquisition. The terms of the May 2016 Acquisition were approved by the Board and by the conflicts committee of the Board, which consists entirely of independent directors. In accordance with the May 2016 Contribution Agreement, SPLC has agreed to reimburse us for our proportionate share of certain costs and expenses incurred by Zydeco after April 1, 2016 with respect to a directional drill project to address soil erosion over a two-mile section of our 22-inch diameter pipeline under the Atchafalaya River and Bayou Shaffer in Louisiana. Such reimbursements will be treated as an additional capital contribution from the general partner at the time of counter party payment. The May 2016 Contribution Agreement contained customary representations and warranties and indemnification by SPLC.

In connection with the May 2016 Acquisition, we acquired historical carrying value of net assets under common control as follows:

Cost investments [1]	$5.2
Partners' capital [2]	87.0
May 2016 Acquisition	$92.2

[1] Historical carrying value of 3.0% additional interest in Colonial contributed by SPLC.
[2] Historical carrying value of 30.0% additional interest in Zydeco from SPLC's noncontrolling interest.

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We recognized $607.8 million of consideration in excess of the historical carrying value of net assets acquired as a capital distribution to our general partner in accordance with our policy for common control transactions. This capital distribution is comprised of $600.7 million in cash and $7.1 million in general partner units issued.

On November 17, 2015, we acquired from SPLC a 100% interest in Pecten, which holds the Shell Auger and Lockport Operations, for $390.0 million (the “November 2015 Acquisition”). The November 2015 Acquisition closed pursuant to the contribution agreement (the “Pecten Contribution Agreement”) among use, the Operating Company and SPLC, and is accounted for as a transaction between entities under common control. We funded the November 2015 Acquisition with $297.4 million from the net proceeds of the Offering, $49.4 million of cash on hand and $37.4 million in borrowings under our 364-Day Revolver (as defined below in Note 8—Related Party Debt). The remaining $6.1 million in consideration consisted of the issuance of 187,755 general partner units representing general partner interests to our general partner. Total transaction costs of $0.3 million were incurred in association with the November 2015 Acquisition. The terms of the November 2015 Acquisition were approved by the Board and by the conflicts committee of the Board, which consists entirely of independent directors. The Pecten Contribution Agreement contains customary representations, warranties and indemnification by SPLC, the Partnership and Operating Company.
In connection with the November 2015 Acquisition we acquired historical carrying value of net assets under common control which is included in our consolidated balance sheet, as follows:

Property, plant and equipment, net [(1)]	$95.2
Asset retirement obligation [(2)]	(1.3)
November 2015 Acquisition	$93.9

(1) Historical carrying value of property, plant and equipment, net contributed by SPLC.
(2) Historical carrying value of asset retirement obligation assumed by us.
We recognized $290.0 million of consideration as a capital distribution to our general partner in accordance with our policy for common control transactions.

On July 1, 2015, SOPUS conveyed to us its 36.0% interest in Poseidon (the “July 2015 Acquisition”) for $350.0 million in cash. The July 2015 Acquisition closed pursuant to the contribution agreement dated July 1, 2015 (the “Poseidon Contribution Agreement”) among us, the Operating Company and SOPUS and is accounted for as a transaction between entities under common control. We have recorded this asset acquisition on a prospective basis. Poseidon is a Delaware limited liability company formed in February 1996 to design, construct, own and operate a non-FERC regulated crude oil pipeline system located offshore Louisiana in the central region of the Gulf of Mexico. The July 2015 Acquisition was funded with borrowings of $100.0 million under our 364-Day Revolver and $250.0 million under our 5-Year Revolver. For additional information regarding these credit facilities, see Note 8—Related Party Debt. We account for our interest in Poseidon using the equity method of accounting.
In connection with the July 2015 Acquisition we acquired historical carrying value of net assets under common control of $30.5 million which is included in Equity method investments in our consolidated balance sheet. We recognized $319.5 million of consideration in excess of the historical carrying value of net assets acquired as a capital distribution to our general partner in accordance with our policy for common control transactions.
On May 18, 2015, we acquired an additional 19.5% interest in Zydeco and an additional 1.388% interest in Colonial for $448.0 million in cash (the “May 2015 Acquisition”). The May 2015 Acquisition closed pursuant to a Purchase and Sale Agreement dated May 12, 2015 (“Purchase and Sale Agreement”) among us, the Operating Company and SPLC, and was accounted for as a transaction between entities under common control. We funded the May 2015 Acquisition with $297.4 million from the Private Placement (as defined in Note 10—Equity), $80.0 million of cash on hand and $70.8 million in borrowings under our Five-Year Revolver with STCW (as defined below in Note 8—Related Party Debt). Total transaction costs of $0.5 million were incurred in association with the May 2015 Acquisition. The terms

