Summit Midstream Partners, LP
Form 10-Q
August 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
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: 001-35666
Summit Midstream Partners, LP
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	45-5200503 (I.R.S. Employer Identification No.)
1790 Hughes Landing Blvd, Suite 500 The Woodlands, TX (Address of principal executive offices)	77380 (Zip Code)

(832) 413-4770
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o No
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 o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	As of July 31, 2015
Common Units	41,972,093 units

Subordinated Units	24,409,850 units
General Partner Units	1,354,700 units

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FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as in periodic press releases and certain oral statements made by our officials during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will “will continue,” “will likely result,” and similar expressions, or future conditional verbs such as “may,” “will,” “should,” “wou and “could.” In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries, are also forward-looking statements. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described under Part II—Item 1A. Risk Factors included herein.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements in this paragraph. These risks and uncertainties include, among others:

- fluctuations in natural gas, natural gas liquids ("NGLs") and crude oil prices;
- the extent and success of drilling efforts, as well as the extent and quality of natural gas and crude oil volumes produced within proximity of our assets;
- failure or delays by our customers in achieving expected production in their natural gas and crude oil projects;
- competitive conditions in our industry and their impact on our ability to connect hydrocarbon supplies to our gathering and processing assets or systems;
- actions or inactions taken or non-performance by third parties, including suppliers, contractors, operators, processors, transporters and customers, including the inability or failure of our shipper customers to meet their financial obligations under our gathering agreements;
- our ability to acquire any assets owned by Summit Midstream Partners, LLC ("Summit Investments"), which is subject to a number of factors, including Summit Investments deciding, in its sole discretion, to offer us the right to acquire such assets, the ability to reach agreement on acceptable terms, the approval of the conflicts committee of our general partner's board of directors (if appropriate), prevailing conditions and outlook in the natural gas, NGL and crude oil industries and markets, and our ability to obtain financing on acceptable terms from the credit and/or capital markets or other sources;
- our ability to consummate acquisitions, successfully integrate the acquired businesses, realize any cost savings and other synergies from any acquisition;
- the ability to attract and retain key management personnel;
- commercial bank and capital market conditions and the potential impact of changes or disruptions in the credit and/or capital markets;
- changes in the availability and cost of capital, and the results of our financing efforts, including availability of funds in the credit and/or capital markets;
- restrictions placed on us by the agreements governing our debt instruments;
- the availability, terms and cost of downstream transportation and processing services;
- natural disasters, accidents, weather-related delays, casualty losses and other matters beyond our control;
- operational risks and hazards inherent in the gathering, treating and/or processing of natural gas, crude oil and produced water;
- weather conditions and seasonal trends;
- timely receipt of necessary government approvals and permits, our ability to control the costs of construction, including costs of materials, labor and rights-of-way and other factors that may impact our ability to complete projects within budget and on schedule;

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- the effects of existing and future laws and governmental regulations, including environmental and climate change requirements;
- the effects of litigation;
- changes in general economic conditions; and
- certain factors discussed elsewhere in this report.

Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common units and senior notes.

The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this document may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$26,973	$26,504
Accounts receivable	51,739	89,201
Other current assets	1,648	3,517
Total current assets	80,360	119,222
Property, plant and equipment, net	1,438,798	1,414,350
Intangible assets, net	458,625	477,734
Goodwill	265,062	265,062
Other noncurrent assets	15,908	17,353
Total assets	$2,258,753	$2,293,721
Liabilities and Partners' Capital		
Current liabilities:		
Trade accounts payable	$13,806	$24,855
Due to affiliate	4,936	2,711
Deferred revenue	677	2,377
Ad valorem taxes payable	6,482	9,118
Accrued interest	17,483	18,858
Other current liabilities	11,068	13,550
Total current liabilities	54,452	71,469
Long-term debt	879,000	808,000
Unfavorable gas gathering contract, net	5,239	5,577
Deferred revenue	62,784	55,239
Other noncurrent liabilities	1,343	1,715
Total liabilities	1,002,818	942,000
Commitments and contingencies		
Common limited partner capital (41,972 units issued and outstanding at June 30, 2015 and 34,427 units issued and outstanding at December 31, 2014)	912,661	649,060
Subordinated limited partner capital (24,410 units issued and outstanding at June 30, 2015 and December 31, 2014)	312,269	293,153
General partner interests (1,355 units issued and outstanding at June 30, 2015 and 1,201 units issued and outstanding at December 31, 2014)	31,005	24,676
Summit Investments' equity in contributed subsidiaries	—	384,832
Total partners' capital	1,255,935	1,351,721
Total liabilities and partners' capital	$2,258,753	$2,293,721

