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USA Compression Partners, LP
Form 10-K
February 13, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from to

Commission file number: 001-35779

USA Compression Partners, LP

(Exact Name of Registrant as Specified in its Charter)

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Delaware (State or Other Jurisdiction of Incorporation or Organization)	75-2771546 (I.R.S. Employer Identification No.)
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100 Congress Avenue, Suite 450 Austin, TX (Address of Principal Executive Offices)	78701 (Zip Code)
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(512) 473-2662

(Registrant's telephone number, including area code)

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 Partner 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. 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 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. Yes No

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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). 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.

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

Large accelerated filer

Accelerated
filer

Non-accelerated filer

Smaller
reporting
company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common units held by non-affiliates of the registrant (treating directors and executive officers of the registrant's general partner and holders of 5% or more of the common units outstanding, for this purpose, as if they were affiliates of the registrant) as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter was \$369,969,262. This calculation does not reflect a determination that such persons are affiliates for any other purpose.

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As of February 8, 2018, there were 62,194,405 common units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements.” All statements other than statements of historical fact contained in this report are forward-looking statements, including, without limitation, statements regarding our plans, strategies, prospects and expectations concerning our business, results of operations and financial condition. You can identify many of these statements by looking for words such as “believe,” “expect,” “intend,” “project,” “anticipate,” “estimate,” “contingent” or similar words or the negative thereof.

Known material factors that could cause our actual results to differ from those in these forward-looking statements are described below, in Part I, Item 1A (“Risk Factors”) and in Part II, Item 7 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”). Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other things:

- changes in general economic conditions and changes in economic conditions of the crude oil and natural gas industry specifically;
- competitive conditions in our industry;
- changes in the long-term supply of and demand for crude oil and natural gas;
- our ability to realize the anticipated benefits of acquisitions and to integrate the acquired assets with our existing fleet, including the CDM Acquisition (as defined below);
 - actions taken by our customers, competitors and third-party operators;
- the deterioration of the financial condition of our customers;
- changes in the availability and cost of capital;
- operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control;

- the effects of existing and future laws and governmental regulations;
- the effects of future litigation; and
- the failure to consummate the CDM Acquisition.

All forward-looking statements included in this report are based on information available to us on the date of this report and speak only as of the date of this report. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

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ITEM 1. Business

References in this report to “USA Compression,” “we,” “our,” “us,” “the Partnership” or like terms refer to USA Compression Partners, LP and its wholly owned subsidiaries, including USA Compression Partners, LLC (“USAC Operating”) and USAC OpCo 2, LLC (“OpCo 2” and, together with USAC Operating, the “Operating Subsidiaries”). References to our “general partner” refer to USA Compression GP, LLC. References to “USA Compression Holdings” refer to USA Compression Holdings, LLC, the owner of our general partner. References to “USAC Management” refer to USA Compression Management Services, LLC, a wholly owned subsidiary of our general partner. References to “Riverstone” refer to Riverstone/Carlyle Global Energy and Power Fund IV, L.P., and affiliated entities, including Riverstone Holdings, LLC.

Overview

We are a growth-oriented Delaware limited partnership and we believe that we are one of the largest independent providers of compression services in the United States (“U.S.”) in terms of total compression fleet horsepower. We have been providing compression services since 1998 and completed our initial public offering in January 2013. As of December 31, 2017, we had 1,799,781 horsepower in our fleet and 153,020 horsepower on order for expected delivery during 2018 and 2019. We provide compression services to our customers primarily in connection with infrastructure applications, including both allowing for the processing and transportation of natural gas through the domestic pipeline system and enhancing crude oil production through artificial lift processes. As such, our compression services play a critical role in the production, processing and transportation of both natural gas and crude oil.

We provide compression services in a number of shale plays throughout the U.S., including the Utica, Marcellus, Permian Basin, Delaware Basin, Eagle Ford, Mississippi Lime, Granite Wash, Woodford, Barnett, Haynesville, Niobrara and Fayetteville shales. The demand for our services is driven by the domestic production of natural gas and crude oil; as such, we have focused our activities in areas with attractive natural gas and crude oil production growth, which are generally found in these shale and unconventional resource plays. According to studies promulgated by the Energy Information Agency (“EIA”), the production and transportation volumes in these shale plays are expected to increase over the long term due to the comparatively attractive economic returns versus returns achieved in many conventional basins. Furthermore, the changes in production volumes and pressures of shale plays over time require a wider range of compression services than in conventional basins. We believe we are well positioned to meet these changing operating conditions due to the flexibility of our compression units. While our business focuses largely on compression services serving infrastructure applications, including centralized natural gas gathering systems and processing facilities, which utilize large horsepower compression units, typically in shale plays, we also provide compression services in more mature conventional basins, including gas lift applications on crude oil wells targeted by horizontal drilling techniques. Gas lift, a process by which natural gas is injected into the production tubing of an existing producing well, thus reducing the hydrostatic pressure and allowing the oil to flow at a higher rate, and other artificial lift technologies are critical to the enhancement of production of oil from horizontal wells operating in tight shale plays.