of the May 2015 Acquisition were approved by the Board and by the conflicts committee of the Board, which consists entirely of independent directors. The conflicts committee engaged an independent financial advisor and legal counsel. In accordance with the Purchase and Sale Agreement, SPLC agreed to reimburse us for our proportionate share of certain costs and expenses incurred by Zydeco after April 1, 2015 with respect to a directional drill project to address soil erosion over a two-mile section of our 22-inch diameter

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

pipeline under the Atchafalaya River and Bayou Shaffer in Louisiana. Such reimbursements will be treated as an additional capital contribution from the general partner at the time of payment.
In connection with the May 2015 Acquisition we acquired historical carrying value of net assets under common control as follows:

Cost investments [1]	$2.5
Partners' capital [2]	52.9
May 2015 Acquisition	$55.4

[1] Historical carrying value of 1.388% additional interest in Colonial contributed by SPLC.
[2] Historical carrying value of 19.5% additional interest in Zydeco from SPLC’s noncontrolling interest.
We recognized $392.6 million of consideration in excess of the historical carrying value of net assets acquired as a capital distribution to our general partner in accordance with our policy for common control transactions.

4. Related Party Transactions
Related party transactions include transactions with SPLC and Shell, including those entities in which Shell has an ownership interest but does not have control.
Acquisition Agreements
See the description of the Purchase and Sale Agreement relating to the May 2015 Acquisition, the Poseidon Contribution Agreement relating to the July 2015 Acquisition, the Pecten Contribution Agreement relating to the November 2015 Acquisition, the May 2016 Contribution Agreement relating to the May 2016 Acquisition, the Share Purchase and Sale Agreement relating to the August 2016 Acquisition and the October 2016 Purchase and Sale Agreement relating to the October 2016 Acquisition as further described in Note 3–Acquisitions.
Omnibus Agreement
On November 3, 2014, in connection with the IPO and the acquisition of Zydeco, we entered into an Omnibus Agreement with SPLC and our general partner concerning our payment of an annual general and administrative services fee to SPLC as well as our reimbursement of certain costs incurred by SPLC on our behalf. This agreement addresses the following matters:

- our payment of an annual general and administrative fee of $8.5 million for the provision of certain services by SPLC;
- our obligation to reimburse SPLC for certain direct or allocated costs and expenses incurred by SPLC on our behalf;
- our obligation to reimburse SPLC for all expenses incurred by SPLC as a result of us becoming and continuing as a publicly traded entity; we will reimburse our general partner for these expenses to the extent the fees relating to such services are not included in the general and administrative fee; and
- the granting of a license from Shell to us with respect to use certain Shell trademarks and trade names.

Under the Omnibus Agreement, certain costs are indemnified by SPLC. The legal and environmental indemnifications are subject to individual $0.5 million deductibles, while we have an aggregate limit of $15.0 million, of which $10.7 million is remaining. As of December 31, 2016, only the environmental indemnification remains and it will expire in November 2017. During 2016, we did not make any claims for indemnification under the Omnibus Agreement. Indemnification for any unknown environmental liabilities is limited to liabilities due to occurrences prior to the closing of the IPO and that are identified before the third anniversary of the closing of the IPO. SPLC will indemnify us for tax liabilities which are identified prior to the date that is 60 days after the expiration of the statute of limitations applicable to such liabilities. We have agreed to indemnify SPLC for events and conditions associated with the ownership or operation of our assets (other than any environmental liabilities for which SPLC is specifically required to indemnify us as described above). There is no limit on the amount for which we will indemnify SPLC under the Omnibus Agreement.
During 2015, we received reimbursements from SPLC related to the indemnification for the Partnership’s share of these expenses which are included in other contributions from Parent. Mars has incurred maintenance expense for an

underground cavern integrity project including inspections, plug and abandonment, installations and integrity tests to return the Mars Cavern

91

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 to service. Zydeco has incurred general and administrative expenses including expert fees related to a legal matter regarding FERC tariff rates and has also recognized an estimated settlement provision. Refer to Note 13 – Commitments and Contingencies – Legal Proceedings for additional information.