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per-unit amounts)			
Revenues:				
Gathering services and related fees	$61,370	$55,858	$122,137	$105,761
Natural gas, NGLs and condensate sales	11,967	26,703	24,580	53,007
Other revenues	3,937	3,423	7,718	6,597
Total revenues	77,274	85,984	154,435	165,365
Costs and expenses:				
Cost of natural gas and NGLs	4,905	15,118	10,289	29,473
Operation and maintenance	21,616	22,797	42,673	44,628
General and administrative	9,374	9,659	19,032	18,712
Transaction costs	595	76	595	612
Depreciation and amortization	23,978	21,435	47,733	41,814
(Gain) loss on asset sales, net	(214)	6	(214)	6
Total costs and expenses	60,254	69,091	120,108	135,245
Other income	—	1	1	2
Interest expense	(12,083)	(10,803)	(24,201)	(17,947)
Income before income taxes	4,937	6,091	10,127	12,175
Income tax benefit (expense)	105	(469)	(72)	(628)
Net income	$5,042	$5,622	$10,055	$11,547
Less: net income attributable to Summit Investments	2,057	1,586	5,403	3,966
Net income attributable to SMLP	2,985	4,036	4,652	7,581
Less: net income attributable to general partner, including IDRs	1,891	801	3,459	1,232
Net income attributable to limited partners	$1,094	$3,235	$1,193	$6,349
Earnings (loss) per limited partner unit:				
Common unit – basic	$0.05	$0.05	$0.04	$0.14
Common unit – diluted	$0.05	$0.05	$0.04	$0.14
Subordinated unit – basic and diluted	$(0.03)	$0.05	$(0.01)	$0.08
Weighted-average limited partner units outstanding:				
Common units – basic	38,278	34,422	36,369	32,179
Common units – diluted	38,461	34,619	36,477	32,360
Subordinated units – basic and diluted	24,410	24,410	24,410	24,410
Cash distributions declared and paid per common unit	$0.565	$0.500	$1.125	$0.980

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Partners' capital Limited partners Common	Subordinated	General partner	Summit Investments' equity in contributed subsidiaries	Total
	(In thousands)				
Partners' capital, January 1, 2014	$566,532	$379,287	$23,324	$523,944	$1,493,087
Net income	3,634	2,715	1,232	3,966	11,547
Distributions to unitholders	(31,169)	(23,922)	(1,658)	—	(56,749)
Unit-based compensation	2,424	—	—	—	2,424
Tax withholdings on vested SMLP LTIP awards	(656)	—	—	—	(656)
Issuance of common units, net of offering costs	197,989	—	—	—	197,989
Contribution from general partner	—	—	4,235	—	4,235
Purchase of Red Rock Gathering	—	—	—	(305,000)	(305,000)
Excess of consideration paid over acquired carrying value of Red Rock Gathering	(36,228)	(25,691)	(1,264)	63,183	—
Cash advance from Summit Investments to contributed subsidiaries, net	—	—	—	22,326	22,326
Expenses paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	7,423	7,423
Capitalized interest allocated from Summit Investments to contributed subsidiaries	—	—	—	331	331
Capital expenditures paid by Summit Investments to contributed subsidiaries	—	—	—	135	135
Repurchase of SMLP LTIP units	(228)	—	—	—	(228)
Class B membership interest unit-based compensation	—	—	—	170	170
Partners' capital, June 30, 2014	$702,298	$332,389	$25,869	$316,478	$1,377,034

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(continued)

	Partners' capital Limited partners Common	Subordinated	General partner	Summit Investments' equity in contributed subsidiaries	Total
	(In thousands)				
Partners' capital, January 1, 2015	$649,060	$293,153	$24,676	$384,832	$1,351,721
Net income	715	478	3,459	5,403	10,055
Distributions to unitholders	(38,769)	(27,462)	(4,388)	—	(70,619)
Unit-based compensation	3,049	—	—	—	3,049
Tax withholdings on vested SMLP LTIP awards	(936)	—	—	—	(936)
Issuance of common units, net of offering costs	222,119	—	—	—	222,119
Contribution from general partner	—	—	4,737	—	4,737
Purchase of Polar and Divide	—	—	—	(290,000)	(290,000)
Excess of acquired carrying value over consideration paid for Polar and Divide	77,423	46,100	2,521	(126,044)	—
Cash advance from Summit Investments to contributed subsidiaries, net	—	—	—	21,719	21,719
Expenses paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	3,084	3,084
Capitalized interest allocated from Summit Investments to contributed subsidiaries	—	—	—	921	921
Class B membership interest unit-based compensation	—	—	—	85	85
Partners' capital, June 30, 2015	$912,661	$312,269	$31,005	$—	$1,255,935

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$10,055	$11,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,196	42,265
Amortization of deferred loan costs	1,591	1,220
Unit-based compensation	3,134	2,594
(Gain) loss on asset sales, net	(214)	6
Changes in operating assets and liabilities:		
Accounts receivable	37,463	14,067
Trade accounts payable	(3,849)	2,481
Due to affiliate	5,162	925
Change in deferred revenue	5,845	8,464
Ad valorem taxes payable	(2,635)	(1,259)
Accrued interest	(1,375)	(894)
Other, net	(1,044)	623
Net cash provided by operating activities	102,329	82,039
Cash flows from investing activities:		
Capital expenditures	(60,175)	(88,033)
Proceeds from asset sales	238	24
Acquisitions of gathering systems from affiliate	(292,941)	(305,000)
Net cash used in investing activities	(352,878)	(393,009)

