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

FORM 10-Q

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED September 30, 2019

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-38919

Rattler Midstream LP
(Exact Name of Registrant As Specified in Its Charter)

DE	**83-1404608**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
500 West Texas **Suite 1200** **Midland, TX**	**79701**
(Address of principal executive offices)	**(Zip code)**

(432) 221-7400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Units	RTLR	The Nasdaq Stock Market LLC (NASDAQ Global Select Market)

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 ☒ *
*The registrant became subject to such requirements on May 28, 2019, and it has filed all reports so required since that date.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	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 ☒

As of November 1, 2019, the registrant had outstanding 43,700,000 common units representing limited partner interests and 107,815,152 Class B units representing limited partner units.

RATTLER MIDSTREAM LP

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2019

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GLOSSARY OF OIL AND NATURAL GAS TERMS

The following is a glossary of certain oil and natural gas industry terms used in this Quarterly Report on Form 10-Q (this "report"):

Basin	A large depression on the earth's surface in which sediments accumulate.
Bbl or barrel	One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to crude oil, natural gas liquids or other liquid hydrocarbons.
Bbl/d	Bbl per day.
BOE	Barrels of crude oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.
BOE/d	Boe per day.
British Thermal Unit or Btu	The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Completion	The process of treating a drilled well, followed by the installation of permanent equipment for the production of natural gas or oil or, in the case of a dry hole, the reporting of abandonment to the appropriate agency.
Condensate	Liquid hydrocarbons associated with production that is primarily natural gas.
Crude oil	Liquid hydrocarbons found in the earth, which may be refined into fuel sources.
Dry hole or dry well	A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.
Field	The general area encompassed by one or more crude oil or natural gas reservoirs or pools that are located on a single geologic feature, or that are otherwise closely related to such geologic feature (either structural or stratigraphic).
Hydraulic Fracturing	The process of creating and preserving a fracture or system of fractures in a reservoir rock, typically by injecting a fluid under pressure through a wellbore and into the targeted formation.
Hydrocarbon	An organic compound containing only carbon and hydrogen.
MBbl	One thousand barrels.
MBbl/d	One thousand barrels per day.
Mcf	One thousand cubic feet of natural gas.
Mcf/d	One thousand cubic feet of natural gas per day.
MMBbl	One million barrels.
MMBbl/d	One million barrels per day.
MMBtu	One million British Thermal Units.
Natural Gas	Hydrocarbon gas found in the earth, composed of methane, ethane, butane, propane and other gases.
Operator	The individual or company responsible for the exploration and/or production of a crude oil or natural gas well or lease.
Play	A set of discovered or prospective crude oil and/or natural gas accumulations sharing similar geologic, geographic and temporal properties, such as source rock, reservoir structure, timing, trapping mechanism and hydrocarbon type.
Plugging and abandonment	Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.
Reserves	Estimated remaining quantities of crude oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering crude oil and natural gas or related substances to the market and all permits and financing required to implement the project. Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., potentially recoverable resources from undiscovered accumulations).

Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or crude oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.
SWD	Saltwater disposal.
Throughput	The volume of product transported or passing through a pipeline, plant, terminal or other facility.

GLOSSARY OF CERTAIN OTHER TERMS

The following is a glossary of certain other terms used in this report:

Diamondback	Diamondback Energy, Inc., a Delaware corporation, and, where applicable, its subsidiaries other than the Partnership and its subsidiaries (including the Operating Company).
Exchange Act	The Securities Exchange Act of 1934, as amended.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting principles generally accepted in the United States.
General Partner	Rattler Midstream GP LLC, a Delaware limited liability company; the general partner of the Partnership and a wholly-owned subsidiary of Diamondback.
IPO	The Partnership's initial public offering.
Nasdaq	The Nasdaq Global Select Market.
Operating Company	Rattler Midstream Operating LLC, a Delaware limited liability company and a consolidated subsidiary of the Partnership.
Partnership	Rattler Midstream LP, a Delaware limited partnership.
Predecessor	The Operating Company, prior to May 28, 2019 for accounting purposes.
SEC	Securities and Exchange Commission.
Securities Act	The Securities Act of 1933, as amended.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "may," "continue," "predict," "potential," "project," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed in this report could affect our actual results and cause our actual results to differ materially from expectations, estimates or assumptions expressed, forecasted or implied in such forward-looking statements.

