

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*As used in this management's discussion and analysis, unless the context otherwise requires, "we," "us," "our," "Rockies Express" and similar terms refer to Rockies Express Pipeline LLC. This discussion and analysis is based on our financial statements, which are prepared in accordance with GAAP. Certain amounts included in or affecting our financial statements and related disclosures must be estimated, requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. The reported amounts of our assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and liabilities are necessarily affected by our estimates. We evaluate estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. The following discussion and analysis should be read in conjunction with our audited financial statements for the years ended December 31, 2016, 2015, and 2014. For additional information regarding us, please also reference the annual, quarterly and other reports and other information filed by Tallgrass Energy Partners, LP with the Securities and Exchange Commission. Certain terms used and not defined herein have the meaning ascribed to them in the glossary of common industry and measurement terms contained in the most recent Annual Report on Form 10-K for the year ended December 31, 2016 filed by Tallgrass Energy Partners, LP with the Securities and Exchange Commission.*

### Overview

We are engaged in the ownership and operation of the Rockies Express Pipeline, a FERC-regulated natural gas pipeline system with approximately 1,712 miles of transportation pipelines, including laterals, extending from Opal, Wyoming and Meeker, Colorado to Clarington, Ohio and consists of three zones:

- Zone 1 - 328 miles of mainline pipeline from the Meeker Hub in Northwest Colorado, across Southern Wyoming to the Cheyenne Hub in Weld County, Colorado capable of transporting 2.0 Bcf/d of natural gas from west-to-east;
- Zone 2 - 714 miles of mainline pipeline from the Cheyenne Hub to an interconnect in Audrain County, Missouri capable of transporting 1.8 Bcf/d of natural gas from west-to-east; and
- Zone 3 - 643 miles of mainline pipeline from Audrain County, Missouri to Clarington, Ohio, which is bi-directional and capable of transporting 1.8 Bcf/d of natural gas from west-to-east and 2.6 Bcf/d of natural gas from east-to-west.

The following tables provide information regarding the Rockies Express Pipeline as of December 31, 2016 and for the years ended December 31, 2016, 2015, and 2014:

	Year Ended December 31,			
	2016	2015	2014	
Approximate average daily deliveries (Bcf/d) <sup>(1)</sup> .....	3.2	2.5	1.7	
	Approximate Capacity	Total Firm Contracted Capacity <sup>(2)</sup>	Approximate % of Capacity Subscribed under Firm Contracts	Weighted Average Remaining Firm Contract Life <sup>(3)</sup>
West-to-east.....	2.0 Bcf/d	1.5 Bcf/d	75%	4 years
East-to-west.....	2.6 Bcf/d <sup>(4)</sup>	2.6 Bcf/d	100%	16 years

<sup>(1)</sup> Reflects average total daily deliveries for the Rockies Express Pipeline, regardless of flow direction or distance traveled.

<sup>(2)</sup> Reflects total capacity reserved under long-term firm fee contracts as of December 31, 2016. West-to-east firm contracted capacity excludes the 0.2 Bcf/d to be contracted with Ultra as part of the settlement agreement discussed in "Recent Developments" below.

<sup>(3)</sup> Weighted by contracted capacity as of December 31, 2016. Weighted average remaining firm contract life of west-to-east contracts excludes the 0.2 Bcf/d contract with Ultra beginning December 1, 2019 as discussed under "Recent Developments" below. After giving effect to the Ultra contract agreement reached in January 2017, the weighted average life of the west-to-east contract lives would be approximately 5 years.

<sup>(4)</sup> East-to-west capacity of 2.6 Bcf/d is inclusive of the Rockies Express Zone 3 Capacity Enhancement Project completed in January 2017 that added an incremental 0.8 Bcf/d of east-to-west capacity within Zone 3.

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We generate revenue primarily by providing transportation services to third-party natural gas producers, processors, marketers, distribution utilities, industrial end-users, power plants and other shippers. Pursuant to our transportation service agreements and FERC tariff provisions, the Rockies Express Pipeline offers its customers firm and interruptible gas transportation, park and loan services, pooling and wheeling services and booster compression services. Our primary source of revenue is from firm transportation service. Under our tariff, firm transportation customers pay a two-part rate that includes (i) a fixed-fee which reserves the right to transport natural gas in our facilities and (ii) a per-unit commodity rate and other fuel rates and tariff surcharges based on actual volumes transported. Our firm transportation reservation rates represented approximately 98% of our total transportation revenues for each of the years ended December 31, 2016 and 2015. In addition to firm transportation, we offer interruptible service, where there is no fixed-fee associated with the service because the customer accepts the possibility that service may be interrupted in order to serve customers who have purchased firm service. Our interruptible service customers pay a per-unit rate based on actual volumes transported, a fuel charge, and other applicable surcharges. We also receive fees for park and loan services, which allow customers to balance deliveries and receipts at designated points on our pipeline on an interruptible basis; for pooling and wheeling services, which allow customers to bundle smaller quantities of gas from different suppliers into larger, more marketable quantities of gas; and for booster compression services, which allow customers to bring gas onto the Rockies Express Pipeline from lower pressure sources.