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

	Six months ended June 30,	
	2015	2014
	(In thousands)	
Cash flows from financing activities:		
Distributions to unitholders	(70,619)	(56,749)
Borrowings under revolving credit facility	122,000	160,000
Repayments under revolving credit facility	(51,000)	(20,000)
Deferred loan costs	(86)	(300)
Tax withholdings on vested SMLP LTIP awards	(936)	(656)
Proceeds from issuance of common units, net	222,119	197,989
Contribution from general partner	4,737	4,235
Cash advance from Summit Investments to contributed subsidiaries, net	21,719	22,326
Expenses paid by Summit Investments on behalf of contributed subsidiaries	3,084	7,423
Repurchase of equity-based compensation awards	—	(228)
Net cash provided by financing activities	251,018	314,040
Net change in cash and cash equivalents	469	3,070
Cash and cash equivalents, beginning of period	26,504	20,357
Cash and cash equivalents, end of period	$26,973	$23,427
Supplemental cash flow disclosures:		
Cash interest paid	$24,731	$17,153
Less: capitalized interest	1,651	4,019
Interest paid (net of capitalized interest)	$23,080	$13,134
Noncash investing and financing activities:		
Capital expenditures in trade accounts payable (period-end accruals)	$10,877	$33,115
Excess of acquired carrying value over consideration paid for Polar and Divide	126,044	—
Capitalized interest allocated to contributed subsidiaries from Summit Investments	921	331
Capital expenditures paid by Summit Investments on behalf of contributed subsidiaries	—	135
Excess of consideration paid over acquired carrying value of Red Rock Gathering	—	(63,183)

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
1. ORGANIZATION, BUSINESS OPERATIONS AND PRESENTATION AND CONSOLIDATION

Organization. Summit Midstream Partners, LP ("SMLP" or the "Partnership"), a Delaware limited partnership, is a growth-oriented limited partnership focused on developing, owning and operating midstream energy infrastructure assets that are strategically located in the core producing areas of unconventional resource basins, primarily shale formations, in North America.

SMLP and its subsidiaries are managed and operated by the board of directors and executive officers of Summit Midstream GP, LLC (the "general partner"). Summit Investments, as the ultimate owner of our general partner, controls us and has the right to appoint the entire board of directors of our general partner, including our independent directors. Our operations are conducted through, and our operating assets are owned by, various wholly-owned operating subsidiaries. Neither SMLP nor its subsidiaries have any employees. All of the personnel that conduct our business are employed by the general partner and its subsidiaries, but these individuals are sometimes referred to as our employees.

As of June 30, 2015, Summit Midstream Partners Holdings, LLC ("SMP Holdings"), a wholly owned subsidiary of Summit Investments, held 5,293,571 SMLP common units, all of our subordinated units, all of our general partner units representing a 2% general partner interest in SMLP and all of our incentive distribution rights ("IDRs").

On May 18, 2015, the Partnership acquired certain crude oil and produced water gathering systems and under-development transmission pipelines held by Polar Midstream, LLC ("Polar Midstream") and Epping Transmission Company, LLC ("Epping") located in the Williston Basin (collectively the "Polar and Divide system") from SMP Holdings (the "Polar and Divide Drop Down"). Polar Midstream and Epping are Delaware limited liability companies formed in April 2014.

Polar Midstream's assets were carved out of Meadowlark Midstream Company, LLC ("Meadowlark Midstream"), a subsidiary of Summit Investments, immediately prior to the Polar and Divide Drop Down. Concurrent with the closing of the Polar and Divide Drop Down, Epping became a wholly owned subsidiary of Polar Midstream and SMLP contributed Polar Midstream (including Epping) to Bison Midstream, LLC ("Bison Midstream"). Because the Polar and Divide system was acquired from subsidiaries of Summit Investments, it was deemed a transaction among entities under common control. Common control began in (i) February 2013 for Polar Midstream and (ii) April 2014 for Epping.

Business Operations. We provide natural gas gathering, treating and processing services as well as crude oil and produced water gathering services pursuant to primarily long-term and fee-based agreements with our customers. Our results are driven primarily by the volumes of natural gas that we gather, treat, compress and process as well as by the volumes of crude oil and produced water that we gather. Our gathering systems and the unconventional resource basins in which they operate are as follows:

- the Mountaineer Midstream system ("Mountaineer Midstream"), a natural gas gathering system located in the Appalachian Basin, which includes the Marcellus Shale formation in northern West Virginia;
- Bison Midstream, an associated natural gas gathering system located in the Williston Basin, which includes the Bakken and Three Forks shale formations in northwestern North Dakota;
- the Polar and Divide system ("Polar and Divide"), a crude oil and produced water gathering system and transmission pipelines (under development) located in the Williston Basin;
- DFW Midstream Services LLC ("DFW Midstream"), a natural gas gathering system located in the Fort Worth Basin, which includes the Barnett Shale formation in north-central Texas; and
- Grand River Gathering, LLC ("Grand River Gathering"), a natural gas gathering and processing system located in the Piceance Basin, which includes the Mesaverde formation and the Mancos and Niobrara shale formations in western Colorado and eastern Utah.

Our operating subsidiaries, which are wholly owned by our wholly owned subsidiary, Summit Midstream Holdings, LLC ("Summit Holdings"), are: DFW Midstream (which includes Mountaineer Midstream); Bison Midstream (and its wholly owned subsidiaries Polar Midstream and Epping); and Grand River Gathering (and its wholly owned subsidiary Red Rock Gathering Company, LLC ("Red Rock Gathering")). All of our operating subsidiaries are focused on the development, construction and operation of natural gas gathering and processing systems and crude oil and produced water gathering systems.