Tax Sharing Agreement

Zydeco has entered into a tax sharing agreement with an affiliate of Shell pursuant to which Zydeco has agreed to reimburse Shell for state and local franchise taxes attributable to Zydeco's activity that is reported on Shell's state or local income or franchise tax returns filed on a combined or unitary basis. Reimbursements under the agreement equal the amount of tax Zydeco would be required to pay if it were to file a consolidated, combined or unitary tax return separate from Shell. Shell will compute and invoice Zydeco for the reimbursement amount within 90 days of Shell filing the combined or unitary tax return on which Zydeco's activity is included. Zydeco may be required to make prepayments toward the reimbursement amount to the extent that Shell is required to make estimated tax payments.

Other Agreements

In connection with the IPO and our acquisitions from Shell, we have entered into several customary agreements with SPLC and Shell. These agreements include pipeline operating agreements, reimbursement agreements and services agreements.

Shell Auger and Lockport Operations

In connection with the November 2015 Acquisition, we entered into the following agreements with SPLC. Maintenance expense and capital expenditures for certain projects associated with the Lockport Terminal have been incurred. These projects improve the existing drainage system to eliminate the crossing of storm water between the Lockport Terminal and adjacent properties. In addition, these projects include inspections and tank repairs of a storage tank. Under the Pecten Contribution Agreement, SPLC has agreed to reimburse us for the maintenance expense and capital expenditures related to these projects. During 2016, we recognized $1.6 million for these reimbursements as other contributions from Parent.

In connection with the formation of Pecten on October 1, 2015, Pecten entered into an Operating and Administrative Management Agreement with SPLC. Pursuant to this agreement, SPLC performs physical operations and maintenance services for Lockport and Auger and provides general and administrative services for Pecten. Pecten is required to reimburse SPLC for costs and expenses incurred in connection with such services. Also pursuant to the agreement, SPLC and Pecten agree to standard indemnifications as operator and asset owner, respectively.

Noncontrolling Interest

Noncontrolling interest consists of SPLC's 7.5% retained ownership interest in Zydeco as of December 31, 2016 and 37.5% retained ownership interest in Zydeco as of December 31, 2015. Noncontrolling interest was 57.0% at the time of IPO, decreased to 37.5% with the May 2015 acquisition, and further decreased to 7.5% with the May 2016 acquisition.

Other Related Party Balances

Other related party balances consist of the following:

	December 31,	
	2016	2015
Accounts receivable	$10.1	$ 9.8
Prepaid expenses	2.7	2.8
Accounts payable (1)	5.2	9.3
Deferred revenue	7.9	3.6
Accrued liabilities (2)	5.1	3.6
Debt payable (3)	686.0	457.6
Lease liability	24.9	22.8

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(2) As of December 31, 2016 Accrued liabilities -- related parties reflects $2.6 million accrued interest, $1.6 million fuel accrual and $0.9 million other accrued liabilities. As of December 31, 2015 Accrued liabilities -- related parties reflects $1.3 million accrued interest, $1.2 million fuel accrual, $0.6 million FERC accrual and $0.5 million other accrued liabilities.

(3) Debt payable reflects borrowings outstanding after taking into account unamortized debt issuance cost of $0.9 million and $0.6 million as of December 31, 2016 and 2015, respectively.

Related Party Revolving Credit Facilities

We have entered into two revolving credit facilities with Shell Treasury Centre (West) Inc. (“STCW”), an affiliate of Shell, the Five-Year Revolver and the 364-Day Revolver. Zydeco has also entered into the Zydeco Revolver with STCW. For additional information regarding these credit facilities, see Note 8 – Related Party Debt.

Related Party Revenues and Expenses

We provide crude oil transportation and storage services to related parties under long-term contracts. We entered into these contracts in the normal course of our business and the services are based on the same terms as those provided to third parties. Our transportation revenue and storage services revenue from related parties for 2016, 2015 and 2014 is disclosed in Note 2- Summary of Significant Accounting Policies - Revenue Recognition.

In 2016 and 2015, we converted excess allowance oil to cash through sales to affiliates of Shell and included gains of $0.9 million and $0.1 million, respectively, from such sales in Operations and maintenance expense. In 2014 we converted excess allowance oil to cash through sales to affiliates of Shell and included loss of $0.4 million from such sales in Operations and maintenance expense.

