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SHLX - Shell Midstream Partners LP Corporate Call - 2020 SHLX Simplification and Asset Transaction

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CORPORATE PARTICIPANTS

Jamie Parker *Shell Midstream Partners, L.P. - IR Officer*

Kevin M. Nichols *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Shawn J. Carsten *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

CONFERENCE CALL PARTICIPANTS

Derek Bryant Walker *BofA Merrill Lynch, Research Division - VP*

Gabriel Philip Moreen *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Joseph Robert Martoglio *JP Morgan Chase & Co, Research Division - Research Analyst*

Michael Jacob Blum *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Ryan Michael Levine *Citigroup Inc, Research Division - Equity Analyst*

Shneur Z. Gershuni *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Theresa Chen *Barclays Bank PLC, Research Division - Research Analyst*

PRESENTATION

Operator

Good morning. My name is Sydney, and I will be your conference operator today. At this time, I would like to welcome everyone to today's webcast for Shell Midstream Partners. (Operator Instructions) I will now turn the call over to Jamie Parker, Investor Relations Officer. You may begin your conference.

Jamie Parker - *Shell Midstream Partners, L.P. - IR Officer*

Thank you. Welcome to today's webcast for Shell Midstream Partners. With me today are Kevin Nichols, CEO; and Shawn Carsten, CFO.

Slide 2 contains our safe harbor statement, and we will be making forward-looking statements related to future events and expectations during the presentation and Q&A session. Actual results may differ materially from such statements and factors that could cause actual results to be different are included here as well as in today's press release and under risk factors and management discussion and analysis in our filings with the SEC. We will take questions at the end of the presentation.

With that, I'll turn the call over to Kevin.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Thanks, Jamie. Good morning, everyone, and thank you for joining us for what has been a much anticipated moment in the journey of our MLP. Today, we're pleased to announce that we have eliminated -- or we will eliminate our general partner's incentive distribution rights as well as acquire additional assets from Shell. This transaction further reinforces Shell Midstream Partners as a premier MLP by lowering our cost of capital and simplifying our structure. And it positions us well for the future with a strong balance sheet, a robust set of assets that we expect to grow as we move forward.

Let me begin with the assets, which add to our ratable and stable cash flows and provide upside potential as volumes in the Gulf of Mexico are expected to increase in the years to come. So starting with Mattox, we're excited to add this pipeline to our leading Gulf of Mexico portfolio. Built to serve Shell Appomattox host, the pipeline was completed last year and has a capacity of 300,000 barrels per day.

Key thing about Mattox is that it is substantially derisked yet has upside. The commercial contract, an agreement negotiated with the producers, provides the backing of a long-term minimum-monthly commitment for production related to Appomattox and Vicksburg fields. And as we've said in the past, in our experience, producers do not put new hosts in the Gulf of Mexico solely for their initial development. They typically have potential tieback opportunities to explore and connect back to the host for multiphase developments.

And in the case of Appomattox, it is strategically located for potential tiebacks as exploration and appraisal activities continue in the Rydberg, Dover and Fort Sumter areas. These fields are not part of the minimum commitments and could provide upside to the initial volumes. These opportunities fit with our corridor strategy of providing the highways and attracting future production with little to no capital required.

And moving onshore, we're also acquiring the Norco logistics assets. These assets are at the Shell Norco Manufacturing Complex in Southeast Louisiana and are strategic to our sponsor in creating integrated value throughout the hydrocarbon chain. Norco is a 250,000 barrel per day combined refining and chemicals facility, which produces various refined products and base chemicals for further input into other products. This is our first acquisition inside a refinery fence, where we will partner with our sponsor's manufacturing arm and provide integral midstream services, which are the backbone of supply and logistics operations in the plant and keep the refinery running.

The contract structure, again, highlights our ability to derisk our earnings profile as the Norco assets will be backed by a 15-year take-or-pay contract with a Shell affiliate, and it includes the option to extend for an additional 5-year term. We are pleased to add these assets that further diversify our strategic footprint, which we anticipate will continue to provide stable cash flows and access for future growth.

I'll now turn it over to Shawn for the mechanics of the full transaction. Shawn?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Thanks, Kevin. As announced in this morning's press release, as total consideration for the transaction, the partnership will issue 160 million new common units to Shell, along with $1.2 billion in convertible preferred units with a 4% coupon. In addition, our sponsor has agreed to waive $20 million of common unit distributions per quarter for 1 year, that is $80 million in total, beginning with the distributions made in the quarter following the transaction close. Now that said differently, we expect the benefit from this waiver to come in Q2, reducing the payable for Q2 declared distributions.