Presentation and Consolidation. We prepare our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These principles are established by the Financial Accounting Standards Board (the "FASB"). The unaudited condensed consolidated financial statements include the assets, liabilities, and results of operations of SMLP and its subsidiaries. All intercompany transactions among the consolidated entities have been eliminated in consolidation.

We make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet dates, including fair value measurements, the reported amounts of revenue and expense, and the disclosure of contingencies. Although management believes these estimates are reasonable, actual results could differ from its estimates.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and the regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. We believe that the disclosures made are adequate to make the information not misleading. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, including normal recurring accruals, which are necessary to fairly present the unaudited condensed consolidated balance sheet as of June 30, 2015, the unaudited condensed consolidated statements of operations for the three- and six-month periods ended June 30, 2015 and 2014, and the unaudited condensed consolidated statements of partners' capital and cash flows for the six-month periods ended June 30, 2015 and 2014. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our annual report on Form 10-K for the year ended December 31, 2014 as filed with the SEC on March 2, 2015 (the "2014 Annual Report"). The results of operations for an interim period are not necessarily indicative of results expected for a full year.

SMLP recognized its acquisitions of (i) Polar Midstream and Epping and (ii) Red Rock Gathering (the "Red Rock Drop Down") at Summit Investments' historical cost of construction or fair value of assets and liabilities at acquisition because the acquisitions were executed by entities under common control. The excess of Summit Investments' net investment in Polar Midstream and Epping was recognized as an addition to partners' capital. The excess of the purchase price paid by SMLP over Summit Investments' net investment in Red Rock Gathering was recognized as a reduction to partners' capital. Due to the common control aspect, the Polar and Divide Drop Down and the Red Rock Drop Down were accounted for by the Partnership on an “as-if pooled” basis for the periods during which common control existed. For the purposes of these unaudited condensed consolidated financial statements, SMLP's results of operations reflect the results of operations of Polar Midstream, Epping and Red Rock Gathering for all periods presented.

The financial position, results of operations and cash flows of Polar Midstream included herein have been derived from the accounting records of Meadowlark Midstream on a carve-out basis. The majority of the assets and liabilities allocated to Polar Midstream have been specifically identified based on Meadowlark Midstream’s existing divisional organization. Goodwill was allocated to Polar Midstream based on initial purchase accounting estimates. Revenues and depreciation and amortization have been specifically identified based on Polar Midstream's relationship to Meadowlark Midstream’s existing divisional structure. Operation and maintenance and general and administrative expenses have been allocated to Polar Midstream based on volume throughput. These allocations and estimates were based on methodologies that management believes are reasonable. The results reflected herein, however, may not reflect what Polar Midstream’s financial position, results of operations or cash flows would have been if Polar Midstream been a stand-alone company.

Reclassifications. Certain reclassifications have been made to prior-year amounts to conform to current-year presentation. In the second quarter of 2015, we evaluated our classification of revenues and concluded that creating an “other revenues” category would provide reporting that was more reflective of our results of operations and how we manage our business. As such, certain revenue transactions that represented the “and other” portions of (i) gathering services and (ii) natural gas, NGLs and condensate sales have been reclassified to other revenues. Other revenues also includes the amortization expense associated with our favorable and unfavorable gas gathering contracts. The amounts reclassified to other revenues for each period presented can be determined based on the total of the other revenues line item and the amount of amortization of favorable and unfavorable gas gathering contracts disclosed in Note 5. Also in the second quarter or 2015, we evaluated our historical classification of electricity expense for Bison Midstream. In connection with the reclassification of certain revenues noted above and to be consistent with the classification of pass-through electricity expense for our other operating segments, we reclassified pass-through electricity expenses for Bison Midstream ($1.4 million and $1.3 million for the three months ended June 30, 2015 and 2014, respectively, and $2.7 million and $2.2 million for the six months ended June 30, 2015 and 2014, respectively) from costs of natural gas and NGLs to operation and maintenance.

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These reclassifications had no impact on total revenues, total costs and expenses, net income, total partners' capital or segment adjusted EBITDA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Comprehensive Income. Comprehensive income is the same as net income for all periods presented.

Environmental Matters. We are subject to various federal, state and local laws and regulations relating to the protection of the environment. Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, and penalties and other sources are charged to expense when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. We accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties or insurers are recorded as assets when their receipt is deemed probable.

Other Significant Accounting Policies. For information on our other significant accounting policies, see Note 2 of the consolidated financial statements included in the 2014 Annual Report.

Recent Accounting Pronouncements. Accounting standard setters frequently issue new or revised accounting rules. We review new pronouncements to determine the impact, if any, on our financial statements. There are currently no recent pronouncements that have been issued that we believe may materially affect our financial statements, except as noted below.

In May 2014, the FASB released a joint revenue recognition standard, Accounting Standards Update ("ASU") No. 2014-09 Revenue From Contracts With Customers (Topic 606) ("ASU 2014-09"). Under ASU 2014-09, revenue will be recognized under a five-step model: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to performance obligations; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. In its original form, ASU 2014-09 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016; early adoption was not permitted. In July 2015, the FASB reaffirmed the guidance in its April 2015 proposed ASU that defers for one year the effective date of the ASU 2014-09 for both public and nonpublic entities reporting under U.S. GAAP and allows early adoption as of the original effective date. We are currently in the process of evaluating the impact of this update.