During the years ended December 31, 2016 and 2015, and the three months ended December 31, 2014, Zydeco, Bengal, Odyssey, Mars, Poseidon, Colonial and Explorer paid cash distributions to us of $253.6 million, $174.5 million, and $33.3 million, respectively, of which $119.6 million, $88.9 million, and $19.0 million respectively, related to Zydeco. For the three months ended December 31, 2014, the pro rata share of distributions received prior to the effective date of our IPO was paid back to SPLC. The total amount paid back to SPLC during 2015 was $11.9 million, of which $6.8 million relates to Zydeco.

For a discussion of services performed by SPLC and Shell on our behalf, see Note 1 – Description of the Business and Basis of Presentation – Basis of Presentation. During 2016, 2015 and 2014, we were allocated $6.1 million, $5.8 million and $9.9 million, respectively, of indirect general corporate expenses incurred by SPLC and Shell which are included within general and administrative expenses in the accompanying consolidated statements of income.

Beginning July 1, 2014, Zydeco entered into the Management Agreement with SPLC under which SPLC provides general management and administrative services to us. We no longer receive allocated corporate expenses from SPLC or Shell. We will continue to receive direct and allocated field and regional expenses, including payroll expenses not covered under the Management Agreement. In addition, beginning October 1, 2015, Pecten entered into an operating and management agreement under which we receive direct and allocated field and regional expenses from SPLC. These expenses are primarily allocated to us on the basis of headcount, labor or other measure. These expense allocations have been determined on a basis that both SPLC and we consider to be a reasonable reflection of the utilization of services provided or the benefit received by us during the periods presented.

The majority of our insurance coverage is provided by Shell with the remaining coverage by third-party insurers. The related party portion of insurance expense in 2016, 2015 and 2014 was $4.0 million, $3.6 million and $5.2 million, respectively.

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

	2016	2015	2014

Operations and maintenance - related parties	$20.7	$18.5	$21.7
General and administrative - related parties [1]	23.1	24.6	17.0

93

SHELL MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) For 2016, 2015 and 2014, we incurred \$7.7 million, \$7.4 million and \$3.5 million, respectively, under the Management Agreement and \$8.5 million, \$8.5 million and \$1.4 million, respectively, under the Omnibus Agreement for general and administrative services.

Pension and retirement savings plans

Employees who directly or indirectly support our operations participate in the pension, postretirement health and life insurance, and defined contribution benefit plans sponsored by Shell, which include other Shell subsidiaries. Our share of pension and postretirement health and life insurance costs for 2016, 2015 and 2014 was \$2.9 million, \$3.0 million and \$3.2 million, respectively. Our share of defined contribution benefit plan costs for 2016, 2015 and 2014 was \$1.1 million, \$1.3 million and \$1.3 million, respectively. Pension and defined contribution benefit plan expenses are included in either general and administrative expenses or operations and maintenance expenses in the accompanying consolidated statements of income, depending on the nature of the employee's role in our operations.

Share-based compensation

Certain SPLC and Shell employees supporting our operations as well as other Shell operations were historically granted awards under the Performance Share Plan ("PSP"), Shell's incentive compensation program. These share-based compensation costs have been allocated to us as part of the cost allocations from Shell related to Ho-Ho (for the periods prior to June 30, 2014) and related to Pecten (for the periods prior to October 1, 2015). Beginning July 1, 2014, we did not receive any allocated share-based compensation for Ho-Ho, and beginning October 1, 2015, we did not receive any allocated share –based compensation for Pecten. Share-based compensation expense is included in general and administrative expenses in the accompanying consolidated statements of income. These costs for 2016, 2015 and 2014 was less than \$0.1 million, less than \$0.1 million and approximately \$0.2 million, respectively.

Equity and Cost Method Investments

We have equity and cost method investments in entities, including Odyssey, Mars, Colonial and Explorer in which SPLC also owns interests. In some cases we may be required to make capital contributions or other payments to these entities. See Note 5 – Equity Method Investments for additional details.

Reimbursements from Our General Partner

The following table reflects other contributions from our Parent in 2016 and 2015:

	2016	2015
Contribution of JV Partner payment [(1)]	\$ —	\$ 4.5
Reimbursement of Zydeco directional drill [(2)]	1.4	2.3
Mars cavern integrity project indemnification [(3)]	—	2.9
Reimbursement for Zydeco FERC rate case [(4)]	—	