Again, we believe this shows strong sponsor support, as we have continued access to high-quality assets that underpin integrated value for Shell supported by credit facilities at competitive rates. The IDR elimination also fully aligns the unitholders' economic interest as we move forward and provide a lower overall cost of capital to work from in the future. This transaction is expected to be immediately accretive to unitholders, and we expect it to close in the second quarter of 2020. Now course, that's contingent on customary closing conditions and antitrust review.

The assets acquired are expected to provide an estimated $125 million to $135 million of cash flow from operations during the 12 months following the close of the acquisition. Now one thing to note is that due to recent changes of accounting standards, we expect that the Norco assets will be treated as a failed sale for accounting purposes. As a result, we expect to recognize less earnings as some of the cash payments will only impact the balance sheet.

Now what all this means is that the payment received from Norco will have a portion of the cash payments applied to revenue, interest income, receivable reduction and to deferred revenue to offset future maintenance capital. However, all that said, we expect cash available to the partnership to be largely unaffected by this change in accounting.

Now looking a bit longer term, let me pass back to Kevin to discuss where we see the partnership is heading.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Okay. Thanks, Shawn. As I've said before, the IDR solution is just one piece of the puzzle that we've been putting together. And after today's news, we can provide a more holistic view. And before I turn the page to the future, let me talk about the company that we've built since our IPO in 2014.

In the onshore, we've grown from a small footprint, which we then expanded to include crude storage, terminals, chemicals, natural gas gathering and processing and further into refined products. And we now have a diversified set of assets that span the entire U.S., providing exposure to different customers, geographies and products, many of which have benefited from long-term fee-based contracts. This suite of assets provides us with a diversified stream of stable and ratable cash flows, and we expect it to serve as a strong foundation for Shell Midstream Partners for decades to come.

In the offshore, our pipeline corridors are strategically located and provide the partnership a competitive advantage. These assets have been built over the years and are difficult to replicate and enable us to capture new volumes, providing customers access to key markets as well as trading hubs onshore. This growth has been showcased through our continued delivery of new fields, 16 since 2018, and more recently, attracting Vito, Powernap, Katmai, all with first oil expected in 2021, and these opportunities will continue.

As we said last week, we're working towards expanding the Mars system for an additional 65,000 barrels per day in 2021. And looking further out into 2022 and 2023, there are new projects and new prospects expected to come online, such as Shenandoah, North Platte, Mad Dog 2 as well as various tiebacks like Ballymore, [Hawk Park], Rydberg, just to name a few. And then further out in 2024, as we said in our earnings call last week, we announced the anchor connection to Amberjack for up to 75,000 barrels per day, which will benefit the system well into the future.

Against the backdrop of proven delivery, we've reached a point to reframe how we will grow and at what pace. Our access to our sponsors' robust inventory of high-quality midstream assets has not changed but how we intend to go about growth, will. In 2020, we will build our balance sheet to enhance our optionality for the partnership. And with our stable onshore portfolio and growth in the Gulf, we expect our coverage to grow over time.

We will continue to evaluate how to best deploy this cash either through investing in organic capital projects, returning the capital to investors through increased distributions or through acquisitions. I'm confident in the business and the company's future and we believe this strategy provides an attractive value proposition to investors.

So with that, I'll turn it back over to Shawn to close us out with guidance for 2020. Shawn?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Thanks, Kevin. As mentioned, 2020 will be a year of transition. As we look to build upon our resilient framework for the future, we intend to hold distributions at $0.46 per unit per quarter for the balance of this year. Now along with the waiver from our sponsor, we expect this decision will allow us to internally generate cash flow to fully fund the 2020 distributions as well as the majority of 2020 discretionary spending with no anticipated need to access capital markets.

All of this combined allows Shell Midstream to maintain a conservative balance sheet and a lower cost of capital, which enables us to pursue future organic growth projects, return capital to our unitholders or make further acquisitions from either our sponsor or third parties. We believe that we're on a sustainable path with a diversified portfolio delivering reliable growth as we move forward for years to come.