In February 2015, the FASB issued ASU No. 2015-02—Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The standard changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted. We are currently in the process of evaluating the impact of this update.

In April 2015, the FASB issued ASU No. 2015-03—Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). Under ASU 2015-03, entities that have historically presented debt issuance costs as an asset, related to a recognized debt liability, will be required to present those costs as a direct deduction from the carrying amount of that debt liability. This presentation will result in debt issuance cost being presented the same way debt discounts have historically been handled. This new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted. We are currently in the process of evaluating the impact of this update.

3. SEGMENT INFORMATION

As of June 30, 2015, our reportable segments are:

- the Marcellus Shale, which is served by Mountaineer Midstream;
- the Williston Basin – Gas, which is served by Bison Midstream;
- the Williston Basin – Liquids, which is served by Polar and Divide;
- the Barnett Shale, which is served by DFW Midstream; and
- the Piceance Basin, which is served by Grand River Gathering.

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Each of our reportable segments provides midstream services in a specific geographic area. Within specific geographic areas, we may further differentiate reportable segments by type of gathering service provided. Our reportable segments reflect the way in which we internally report the financial information used to make decisions and allocate resources in connection with our operations.

In the first quarter of 2015, we combined our Red Rock Gathering operating segment with the Grand River Gathering operating segment to become one operating segment serving the Piceance Basin. Prior to 2015, we aggregated the Red Rock Gathering and Grand River Gathering operating segments into the Piceance Basin reportable segment.

In the second quarter of 2015, in connection with the Polar and Divide Drop Down, we identified two reportable segments in the Williston Basin. We had previously only provided natural gas gathering services in the Williston Basin. With the acquisition of Polar Midstream and Epping in May 2015, we now also provide crude oil and produced water gathering services in the Williston Basin. As such, we evaluated the quantitative and qualitative factors for operating segment aggregation in the Williston Basin and concluded that the characteristics for crude oil and produced water gathering services were not sufficiently similar to those of our natural gas gathering services. As a result, we now report the results of Bison Midstream in the Williston Basin – Gas reportable segment and those of Polar Midstream and Epping in the Williston Basin – Liquids reportable segment.

Corporate represents those revenues and expenses that are not specifically attributable to a reportable segment, not individually reportable, or that have not been allocated to our reportable segments. Beginning in the first quarter of 2015, we discontinued allocating certain general and administrative expenses, primarily salaries, benefits, incentive compensation and rent expense, to our operating segments.

Assets by reportable segment follow.

	June 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Marcellus Shale	$239,384	$243,884
Williston Basin – Gas	294,725	311,041
Williston Basin – Liquids	431,951	398,847
Barnett Shale	424,706	428,935
Piceance Basin	833,385	872,437
Total reportable segment assets	2,224,151	2,255,144
Corporate	34,602	38,577
Total assets	$2,258,753	$2,293,721

Revenues by reportable segment follow.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues:				
Marcellus Shale	$7,783	$5,665	$15,622	$11,021
Williston Basin – Gas	7,454	14,819	16,364	31,582
Williston Basin – Liquids	9,906	5,188	18,487	8,367
Barnett Shale	23,823	24,241	47,720	47,277
Piceance Basin	28,308	36,071	56,242	67,118
Total reportable segment revenues and total revenues	$77,274	$85,984	$154,435	$165,365

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Depreciation and amortization by reportable segment follow.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Depreciation and amortization:				
Marcellus Shale	$2,169	$1,861	$4,338	$3,661
Williston Basin – Gas	4,778	4,488	9,476	8,737
Williston Basin – Liquids	1,735	955	3,347	1,692
Barnett Shale	3,902	3,739	7,808	7,376
Piceance Basin	11,210	10,250	22,414	20,063
Total reportable segments	23,794	21,293	47,383	41,529
Corporate	184	142	350	285
Total depreciation and amortization	$23,978	$21,435	$47,733	$41,814

Capital expenditures by reportable segment follow.

	Six months ended June 30,	
	2015	2014
	(In thousands)	
Capital expenditures:		
Marcellus Shale	$637	$10,969
Williston Basin – Gas	8,699	21,884
Williston Basin – Liquids	38,790	24,697
Barnett Shale	1,922	9,856
Piceance Basin	9,734	20,564
Total reportable segments	59,782	87,970
Corporate	393	63
Total capital expenditures	$60,175	$88,033

We assess the performance of our reportable segments based on segment adjusted EBITDA. We define segment adjusted EBITDA as total revenues less total costs and expenses; plus (i) other income excluding interest income, (ii) depreciation and amortization, (iii) adjustments related to minimum volume commitment ("MVC") shortfall payments, (iv) impairments and (v) other noncash expenses or losses, less other noncash income or gains. Segment adjusted EBITDA excludes the effect of allocated corporate expenses, such as certain general and administrative expenses (including compensation-related expenses and professional services fees) interest expense and income tax expense.

Adjustments related to MVC shortfall payments account for (i) the net increases or decreases in deferred revenue for MVC shortfall payments and (ii) our inclusion of expected annual MVC shortfall payments. We include a proportional amount of these historical or expected minimum volume commitment shortfall payments in each quarter prior to the quarter in which we actually recognize the shortfall payment. These adjustments have not been billed to our customers and are not recognized in our consolidated financial statements.