Forward-looking statements may include statements about:

- Diamondback's ability to meet its drilling and development plans on a timely basis or at all;
- changes in general economic conditions;
- competitive conditions in our industry;
- actions taken by third party operators, gatherers, processors and transporters;
- the demand for and costs of conducting midstream infrastructure services;
- our ability to successfully implement our business plan;
- our ability to complete internal growth projects on time and on budget;
- our ability to identify, complete and effectively integrate acquisitions into our operations;
- our ability to achieve anticipated synergies, system optionality and accretion associated with acquisitions;
- the results of our investments in joint ventures;
- the price and availability of debt and equity financing;
- the availability and price of crude oil and natural gas to the consumer compared to the price of alternative and competing fuels;
- competition from the same and alternative energy sources;
- energy efficiency and technology trends;
- operating hazards and other risks incidental to our midstream services;
- natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- interest rates;
- labor relations;
- defaults by Diamondback under our commercial agreements;
- our lack of asset and geographic diversification;

- changes in availability and cost of capital;
- increases in our tax liability;
- the effect of existing and future laws and government regulations;
- terrorist attacks or cyber threats;
- the effects of future litigation; and
- certain factors discussed elsewhere in this report.

All forward-looking statements speak only as of the date of this report or, if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities laws. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Rattler Midstream LP
Consolidated Balance Sheets
(Unaudited)

	September 30, 2019	December 31, 2018*
	(In thousands, except unit amounts)	
Assets		
Current assets:		
Cash	$ 2,694	$ 8,564
Accounts receivable—related party	29,858	18,274
Accounts receivable—third party	2,894	1,849
Fresh water inventory	13,039	9,200
Other current assets	615	4,209
Total current assets	49,100	42,096
Property, plant and equipment:		
Land	88,509	70,373
Property, plant and equipment	883,724	415,888
Accumulated depreciation, amortization and accretion	(53,166)	(28,317)
Property, plant and equipment, net	919,067	457,944
Right of use assets	742	—
Equity method investments	224,990	—
Real estate assets, net	99,664	93,023
Intangible lease assets, net	8,754	10,954
Other assets	3,931	—
Total assets	$ 1,306,248	$ 604,017

See accompanying notes to consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

Rattler Midstream LP
Consolidated Balance Sheets - Continued
(Unaudited)

	September 30, 2019	December 31, 2018*
	(In thousands, except unit amounts)	
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable—third party	$ 104	$ 100
Other accrued liabilities	73,066	51,804
Taxes payable	108	11,514
Short-term lease liability	742	—
Total current liabilities	74,020	63,418
Long-term debt	103,000	—
Asset retirement obligations	9,520	561
Deferred income taxes	4,560	12,912
Total liabilities	191,100	76,891
Commitment and contingencies (Note 17)		
Unitholders' equity:		
Limited partners member's equity—Diamondback	—	527,125
General partner—Diamondback	1,000	—
Common units—public (43,700,000 units issued and outstanding as of September 30, 2019)	738,699	—
Class B units—Diamondback (107,815,152 units issued and outstanding as of September 30, 2019)	1,000	1
Total Rattler Midstream LP unitholders' equity	740,699	527,126
Non-controlling interest	374,449	—
Total equity	1,115,148	527,126
Total liabilities and unitholders' equity	$ 1,306,248	$ 604,017

See accompanying notes to consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

Rattler Midstream LP
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018*	2019	2018*
		Predecessor		Predecessor
	(In thousands, expect per unit amounts)			
Revenues:				
Revenues—related party	$ 104,866	$ 46,369	$ 296,508	$ 124,170
Revenues—third party	6,840	(82)	15,405	279
Rental income—related party	1,399	672	3,370	1,683
Rental income—third party	1,894	2,087	5,999	6,053
Other real estate income—related party	111	707	265	779
Other real estate income—third party	305	(452)	818	—
Total revenues	115,415	49,301	322,365	132,964
Costs and expenses:				
Direct operating expenses	29,789	8,458	76,381	24,656
Cost of goods sold (exclusive of depreciation and amortization)	17,350	10,850	46,252	24,368
Real estate operating expenses	742	553	1,963	1,371
Depreciation, amortization and accretion	11,736	6,039	31,798	17,830
General and administrative expenses	3,240	729	7,677	1,409
(Gain) loss on sale of property, plant and equipment	—	—	(4)	2,568
Total costs and expenses	62,857	26,629	164,067	72,202
Income from operations	52,558	22,672	158,298	60,762
Other income (expense):				
Interest expense, net	(553)	—	(638)	—
Expense from equity investments	(631)	—	(695)	—
Total other income (expense)	(1,184)	—	(1,333)	—
Net income before income taxes	51,374	22,672	156,965	60,762
Provision for income taxes	3,294	4,892	22,850	13,114
Net income after taxes	$ 48,080	$ 17,780	$ 134,115	$ 47,648
Net income before initial public offering			$ 65,995	
Net income subsequent to initial public offering			$ 68,120	
Net income attributable to non-controlling interest subsequent to initial public offering	36,549		51,786	
Net income attributable to Rattler Midstream LP	$ 11,531		$ 16,334	
Net income attributable to common limited partners per unit - subsequent to initial public offering:				
Basic	$ 0.26		$ 0.37	
Diluted	$ 0.26		$ 0.37	
Weighted average number of limited partner units outstanding:				
Basic	43,700		43,564	
Diluted	44,836		44,710	

See accompanying notes to consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