So in closing, Kevin and I are excited about the path forward. Today's news is the beginning of a new chapter for Shell Midstream Partners. So with all that, we'll take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Shneur Gershuni.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

It's nice to finally have addressed this question after the last bunch of conference calls with respect to the simplification. To start off, I have a few questions. First off, I was wondering if you could walk us through how the premium on the IDRs was decided? It kind of feels like it's about a 33% increase in unit count based on implied IDR cash flows. Many of your peers that have gone through this, we've seen it in kind of the mid-20s in terms of percent of dilution. Just wondering how you ended up kind of at the 33% level? Is it that Shell looks different than other situations that it's still growing where most of them were at the end of their drop down cycle? I was just wondering if you can sort of walk us through the thought process on it.

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Thanks, Shneur. This is Shawn. As you know, it was one package that we negotiated with the complex committee. So all I can offer is that it was a package of assets, included the prefs plus 160 million new units. But as referenced, and I'll let you work through your math, however you'd like to work through your math, the GP take at the time of the transaction was $220 million per year. And as I highlighted earlier, the assets will generate somewhere between $125 million to $135 million. So we expect future growth from, as Kevin highlighted earlier, from organic opportunities that come in 2021 and out.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

And to add to that, the transaction is immediately accretive with all the components of the transaction in place.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

No, I do get that. But I kind of assume that you've acquired that EBITDA, you've paid that multiple on it, and so the IDRs should be kind of viewed kind of separately. It's just -- as you said, it's the $220 million annualized cash flows, but it's a 33% increase in -- when I look at some of the other large simplifications, they were down at 25%, 26% type premiums. So it is larger. Except those situations, they were largely at the end of their drop-down window. So is this reflecting the fact that you expect a lot more asset acquisitions from RDS? I mean you sort of have on Slide 8 future opportunities, but there's no number behind that.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. So we're not providing -- thanks for that. I mean we're not providing guidance around targeted acquisitions or an acquisition amount that we've done in the past. But again, I think we're uniquely positioned in the space with options for growth. We see opportunities for growth for projects like the Mars expansion that we have that are typically very -- are very attractive with low capital to no capital.

In some of the offshore, we have some growth in the base business portfolio. And we continue to have access to the suite of assets at Shell, which we have demonstrated over time with our sponsor that we can acquire quality assets at reasonable prices as it makes sense, and we'll continue to have access to that. But we won't provide the guidance yet on how we go about doing that in the future.

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

But I will highlight, Shneur, we're pretty pleased with this transaction. We think it sets us up for kind of a long-term sustainable MLP without the need to go necessarily to the capital markets. If we have opportunities to grow, we will. And that may or may not include just pulling off of our balance sheet or we may use cash on the balance sheet. So right now, we're focused on running the business from here on out.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

That makes sense. And I get the sense on the growth and so forth. I guess I recognize you're not willing to put a number on what you plan to replenish the funnel at in terms of assets. But is it fair to -- is it fair to assume that it's material and this entrance inside the refinery fence is kind of the strategy of where you're going forward in terms of new opportunities for assets? Is that -- should that be our takeaway, that it's material and you're sort of demonstrating you have many avenues right now with this -- with Norco, for example?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Well, so on that one, as you point out, that is our -- it's a new class of asset for us inside the refinery fence. But I think we've got a trend and a track record here that we've been on -- our phase of our strategy of acquisitions has been to go beyond the initial assets within Shell pipeline, whether it's in our chemicals organization, whether it's offshore, whether it's with our trading and supply with terminals or now with our manufacturing arm.

And I wouldn't limit it to manufacturing or any one part of the business. We have a robust set of assets in the runway that span from upstream to downstream, onshore and offshore, which gives us the opportunity to look at the marketplace and figure out what's the best way to diversify next as we continue to grow the business.

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

And Shneur, as we think about the future, as Kevin highlighted, we're -- we've been very focused on diversifying our portfolio across customers, products and geographies to make sure that we can provide a relatively low-risk investment for our unitholders. And so we will expect to grow our business along those lines with that same message of sustainable and diversified over the long term.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay. One final question, if I may. You're obviously foregoing a distribution increase this year. And listening where the yields are at, that kind of makes sense. But you also have the waiver as well, too, from the parent for the year. I was just wondering if you can sort of talk about your funding strategy kind of on a go-forward basis?