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A reconciliation of income before income taxes to total reportable segment adjusted EBITDA follows.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Reconciliation of Income Before Income Taxes to Segment Adjusted EBITDA:				
Income before income taxes	$4,937	$6,091	$10,127	$12,175
Add:				
Interest expense	12,083	10,803	24,201	17,947
Depreciation and amortization	24,190	21,660	48,196	42,265
Adjustments related to MVC shortfall payments	10,928	10,577	23,268	22,590
Unit-based compensation	1,737	1,446	3,134	2,594
Loss on asset sales	—	6	—	6
Allocated corporate expenses	6,142	2,428	12,000	4,983
Less:				
Interest income	—	1	1	2
Gain on asset sales	214	—	214	—
Total reportable segment adjusted EBITDA	$59,803	$53,010	$120,711	$102,558

Segment adjusted EBITDA by reportable segment follows.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Reportable segment adjusted EBITDA:				
Marcellus Shale	$6,162	$3,837	$12,696	$7,721
Williston Basin – Gas	4,740	4,809	10,075	9,485
Williston Basin – Liquids	6,497	2,626	11,540	3,000
Barnett Shale	15,540	14,958	32,301	29,991
Piceance Basin	26,864	26,780	54,099	52,361
Total reportable segment adjusted EBITDA	$59,803	$53,010	$120,711	$102,558

4. PROPERTY, PLANT, AND EQUIPMENT, NET

Details on property, plant, and equipment, net follow.

	Useful lives	June 30,	December 31,
	(In years)	2015	2014
		(Dollars in thousands)	
Gathering and processing systems and related equipment	30	$1,510,375	$1,462,706
Construction in progress	n/a	48,226	44,447
Other	4-15	29,360	28,871
Total		1,587,961	1,536,024
Less accumulated depreciation		149,163	121,674
Property, plant, and equipment, net		$1,438,798	$1,414,350

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Construction in progress is depreciated consistent with its applicable asset class once it is placed in service. Depreciation expense and capitalized interest were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Depreciation expense	$13,851	$12,000	$27,489	$23,197
Capitalized interest	1,003	2,388	1,651	4,019

5. AMORTIZING INTANGIBLE ASSETS AND UNFAVORABLE GAS GATHERING CONTRACT

Details regarding our intangible assets and the unfavorable gas gathering contract, all of which are subject to amortization, follow.

	June 30, 2015			
	Useful lives (In years)	Gross carrying amount	Accumulated amortization	Net
	(Dollars in thousands)			
Favorable gas gathering contracts	18.7	$24,195	$(8,857)	$15,338
Contract intangibles	12.5	426,464	(93,383)	333,081
Rights-of-way	24.3	125,517	(15,311)	110,206
Total intangible assets		$576,176	$(117,551)	$458,625
Unfavorable gas gathering contract	10.0	$10,962	$(5,723)	$5,239

	December 31, 2014			
	Useful lives (In years)	Gross carrying amount	Accumulated amortization	Net
	(Dollars in thousands)			
Favorable gas gathering contracts	18.7	$24,195	$(8,056)	$16,139
Contract intangibles	12.5	426,464	(75,713)	350,751
Rights-of-way	24.7	123,581	(12,737)	110,844
Total intangible assets		$574,240	$(96,506)	$477,734
Unfavorable gas gathering contract	10.0	$10,962	$(5,385)	$5,577

We recognized amortization expense in other revenues as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Amortization expense – favorable gas gathering contracts	$(375)	$(436)	$(801)	$(870)
Amortization expense – unfavorable gas gathering contract	163	211	338	419

We recognized amortization expense in costs and expenses as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Amortization expense – contract intangibles	$8,835	$8,198	$17,670	$16,160
Amortization expense – rights-of-way	1,293	1,239	2,574	2,457

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The estimated aggregate annual amortization expected to be recognized for the remainder of 2015 and each of the four succeeding fiscal years follows.

	Intangible assets	Unfavorable gas gathering contract
	(In thousands)	
2015	$21,135	$368
2016	42,288	924
2017	41,139	1,047
2018	40,593	1,035
2019	40,838	1,045