## **Recent Developments**

### *Zone 3 Capacity Enhancement Project*

In January 2017, we placed in-service the full 0.8 Bcf/d of incremental east-to-west capacity within Zone 3 of the Rockies Express Pipeline.

### *Ultra Settlement*

In early 2016, Ultra defaulted on its firm transportation service agreement with Rockies Express for approximately 0.2 Bcf/d through November 11, 2019 on the Rockies Express Pipeline and on April 14, 2016, Rockies Express filed a lawsuit against Ultra for breach of contract and damages in Harris County, Texas, seeking approximately \$303 million in damages and other relief. On April 29, 2016, Ultra and certain of its debtor affiliates filed for protection under Chapter 11 of the U.S. Bankruptcy Code in U.S. Bankruptcy Court for the Southern District of Texas, which operated as a stay of the Harris County state court proceeding.

On January 12, 2017, Rockies Express and Ultra entered an agreement to settle Rockies Express' approximately \$303 million claim against Ultra's bankruptcy estate. The settlement agreement includes Ultra's agreement to: (i) make a cash payment to Rockies Express of \$150 million in accordance with the plan of reorganization, but no later than October 30, 2017; and (ii) enter a new, seven-year firm transportation agreement with Rockies Express commencing December 1, 2019, for west-to-east service of 0.2 Bcf/d at a rate of approximately \$0.37, or approximately \$26.8 million annually. The settlement is part of Ultra's Chapter 11 reorganization plan, which must be submitted to the U.S. Bankruptcy Court for approval.

## **Results of Operations**

### *Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015*

Total revenues were \$715.1 million for the year ended December 31, 2016 compared to \$781.1 million for the year ended December 31, 2015, which represents an decrease of \$66.0 million, or 8%. The decrease in revenue was primarily driven by a \$63.9 million decrease in transportation services revenue. The decrease in transportation services revenue was primarily attributable to a \$113.2 million decrease resulting from a contract extension during the first quarter of 2016 and a \$68.9 million decrease in revenue due to contract terminations, partially offset by increased revenue for the full year of 2016 of \$124.3 million from east-to-west contracts effective in August 2015.

Total operating income was \$347.7 million for the year ended December 31, 2016 compared to \$427.4 million for the year ended December 31, 2015, which represents a decrease of \$79.7 million, or 19%. The decrease in operating income was due to decreased revenues of \$66.0 million, as discussed above, and increased operating costs and expenses of \$13.7 million. The \$13.7 million increase in operating costs and expenses was primarily driven by a \$13.2 million increase in general and administrative expenses due to bad debt expense in the first quarter of 2016 related to the Ultra contract, which was terminated effective in April 2016, increased depreciation and amortization of \$4.9 million as a result of assets placed in service in 2016 and late 2015, and increased operations and maintenance costs of \$3.6 million due to increased integrity project spending. These increased operating costs and expenses were partially offset by a \$3.7 million decrease in the cost of transportation services driven by mark-to-market adjustments on our fuel tracker liabilities, a \$2.3 million decrease in the cost of natural gas sales driven by lower natural gas sales, and a \$2.0 million decrease in taxes, other than income taxes, due to revised property tax estimates as a result of successful appeals with state taxing authorities on the assessed value of property.

## **Liquidity and Capital Resources**

### ***Primary Uses of Cash***

Our primary uses of cash, in addition to normal operating and general and administrative expenses, are for distributions of available cash to our Members, debt service and maintenance and expansion capital expenditures. Under our limited liability company agreement, available cash is generally defined as all of our unrestricted cash and cash equivalents less any amounts that have been set aside by our board of directors to maintain reasonably adequate reserves for our operations or any other purpose determined by our board of directors.

We intend to fund our short-term working capital requirements and maintenance capital expenditures through cash from operations, cash on hand, or borrowings under our revolving credit facility. We expect to refinance or repay our outstanding existing notes with contributions from Members, additional issuances of long-term debt, or with cash from operations. We currently expect to fund capital expenditures necessary to implement our business strategy primarily through a combination of cash flow from operations and contributions from Members.

### ***Revolving Credit Facility***

On October 1, 2015, we entered into a \$150 million senior unsecured revolving credit facility ("the revolving credit facility") with Wells Fargo Bank, N.A., as administrative agent, and a syndicate of lenders, which will mature on January 31, 2020. The revolving credit facility includes a \$75 million sublimit for letters of credit and a \$20 million sublimit for swing line loans and may be used for working capital and general company purposes. The revolving credit facility also contains an accordion feature whereby Rockies Express can increase the size of the credit facility to an aggregate of \$200 million, subject to receiving increased or new commitments from lenders and the satisfaction of certain other conditions precedent. As of December 31, 2016, there were no outstanding borrowings or letters of credit issued under the revolving credit facility.