Is the idea here to build a higher retained distributable cash flow as a percentage of your overall organization and that you use that to effectively fund CapEx and drop-downs and it can be an increasing portion of it and there would be less equity issued to the parent on drop-downs in the future and fewer preferreds and so forth? Just wondering if you can talk holistically about the strategy.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. I think, Shneur, I think that is an accurate characterization. I mean if you take a look at the coverage ratio that Shawn has given guidance for in 2020 around the 1/1 after the transaction closes and then we expect that to build upon that. And over time, with the growth in our portfolio, with projects that we have in our base business, growth projects we see coming on stream, yes, we'll look to build the cash position and give ourselves the option to take a look at deploying that excess cash in a number of ways.

We can look at growing the distributions at some point. Again, we can look at organic capital projects like the Mars expansion, and the commercial team is working on a number of different fronts. Or we can look at tapping into the runway and looking at taking pieces of that runway that are sized approximately with what we can do with the cash. I think we aren't giving guidance beyond 2020 around how we'll fund everything. But we have plenty of liquidity on the balance sheet and we're comfortable with the balance sheet and the internally generated cash flow.

Shneur Z. Gershuni - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay. Just to recap, so you would expect to use some of the excess retained DCF to potentially purchase part of the runway, if that's the -- if that was -- that could be part of the funding scheme. Is that fair?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Correct. Now that's one of the options if that yielded the best value versus the other options, but yes.

Operator

And our next question comes from Theresa Chen with Barclays.

Theresa Chen - *Barclays Bank PLC, Research Division - Research Analyst*

Very happy to see the transaction behind us. I wanted to ask about the drop-down. So of the guided cash to ops, $125 million to $135 million, what's the split between Mattox versus the Norco assets there?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

I appreciate the question on that, Theresa, but we're not providing the breakdown between the 2 assets today. It was a single negotiated package, but that's all we're guiding to today is the $125 million to $135 million.

Theresa Chen - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Maybe if I could take a cut at a different way. How much growth do you think there is to the Mattox piece of the cash flows? And when -- in terms of time frame, when would you expect us to get more visibility of the tiebacks and such?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. So we won't give the guidance today, but I think I told you in kind of my opening comments, there's 3 specific fields behind the Appomattox field that are not part of the minimum commitments that are already dedicated to the initial contract. That's the Dover, Fort Sumter and...

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

And Rydberg.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Pardon? And Rydberg, yes. So that Appomattox host has the capability for tiebacks that was envisioned for by, I think, the upstream piece of our business. And they'll look at the initial flows and then they'll look to manage the flows with tiebacks as the host can accommodate and as the pipeline can accommodate. But we're not giving guidance as to when those will come online just yet.

Theresa Chen - *Barclays Bank PLC, Research Division - Research Analyst*

Okay, understood. And in terms of the Norco assets, so there's been some wariness in the market about sponsored MLPs holding inside the fence, midstream assets. How did you come up before with the fees for this transaction and -- sorry, for the assets themselves and such that we wouldn't have to worry about recontracting when the time comes?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. I believe that the fees, we took a look at a number of different things. What I would just say to you that we're comfortable that these fees are competitive with market rates. And everybody involved in the transaction was comfortable with the commercial contracts that we landed on.

Theresa Chen - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And then I guess, lastly, for this piece, what is the maintenance CapEx for the drop-down?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

So Theresa, it's Shawn. We're not providing additional guidance at this moment. Though as we -- once we close the transaction, that will be the normal guidance that we provide on all of our assets in the Q and the K.

Operator

And our next question comes from Gabe Moreen with Mizuho.

Gabriel Philip Moreen - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

I wonder if I could ask -- I'll go back a little bit to the balance sheet and sort of how you viewed it in this transaction and also view it going forward. Just wondering, clearly, fully equitizing this transaction, it seems like you've given yourself a fair amount of balance sheet leeway. Just wondering why you didn't elect to maybe use at least a little bit of debt for the transaction? And then going forward, how conservative do you really want to be here with the balance sheet? Do you want to be sub-3? Do you want to -- are you comfortable with going above 3x? Just wondering if there's a target out there?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Yes. Gabe, this is Shawn. So to your first question, this transaction, what we did, we thought it was the most accretive and best deal for all folks involved, including our unitholders as well as our sponsor. So we chose it to use our pref mainly for -- in terms of securitization and of course, the units as well.

With regards to your question -- the second question around the balance sheet itself, we've always guided somewhere in the neighborhood of 3.5x. But as you remember, back in -- I think it's 2018 now, we actually went well above that, 3.9x or something like that. And then we came back down.