We operate a modern fleet of compression units, with an average age of approximately five years. We acquire our compression units from third-party fabricators who build the units to our specifications, utilizing specific components from original equipment manufacturers and assembling the units in a manner that provides us the ability to meet certain operating condition thresholds. Our standard new-build compression units are generally configured for multiple compression stages allowing us to operate our units across a broad range of operating conditions. The design flexibility of our units, particularly in midstream applications, allows us to enter into longer-term contracts and reduces the redeployment risk of our horsepower in the field. Our modern and standardized fleet, decentralized field level operating structure and technical proficiency in predictive and preventive maintenance and overhaul operations have enabled us to achieve average service run times consistently at or above the levels required by our customers.

As part of our services, we engineer, design, operate, service and repair our compression units and maintain related support inventory and equipment. The compression units in our modern fleet are designed to be easily adaptable to fit our customers' changing compression requirements. Focusing on the needs of our customers and providing them with reliable and flexible compression services in geographic areas of attractive growth helps us to generate stable cash flows for our unitholders.

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We provide compression services to our customers under fixed-fee contracts with initial contract terms typically between six months and five years, depending on the application and location of the compression unit. We typically continue to provide compression services at a specific location beyond the initial contract term, either through contract renewal or on a month-to-month or longer basis. We primarily enter into take-or-pay contracts whereby our customers are required to pay our monthly fee even during periods of limited or disrupted throughput, which enhances the stability and predictability of our cash flows. We are not directly exposed to commodity price risk because we do not take title to the natural gas or crude oil involved in our services and because the natural gas used as fuel by our compression units is supplied by our customers without cost to us.

We provide compression services to major oil companies and independent producers, processors, gatherers and transporters of natural gas and crude oil. Regardless of the application for which our services are provided, our customers rely upon the availability of the equipment used to provide compression services and our expertise to help generate the maximum throughput of product, reduce fuel costs and minimize emissions. While we are currently focused on our existing service areas, our customers may have compression demands in other areas of the U.S. in conjunction with their field development projects. We continually consider expansion of our areas of operation in the U.S. based upon the level of customer demand. Our modern, flexible fleet of compression units, which have been designed to be rapidly deployed and redeployed throughout the country, provides us with opportunities to expand into other areas with both new and existing customers.

Our assets and operations are organized into a single reportable segment and are all located and conducted in the U.S. See our consolidated financial statements, and the notes thereto, included elsewhere in this report for financial information on our operations and assets; such information is incorporated herein by reference.

Recent Developments

On January 15, 2018, we entered into a Contribution Agreement (the “Contribution Agreement”) with Energy Transfer Partners, L.P. (“ETP”), Energy Transfer Partners GP, L.P., the general partner of ETP (“ETP GP”), ETC Compression, LLC (“ETC” and, together with ETP and ETP GP, the “Contributors”) and, solely for certain purposes therein, Energy Transfer Equity, L.P. (“ETE” and together with ETP, the “Energy Transfer Parties”), pursuant to which, among other things, ETP will contribute to us, and we will acquire from ETP, all of the issued and outstanding membership interests of CDM Resource Management LLC (“CDM Management”) and CDM Environmental & Technical Services LLC (“CDM E&T” and, together with CDM Management, “CDM”) for aggregate consideration of approximately \$1.7 billion consisting of units representing limited partner interests in the Partnership and an amount in cash equal to \$1.225 billion, subject to certain adjustments (the “CDM Acquisition”).

The CDM Acquisition is expected to close in the first half of 2018, subject to customary closing conditions, including (i) the concurrent closing of the GP Purchase (as defined below), and (ii) the transactions contemplated by the Equity Restructuring Agreement (as defined below), including the Restructuring (as defined below), shall be able to be consummated immediately following the Closing (as defined below), and as otherwise described in the Contribution Agreement (the “Closing”).

On January 15, 2018, and in connection with the execution of the Contribution Agreement, ETE entered into a Purchase Agreement (the “GP Purchase Agreement”) with Energy Transfer Partners, L.L.C. (together with ETE, the “GP Purchasers”), USA Compression Holdings, and, solely for certain purposes therein, R/C IV USACP Holdings, L.P. and ETP, pursuant to which the GP Purchasers will acquire from USA Compression Holdings (i) all of the outstanding limited liability company interests in our general partner, and (ii) 12,466,912 common units (the “GP Purchase”).