Borrowings under the credit facility bear interest, at our option, at either (a) a base rate, which will be a rate equal to the greatest of (i) the prime rate, (ii) the U.S. federal funds rate plus 0.5% and (iii) a one-month reserve adjusted Eurodollar rate plus 1.00% or (b) a reserve adjusted Eurodollar rate, plus, in each case, an applicable margin. For borrowings bearing interest based on the base rate, the applicable margin is initially 1.00%, and for loans bearing interest based on the reserve adjusted Eurodollar rate, the applicable margin is initially 2.00%. After the first full fiscal quarter, the applicable margin will range from 0.50% to 1.25% for base rate borrowings and 1.50% to 2.25% for reserve adjusted Eurodollar rate borrowings, based upon our total leverage ratio. The unused portion of the credit facility is subject to a commitment fee, which ranges from 0.20% to 0.45% based upon Rockies Express' total leverage ratio.

We have the option to have the applicable margin determined based on our credit ratings should Rockies Express receive an investment grade credit rating from one or more of the ratings agencies in the future. If we were to make an election to exercise this option, the applicable margin would range from 0.125% to 1.00% for base rate borrowings and 1.125% to 2.00% for reserve adjusted Eurodollar borrowings, based on our credit ratings. Under such an election, the commitment fee would range from 0.125% to 0.40%, also based on our credit ratings.

### ***Contributions from Members***

During the years ended December 31, 2016, 2015, and 2014, we received contributions from Members of \$304.9 million, \$733.1 million, and \$165.7 million, respectively. Contributions from Members during the year ended December 31, 2016 were primarily used to fund the construction and other costs of the Zone 3 Capacity Enhancement project, as discussed in Note 9 – *Regulatory Matters*. Contributions from Members during the year ended December 31, 2015 were used to repay the 2015 Notes, as discussed in Note 4 – *Financing*, fund the construction and other costs of the Zone 3 East-to-West Project facilities and the Zone 3 Capacity Enhancement project and remaining costs associated with the Seneca Lateral Project facilities, and to increase cash on hand for working capital needs. Contributions from Members during the year ended December 31, 2014 were used to fund the construction and other costs of the Seneca Lateral Project facilities as well as to increase cash on hand for working capital needs.

## ***Cash Flows***

We have steady revenue and cash flows as the result of long-term firm transportation service contracts for substantially all of our pipeline's design capacity. These commitments provide the company with fixed monthly reservation revenues for the primary term of most of our west-to-east contracts into 2019, with, in one case an option to reduce the contractual commitment by 0.2 Bcf/d which was exercised in November 2014. We continue to make progress on a number of re-contracting options, including, for example, the Encana contract extension executed during the second quarter of 2016 which extends Encana's contract to 2024, and the Ultra Settlement discussed above. The Seneca Lateral Project facilities include contracts for 0.6 Bcf/d with a weighted average life of 12 years, the additional east-to-west transportation capacity within Zone 3 includes contracts for 1.2 Bcf/d with a weighted average life of 19 years, and the Zone 3 Capacity Enhancement project which increased east-to-west transport capacity by an additional 0.8 Bcf/d, all of which is under contract for a 15 year term. Mitigation initiatives have and will continue to involve capital expenditures for the construction of additional infrastructure. The following discussion of cash flows should be read in conjunction with our audited financial statements for the years ended December 31, 2016, 2015, and 2014.

### ***Cash Flows From Operating Activities***

Net cash provided by operating activities was \$545.1 million for the year ended December 31, 2016 compared to \$470.4 million for the year ended December 31, 2015. The overall increase in net cash provided by operating activities was driven by increased operating results, an increase in customer deposits received during the year related to the Zone 3 Capacity Enhancement project, and an overall increase in cash provided by changes in working capital.

### ***Cash Flows From Investing Activities***

Net cash used in investing activities was \$308.0 million for the year ended December 31, 2016 compared to \$283.8 million for the year ended December 31, 2015. Capital expenditures of \$305.7 million for the year ended December 31, 2016 were primarily related to the Zone 3 Capacity Enhancement project. Capital expenditures of \$281.9 million for the year ended December 31, 2015 were primarily related to the Zone 3 East-to-West Project facilities, the Zone 3 Capacity Enhancement project, and remaining costs associated with the Seneca Lateral Project facilities.

### ***Cash Flows From Financing Activities***

Net cash used in financing activities was \$166.7 million for the year ended December 31, 2016 compared to \$216.6 million for the year ended December 31, 2015. Net cash used in financing activities during the year ended December 31, 2016 represents outflows of \$471.6 million in distributions to Members, partially offset by contributions from Members of \$304.9 million. Net cash used in financing activities during the year ended December 31, 2015 represents distributions to Members of \$499.0 million and the repayment of senior notes due in April 2015 of \$450 million, partially offset by contributions from Members of \$733.1 million.

## **Forward-Looking Statements**

Disclosures in this discussion and analysis contain "forward-looking statements." All statements, other than statements of historical facts, included in this discussion and analysis that address activities, events or developments that management expects, believes or anticipates will or may occur in the future are forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this discussion and analysis specifically include the submission of the settlement with Ultra to the U.S. Bankruptcy Court for approval and the implementation of Ultra's Chapter 11 plan of reorganization. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control, which may cause actual results to differ materially from those implied or expressed by the forward-looking statements, and other important factors that could cause actual results to differ materially from those projected. Any forward-looking statement applies only as of the date on which such statement is made and we do not intend to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.