And so we will always maintain a conservative balance sheet because we always want to be in a position with our facilities and with our leverage to be able to jump on opportunities, whether that's an opportunity either through an organic project or an acquisition for either our sponsor or a third party. So we're comfortable with where, we are. We think it's the right mix for today. But I think it also provides us good firepower if we have the opportunities in the future.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

And Shawn, I might add to that, one thing. I think that's actually one of the proof points of strong sponsor support that we've had over the years, and the fact that we've had this attractive funding and we've had the ability to size that funding and -- with few covenants, and be able to address opportunities as we saw them. And I think Shell demonstrated the strong sponsor support there, and we expect that to go forward.

Gabriel Philip Moreen - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Appreciate that. And then if I can -- I know there's been a couple of questions asked on distribution growth and coverage and sustainability. But can I also ask sort of how you're thinking about, look, clearly, Gulf of the Mexico business that you have and as well as a lot of your onshore pipelines, really aren't very capital-intensive relative to other midstream assets. So as we think about coverage ratios, how should we think about, I guess, your base business being a little less capital intensive certainly on a maintenance side and sort of what you feel comfortable with these coverage ratios going forward?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. I think you hit on one piece of it, but I'll add to it and then expand beyond that. I mean certainly, from an offshore perspective, a lot of the investment has been put in place. And it does have a lower kind of profile from a capital or a maintenance expense perspective, offshore, once you put the highways in and you put them in the ocean floor, so to speak. So I think that, that's an accurate characterization.

But I think the other element to that is that our contracts that we have in place associated with many of our assets give us comfort as well in the form of the take-or-pay or minimum volume commitments. So we've derisked the commercial contracts as well. So that gives us a little bit more comfort with a stable, ratable nature of the cash flows as well.

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

And then just to add a little bit, Gabe. I think that right now, we've done the transaction. This will provide us a decent coverage for the near term. And as Kevin highlighted, as we grow the business, whether it's organically or through other acquisitions that we'll have, we expect to have a higher coverage in the future for us to be able to take advantage of those opportunities.

Operator

And our next question comes from Jeremy Tonet with JPMorgan.

Joseph Robert Martoglio - *JP Morgan Chase & Co, Research Division - Research Analyst*

This is Joe on for Jeremy. Wanted to start off with, I guess, coverage, and you guys note, it should increase over time. Just thinking ahead, obviously, organic growth will drive some of the ability for coverage to increase, but you also have the waiver expiring and potentially prefs converting in a couple of years.

Could you talk about if, I guess, if the prefs convert, you still expect coverage to increase? And kind of what are the assumptions around organic growth and potential drop-downs for coverage to increase?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Yes. Thanks, Joe. It's Shawn. So indeed, you kind of highlighted our structure growth over the next few years. We do indeed expect our coverage to grow over time. And we do believe that the pref gives us some good opportunity over the next couple of years with very attractive terms, to be honest, to allow us to continue to build our business. And we expect that as we come out of this over the next years, that coverage will improve, and we'll be able to handle the prefs if the sponsor chooses to convert.

Joseph Robert Martoglio - *JP Morgan Chase & Co, Research Division - Research Analyst*

Okay. And then also, I just want to kind of understand the thought process of the transaction a little more, see, I guess, kind of what was considered in the process. Did you guys consider at all at any point kind of cutting the distribution and increasing financial flexibility that way that could potentially allow some buybacks in a depressed market?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

No. There was never a conversation about cutting distributions, nor do we anticipate cutting distributions going forward.

Operator

And our next question comes from Derek Walker with Bank of America.

Derek Bryant Walker - *BofA Merrill Lynch, Research Division - VP*

Congrats on the announcement. My question has been -- maybe I'm tackling a little bit differently here, but I just want to maybe get where the parent sits post transaction at 69% ownership of Shell? You mentioned going forward potentially acquiring more assets from the sponsor obviously. Do they still have an appetite to take more units?

Obviously, it's -- or is it -- this is sort of the level we should think about? Or when you're acquiring assets from the parent, is it a sort of singles and doubles at this point that you're trying to sort of capture, so that you kind of balance the coverage and the leverage that you kind of alluded to already? Just any sort of thoughts as you kind of see that kind of relationship going forward as you get into, say, the '21, '22-ish time frame.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. So there might be a couple of questions buried in there. I'll take a couple of them, and if I don't answer one of them, you'd want to kind of redirect it again and we'll try. As far as growth in singles and doubles, I think that's -- we've kind of talked about self-funding, not accessing the capital markets. I think that's a fair statement as we build our coverage and we take a look at using excess cash.