On January 15, 2018, and in connection with the execution of the Contribution Agreement, we entered into an Equity Restructuring Agreement (the “Equity Restructuring Agreement”) with our general partner and ETE, pursuant to which, among other things, we, our general partner and ETE have agreed to cancel our incentive distribution rights (the “Cancellation”) and convert our General Partner Interest (as defined in the Equity Restructuring Agreement) into a non-economic general partner interest (the “Conversion” and, together with the Cancellation, the “Restructuring”), in exchange for our issuance of 8,000,000 common units to the general partner, effective at the Closing.

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On January 15, 2018, we entered into a Series A Preferred Unit and Warrant Purchase Agreement (the “Series A Purchase Agreement”) with certain investment funds managed or sub-advised by EIG Global Energy Partners (“EIG”) and other investment vehicles unaffiliated with EIG (collectively, the “Purchasers”) to issue and sell in a private placement (the “Private Placement”) \$500 million in the aggregate of (i) newly authorized and established Series A Perpetual Preferred Units representing limited partner interests in the Partnership (the “Preferred Units”) and (ii) warrants to purchase common units (the “Warrants”). We will issue 500,000 Preferred Units to the Purchasers at a price of \$1,000 per Preferred Unit (the “Preferred Unit Purchase Price”), less a 1.0% structuring and origination fee, for total net proceeds, before expenses, of \$495 million. In addition, we will pay a 1.0% commitment fee to the Purchasers at the closing, as well as reimburse the Purchasers for up to \$400,000 of certain expenses incurred in connection with the transaction. We will also issue two tranches of Warrants to the Purchasers, which will include Warrants to purchase 5,000,000 common units with a strike price of \$17.03 per unit and Warrants to purchase 10,000,000 common units with a strike price of \$19.59 per unit. The Warrants may be exercised by the holders thereof at any time beginning on the one year anniversary of the closing date and before the tenth anniversary of the closing date. Upon exercise of the Warrants, we may, at our option, elect to settle the Warrants in common units on a net basis. The Series A Purchase Agreement contains customary representations, warranties and covenants of the Partnership and the Purchasers. The closing of the Private Placement is subject to customary closing conditions, including that we will have increased the aggregate commitments under our revolving credit facility to (or entered into a similar revolving facility with minimum aggregate commitments of) at least \$1.3 billion.

In connection with the CDM Acquisition, on January 15, 2018, we entered into a commitment letter (the “Bridge Commitment”) with JPMorgan Chase Bank, N.A. and Barclays Bank PLC, as modified by the joinder to commitment letter and bridge fee letter entered into by the Partnership, JPMorgan Chase Bank, N.A. and Barclays Bank PLC with each of Regions Bank, Royal Bank of Canada, Wells Fargo Bank, N.A., MUFG Union Bank, N.A., a member of MUFG, a global financial group, The Bank of Nova Scotia and SunTrust Bank and certain affiliates of such parties (the “Commitment Letter”). The Commitment Letter provides for senior unsecured bridge loans in an aggregate amount up to \$725 million (the “Bridge Loans”). The proceeds of such Bridge Loans may be used (a) to finance a portion of the purchase price of the CDM Acquisition and (b) to pay fees and expenses incurred in connection therewith. The availability of the borrowings is subject to the satisfaction of certain customary conditions. The Bridge Commitment will expire upon the earliest to occur of (1) the Outside Date as defined in the Contribution Agreement (as the same may be extended thereunder), (2) the consummation of the CDM Acquisition without use of the Bridge Loans, (3) the termination of the Contribution Agreement in accordance with its terms, or (4) September 30, 2018. The Bridge Loans are available to backstop a portion of the CDM Acquisition purchase price that we expect to fund with the net proceeds of other debt financing.

Our historical financial and other information in this Annual Report on Form 10-K do not give effect to any of the transactions described in this section titled “Recent Developments.”

Business Strategies

Our principal business objective is to increase the quarterly cash distributions that we pay to our unitholders over time while ensuring the ongoing stability and growth of our business. We expect to achieve this objective by executing on the following strategies:

- Capitalize on the increased need for natural gas compression in conventional and unconventional plays. We expect additional demand for compression services to result from the continuing shift of natural gas production to domestic shale plays as well as the declining production pressures of aging conventional basins. The EIA continues to expect overall natural gas production and transportation volumes, and in particular volumes from domestic shale plays, to increase over the long term. Furthermore, the changes in production volumes and pressures of shale plays over time require a wider range and increased level of compression services than in conventional basins. Our fleet of modern, flexible compression units is capable of being rapidly deployed and redeployed and is designed to operate in multiple compression stages, which will enable us to capitalize on these opportunities both in emerging shale plays and conventional basins.