6. GOODWILL
We evaluate goodwill for impairment annually on September 30 and whenever events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There have been no impairments of goodwill during the six months ended June 30, 2015.
Annual Impairment Evaluation. We performed our annual goodwill impairment testing as of September 30, 2014 using a combination of the income and market approaches. Details on the results of the annual goodwill impairment testing for all reporting units except those acquired in the Polar and Divide Drop Down are included in our 2014 Annual Report. The assets acquired in the Polar and Divide Drop Down were carved out of Meadowlark Midstream. As such, we elected to apply the historical cost approach to determine the amount of goodwill to assign to Polar Midstream. Our procedures indicated that the remaining goodwill balance at Meadowlark Midstream was entirely attributable to Polar Midstream. We then performed the quantitative analysis for the Polar Midstream reporting unit and determined that the fair value of the Polar Midstream reporting unit substantially exceeded its carrying value, including goodwill as of September 30, 2014. Because the fair value of the Polar Midstream reporting unit exceeded its carrying value, including goodwill, there was no associated impairment of goodwill in connection with our 2014 annual goodwill impairment test and therefore no impairment of the $203.4 million of goodwill that was allocated to the Polar Midstream reporting unit. Because Epping was an organic growth project, it has no goodwill.
Bison Midstream Fourth Quarter 2014 Goodwill Impairment. In the first quarter of 2015, we finalized our calculations of the fair values of the identified assets and liabilities in step two of the December 31, 2014 goodwill impairment testing for the Bison Midstream reporting unit. This process confirmed the preliminary goodwill impairment of $54.2 million that was recognized as of December 31, 2014.
Polar Midstream Fourth Quarter 2014 Goodwill Impairment Evaluation. During the latter part of the fourth quarter of 2014, the declines in prices for natural gas, NGLs and crude oil accelerated, negatively impacting producers in each of our areas of operation. As a result, we considered whether the goodwill associated with our Polar Midstream reporting unit could have been impaired. Our assessment related to the Polar Midstream reporting unit did result in an indication that the associated goodwill could have been impaired.
We noted that the reporting unit had been impacted by the recent price declines thereby increasing the likelihood that the associated goodwill could have been impaired. As such, we concluded that a triggering event occurred during the fourth quarter of 2014 requiring that we test Polar Midstream's goodwill.
In connection therewith, we reperformed our step one analysis as of December 31, 2014. To estimate the fair value of the reporting unit, we utilized two valuation methodologies: the market approach and the income approach. Both of these approaches incorporate significant estimates and assumptions to calculate enterprise fair value for a reporting unit. The most significant estimates and assumptions inherent within these two valuation methodologies are:

- determination of the weighted-average cost of capital;
- the selection of guideline public companies;
- market multiples;
- weighting of the income and market approaches;
- growth rates;

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- commodity prices; and
- the expected levels of throughput volume gathered.

Changes in the above and other assumptions could materially affect the estimated amount of fair value for any of our reporting units.

The results of our step one goodwill impairment testing indicated that the fair value of the Polar Midstream reporting unit substantially exceeded its carrying value, including goodwill as of December 31, 2014. As a result, there was no associated impairment of goodwill in connection with the fourth quarter 2014 triggering event and no impairment of goodwill acquired in connection with the Polar and Divide Drop Down.

Our impairment determinations, in the context of (i) our annual impairment evaluation and (ii) our fourth quarter 2014 evaluations, involved significant assumptions and judgments, as discussed above. Differing assumptions regarding any of these inputs could have a significant effect on the various valuations. As such, the fair value measurements utilized within these models are classified as non-recurring Level 3 measurements in the fair value hierarchy because they are not observable from objective sources. Due to the volatility of the inputs used, we cannot predict the likelihood of any future impairment.

7. DEFERRED REVENUE

A rollforward of current deferred revenue follows.

	Williston Basin - Gas	Barnett Shale	Piceance Basin	Total current
	(In thousands)			
Current deferred revenue, January 1, 2015	$—	$2,377	$—	$2,377
Additions	—	999	—	999
Less: revenue recognized	—	2,699	—	2,699
Current deferred revenue, June 30, 2015	$—	$677	$—	$677

A rollforward of noncurrent deferred revenue follows.

	Williston Basin - Gas	Barnett Shale	Piceance Basin	Total noncurrent
	(In thousands)			
Noncurrent deferred revenue, January 1, 2015	$17,132	$—	$38,107	$55,239
Additions	—	—	7,572	7,572
Less: revenue recognized	27	—	—	27
Noncurrent deferred revenue, June 30, 2015	$17,105	$—	$45,679	$62,784

As of June 30, 2015, accounts receivable included $3.2 million of shortfall billings related to MVC arrangements that can be utilized to offset gathering fees in subsequent periods. Noncurrent deferred revenue at June 30, 2015 represents amounts that provide certain customers the ability to offset their gathering fees over a period up to six years to the extent that the customer's throughput volumes exceeds its MVC.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Variable rate senior secured revolving credit facility (2.44% at June 30, 2015 and 2.67% at December 31, 2014) due November 2018	$279,000	$208,000
5.50% Senior unsecured notes due August 2022	300,000	300,000
7.50% Senior unsecured notes due July 2021	300,000	300,000
Total long-term debt	$879,000	$808,000