Again, I'm really excited about the options that we have. I think we're uniquely positioned. We don't have to go find opportunities out in the marketplace. We have plenty of opportunities with high-quality midstream assets at the runway with our sponsor. Our sponsor has been willing to have us acquire those assets at attractive multiples as we've seen over time. We can do that in pieces and size that appropriately for the growth that we're looking for or that we want to engineer. Or we can look at putting that into capital projects when they make sense, and especially the type of capital projects where we have a low capital for very big types of commercial contracts, especially offshore. So certainly, we'll look at doing that.

With regards to your question around appetite for units, you're right. The sponsor now has -- in the high-60s. I think what I would say about that is that the sponsor as well as the management team here is looking at how do we build this as a long-term sustainable vehicle out in the marketplace. And we've had optionality with our sponsor, and we'll look to take advantage of whatever makes the most amount of sense to maintain that business going forward or sustaining going forward.

Operator

And our next question comes from the line of Michael Blum with Wells Fargo.

Michael Jacob Blum - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Just a couple of more clarifications. One, what is the assumed price for the SHLX common units that you're issuing to the sponsor?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Is this -- are you talking about the convertible preferred stock price or...

Michael Jacob Blum - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

No, I'm talking about the SHLX common units, the 160 million units.

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Yes. So Michael, there isn't an assumed price per se. So it was -- the total compensation for the package was 160 million units and then $1.2 million in prefs.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes.

Michael Jacob Blum - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay. And then should we be thinking about this as kind of one package in total? Or should we be thinking about the common units in exchange for the IDRs and then the prefs in exchange for the assets?

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

Yes. I think as we've said it before, the way it was negotiated with the complex committee, it was one combined transaction. And the elements of that, which we've talked about, represent the transaction, both for the IDR elimination as well as the acquisition of the assets.

Michael Jacob Blum - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay. And then is there any debt at the asset level for these assets you're acquiring?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

No.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

No.

Operator

And our next question comes from Ryan Levine.

Ryan Michael Levine - *Citigroup Inc, Research Division - Equity Analyst*

In terms of the 4 quarters of IDR waivers, how did you decide on 4 quarters? Is it a certain coverage ratio you're trying to achieve and then you are willing to let that lapse? Or is there -- was there another factor?

Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

Yes. I mean there wasn't any kind of deep logic to it other than the sponsor wanting to make sure that the MLP is long-term sustainable. And this provides us some additional coverage over the next year to build our business and build our machine.

As Kevin highlighted earlier, in 2021, we expect Vito, Powernap and some other opportunities to come on. And so I think that -- those additional volumes will help our coverage in the future, and so I think this waiver is very nice. It helps us get over the next several quarters and then we'll not need it in the future.

Ryan Michael Levine - *Citigroup Inc, Research Division - Equity Analyst*

And then maybe speak a little bit to the negotiating dynamics here. The time line to reach this agreement was a little bit longer than many had anticipated. Curious if the recent change in the unit price accelerated the negotiation and made the sponsor more comfortable with the unit count received as consideration in the convertible pref.

Kevin M. Nichols - *Shell Midstream Partners, L.P. - President, CEO & Director of Shell Midstream Partners GP LLC*

No. The -- I would just say outright that the current market situation had nothing to do with the negotiation of the transaction. It's been ongoing for a while. It's an independent process with the complex committee. And they looked at the elements of the deal, trying to position the company sustainably going forward but was not influenced by the current market conditions.

Ryan Michael Levine - *Citigroup Inc, Research Division - Equity Analyst*

Did the unit count and consideration changed since the recent decline in the unit price? Or was this negotiated before the last few days the -- on the -- with corona.

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Shawn J. Carsten - *Shell Midstream Partners, L.P. - CFO, VP & Director of Shell Midstream Partners GP LLC*

So Ryan, we'll just leave it at that, the package, we're happy with it, that the complex committee delivered a fairness opinion and we're comfortable, and we think it's a good deal for both -- for all unitholders.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back to Jamie Parker for further remarks.

Jamie Parker - *Shell Midstream Partners, L.P. - IR Officer*

Yes. We thank you very much for your interest in Shell Midstream Partners. And if you have any additional follow-up questions following today's presentation, please feel free to call me directly. My contact info can be found on the presentation materials as well as on our website, shellmidstreampartners.com.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