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- Continue to execute on attractive organic growth opportunities. From 2007 to 2017, we grew the horsepower in our fleet of compression units and our compression revenues each at a compound annual growth rate of 15% primarily through organic growth. We believe organic growth opportunities will continue to be a source of near-term growth and we expect such organic growth levels in 2018 will be consistent with the growth seen in the second half of 2017. We seek to achieve continued organic growth by (i) increasing our business with existing customers, (ii) obtaining new customers in our existing areas of operations and (iii) expanding our operations into new geographic areas.
- Partner with customers who have significant compression needs. We actively seek to identify customers with meaningful acreage positions or significant infrastructure development in active and growing areas. We work with these customers to jointly develop long-term and adaptable solutions designed to optimize their lifecycle compression costs. We believe this is important in determining the overall economics of producing, gathering and transporting natural gas and crude oil. Our proactive and collaborative approach positions us to serve as our customers' compression service provider of choice.
- Pursue accretive acquisition opportunities. While our principal growth strategy is to continue to grow organically, we may pursue accretive acquisition opportunities, including the acquisition of complementary businesses, participation in joint ventures or the purchase of compression units from existing or new customers in conjunction with providing compression services to them. We consider opportunities that (i) are in our existing geographic areas of operations or new, high-growth regions, (ii) meet internally established economic thresholds and (iii) may be financed on reasonable terms.
- Focus on asset utilization. We seek to actively manage our business in a manner that allows us to continue to achieve high utilization rates at attractive service rates while providing us with the most financial flexibility possible. From time to time, we expect the crude oil and natural gas industry to be impacted by the cyclicity of commodity prices. During downturns in commodity prices, producers and midstream operators may reduce their capital spending, which in turn can hinder the demand for compression services. We have the ability, in response to industry conditions, to drastically and rapidly reduce our capital spending, which allows us to avoid financing organic growth with outside capital and aligns our capital spending with the demand for compression services. By reducing organic growth and avoiding new unit deliveries during downturns, we are able to conserve capital and instead focus on the deployment and re-deployment of our existing asset base. With higher utilization, we are better positioned to continue to generate attractive rates of return on our already-deployed capital.
- Maintain financial flexibility. We intend to maintain financial flexibility to be able to take advantage of growth opportunities. Historically, we have utilized our cash flow from operations, borrowings under our revolving credit facility and issuances of equity securities to fund capital expenditures to expand our compression services business. This approach has allowed us to significantly grow our fleet and the amount of cash we generate, while maintaining our debt at levels we believe are manageable for our business. We believe the appropriate management of our financial position and the resulting access to capital positions us to take advantage of future growth opportunities as they arise.

Our Operations

Compression Services

We provide compression services for a monthly service fee. As part of our services, we engineer, design, operate, service and repair our fleet of compression units and maintain related support inventory and equipment. In certain instances, we also engineer, design, install, operate, service and repair certain ancillary equipment used in conjunction with our compression services. We have consistently provided average service run times at or above the levels required by our customers. In general, our team of field service technicians services only our compression fleet and ancillary equipment. In limited circumstances for established customers, we will agree to service third-party owned equipment. We do not own any compression fabrication facilities.

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Our Compression Fleet

The fleet of compression units that we own and use to provide compression services consists of specially engineered compression units that utilize standardized components, principally engines manufactured by Caterpillar, Inc. and compressor frames and cylinders manufactured by Ariel Corporation. Our units can be rapidly and cost effectively modified for specific customer applications. Approximately 98% of our fleet horsepower as of December 31, 2017 was purchased new and the average age of our compression units was approximately five years. Our modern, standardized compression unit fleet is powered primarily by the Caterpillar 3400, 3500 and 3600 engine classes, which range from 401 to 4,735 horsepower per unit. These larger horsepower units, which we define as 400 horsepower per unit or greater, represented 83.0% of our total fleet horsepower (including compression units on order) as of December 31, 2017. In addition, a portion of our fleet consists of smaller horsepower units ranging from 30 horsepower to 399 horsepower that are primarily used in gas lift applications. We believe the young age and overall composition of our compressor fleet result in fewer mechanical failures, lower fuel usage, and reduced environmental emissions.

The following table provides a summary of our compression units by horsepower as of December 31, 2017:

Unit Horsepower	Fleet Horsepower	Number of Units	Horsepower on Order (1)	Number of Units on Order
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