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Revolving Credit Facility. We have a senior secured revolving credit facility which allows for revolving loans, letters of credit and swingline loans (the "revolving credit facility"). The revolving credit facility has a $700.0 million borrowing capacity, matures in November 2018, and includes a $200.0 million accordion feature. It is secured by the membership interests of Summit Holdings and those of its subsidiaries. Substantially all of the assets of Summit Holdings and its subsidiaries are pledged as collateral under the revolving credit facility. The revolving credit facility, and Summit Holdings' obligations, are guaranteed by SMLP and each of its subsidiaries.
As of June 30, 2015, we were in compliance with the revolving credit facility's covenants. There were no defaults or events of default during the six months ended June 30, 2015.
Senior Notes. In July 2014, Summit Holdings and its 100% owned finance subsidiary, Summit Midstream Finance Corp. ("Finance Corp.," together with Summit Holdings, the "Co-Issuers"), co-issued $300.0 million of 5.50% senior unsecured notes maturing August 15, 2022 (the "5.5% senior notes"). In June 2013, the Co-Issuers co-issued $300.0 million of 7.50% senior unsecured notes maturing July 1, 2021 (the "7.5% senior notes").
SMLP and all of its subsidiaries other than the Co-Issuers (the "Guarantors") have fully and unconditionally and jointly and severally guaranteed the 5.5% senior notes and the 7.5% senior notes. SMLP has no independent assets or operations. Summit Holdings has no assets or operations other than its ownership of its wholly owned subsidiaries and activities associated with its borrowings under the revolving credit facility, the 5.5% senior notes and the 7.5% senior notes. Finance Corp. has no independent assets or operations and was formed for the sole purpose of being a co-issuer of certain of Summit Holdings' indebtedness, including the 5.5% senior notes and the 7.5% senior notes. There are no significant restrictions on the ability of SMLP or Summit Holdings to obtain funds from their subsidiaries by dividend or loan.
As of June 30, 2015, we were in compliance with the covenants of the 5.5% senior notes and the 7.5% senior notes. There were no defaults or events of default during the six months ended June 30, 2015.
Fair Value of Debt Instruments. A summary of the estimated fair value of our debt financial instruments follows.

	June 30, 2015		December 31, 2014	
	Carrying value	Estimated fair value (Level 2)	Carrying value	Estimated fair value (Level 2)
	(In thousands)			
Revolving credit facility	$279,000	$279,000	$208,000	$208,000
5.5% Senior notes	300,000	286,500	300,000	281,750
7.5% Senior notes	300,000	313,250	300,000	306,750

The revolving credit facility’s carrying value on the balance sheet is its fair value due to its floating interest rate. The fair value for the senior notes is based on an average of nonbinding broker quotes as of June 30, 2015 and December 31, 2014. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value of the senior notes.

9. PARTNERS' CAPITAL

A rollforward of the number of common limited partner, subordinated limited partner and general partner units follows.

	Common	Subordinated	General partner	Total
Units, January 1, 2015	34,426,513	24,409,850	1,200,651	60,037,014
Units issued in connection with the May 2015 Equity Offering (1)	7,475,000	—	152,551	7,627,551
Units issued under SMLP LTIP (2)	70,580	—	1,498	72,078
Units, June 30, 2015	41,972,093	24,409,850	1,354,700	67,736,643

(1) Including issuance to general partner in connection with contributions made to maintain 2% general partner interest.

(2) Net of 19,702 units withheld to meet minimum statutory tax withholding requirements
On May 13, 2015, we completed an underwritten public offering of 6,500,000 common units at a price of $30.75 per unit pursuant to an effective shelf registration statement on Form S-3 previously filed with the SEC (the "May 2015

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Equity Offering"). On May 22, 2015, the underwriters exercised in full their option to purchase an additional 975,000 common units from us at a price of $30.75 per unit. Concurrent with both transactions, our general partner made a capital contribution to us to maintain its 2% general partner interest.

In June 2015, we concurrently executed an equity distribution agreement and filed a prospectus and a prospectus supplement with the SEC for the issuance and sale from time to time of SMLP common units having an aggregate offering price of up to $150.0 million (the "June 2015 ATM Program"). These sales will be made (i) pursuant to the terms of the equity distribution agreement between us and the sales agents named therein and (ii) by means of ordinary brokers' transactions at market prices, in block transactions or as otherwise agreed between us and the sales agents. Sales of our common units may be made in negotiated transactions or transactions that are deemed to be "at-the-market offerings" as defined by SEC Rules. There were no transactions under the June 2015 ATM Program during the period from inception through June 30, 2015.

Polar and Divide Drop Down. On May 18, 2015, we acquired 100% of the membership interests in Polar Midstream and Epping from a subsidiary of Summit Investments. We paid total cash consideration of $290.0 million in exchange for Summit Investments' $416.0 million net investment in Polar Midstream and Epping (see Note 15 for additional information). We recognized a capital contribution from Summit Investments for the difference between cash consideration paid and Summit Investments' net investment in Polar Midstream and Epping. The calculation of the capital contribution and its allocation to partners' capital follow (dollars in thousands).

Summit Investments' net investment in Polar Midstream and Epping		$416,044
Total cash consideration paid to a subsidiary of Summit Investments		290,000
Excess of acquired carrying value over consideration paid		$126,044
Allocation of capital contribution:		
General partner interest	$2,521	
Common limited partner interest	77,423	
Subordinated limited partner interest	46,100	
Partners' capital contribution – excess of acquired carrying value over consideration paid		$126,044

Red Rock Drop Down. On March 18, 2014, we acquired 100% of the membership interests in Red Rock Gathering from a subsidiary of Summit Investments. We paid total cash consideration of $307.9 million (including working capital adjustments accrued in December 2014 and cash settled in February 2015) in exchange for Summit Investments' net investment in Red Rock Gathering. As a result of the excess of the purchase price over acquired carrying value of Red Rock Gathering, SMLP recognized a capital distribution to Summit Investments. The calculation of the capital distribution and its allocation to partners' capital follow (dollars in thousands).

Summit Investments' net investment in Red Rock Gathering		$241,817
Total cash consideration paid to a subsidiary of Summit Investments		307,941
Excess of consideration paid over acquired carrying value		$(66,124)
Allocation of capital distribution:		
General partner interest	$(1,323)	
Common limited partner interest		