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Rattler Midstream LP
Consolidated Statements of Changes in Unitholders' Equity
(Unaudited)

	Predecessor	Partnership						
	Limited Partners Member's Equity	Limited Partners				General Partner	Non-Controlling Interest	
	Amount	Common Units	Amount	Class B Units	Amount	Amount	Amount	Total
	(In thousands)							
Balance at December 31, 2018*	$ 527,125	—	$ —	—	$ 1	$ —	$ —	$ 527,126
Contributions from Diamondback	458,674		—		—	—	—	458,674
Net income	39,356		—		—	—	—	39,356
Balance at March 31, 2019	1,025,155	—	—	—	1	—	—	1,025,156
Net income prior to the offering	26,639		—		—	—	—	26,639
Distributions prior to the offering	(33,712)		—		—	—	—	(33,712)
Balance at May 28, 2019	1,018,082	—	—	—	1	—	—	1,018,083
Net proceeds from the offering - public	—	43,700	719,627		—	—	—	719,627
Net proceeds from the offering - General Partner	—		—		—	1,000	—	1,000
Net proceeds from the offering - Diamondback	—		—	107,815	999	—	—	999
Unit-based compensation	—		831		—	—	—	831
Elimination of current and deferred tax liabilities	31,094		—		—	—	—	31,094
Allocation of net investment to unitholder	(322,663)		—		—	—	322,663	—
Distributions to Diamondback (Note 1)	(726,513)		—		—	—	—	(726,513)
Net income subsequent to the offering	—		4,803		—	—	15,237	20,040
Balance at June 30, 2019	$ —	43,700	$ 725,261	107,815	$ 1,000	$ 1,000	$ 337,900	$ 1,065,161

See accompanying notes to consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

Rattler Midstream LP
Consolidated Statements of Changes in Unitholders' Equity - Continued
(Unaudited)

	Predecessor	Partnership						
	Limited Partners Member's Equity	Limited Partners				General Partner	Non-Controlling Interest	
	Amount	Common Units	Amount	Class B Units	Amount	Amount	Amount	Total
	(In thousands)							
Balance at June 30, 2019	$ —	43,700	$ 725,261	107,815	$ 1,000	$ 1,000	$ 337,900	$ 1,065,161
Net proceeds from the offering - public			(251)					(251)
Unit-based compensation			2,158		—	—	—	2,158
Net income			11,531		—	—	36,549	48,080
Balance at September 30, 2019	$ —	43,700	$ 738,699	107,815	$ 1,000	$ 1,000	$ 374,449	$ 1,115,148

See accompanying notes to consolidated financial statements.

Rattler Midstream LP
Consolidated Statements of Changes in Unitholders' Equity - Continued
(Unaudited)

	Predecessor	Partnership						
	Limited Partners Member's Equity	Limited Partners				General Partner	Non-Controlling Interest	
	Amount	Common Units	Amount	Class B Units	Amount	Amount	Amount	Total
	(In thousands)							
Balance at December 31, 2017*	$ 292,608	—	$ —	—	$ —	$ —	$ —	$ 292,608
Contributions from Diamondback	175,100		—		—	—	—	175,100
Net income	14,396		—		—	—	—	14,396
Balance at March 31, 2018*	482,104	—	—	—	—	—	—	482,104
Contributions from Diamondback	3,417		—		—	—	—	3,417
Net income	15,472		—		—	—	—	15,472
Balance at June 30, 2018*	500,993	—	—	—	—	—	—	500,993
Contributions from Diamondback	(1,982)		—		—	—	—	(1,982)
Net income	17,780		—		—	—	—	17,780
Balance at September 30, 2018*	$ 516,791	—	$ —	—	$ —	$ —	$ —	$ 516,791

See accompanying notes to consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

Rattler Midstream LP
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018*
		Predecessor
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 134,115	$ 47,648
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	22,850	13,114
Depreciation, amortization and accretion	31,798	17,830
(Gain) loss on sale of property, plant and equipment	(4)	2,568
Unit-based compensation expense	2,989	—
Expense from equity method investment	695	—
Changes in operating assets and liabilities:		
Accounts receivable—related party	(45,297)	16,911
Accounts receivable—third party	(1,045)	(11)
Accounts payable, accrued liabilities and taxes payable	30,791	16,945
Other assets, including inventory	(13,028)	420
Net cash provided by operating activities	163,864	115,425
Cash flows from investing activities:		
Additions to property, plant and equipment	(187,544)	(108,959)
Contributions to equity method investments	(76,141)	—
Proceeds from the sale of fixed assets	18	—
Net cash used in investing activities	(263,667)	(108,959)
Cash flows from financing activities:		
Proceeds from borrowings from credit facility	112,000	—
Payments on credit facility	(9,000)	—
Debt issuance costs	(3,929)	—
Net proceeds from initial public offering—public	719,376	—
Net proceeds from initial public offering—General Partner	1,000	—
Net proceeds from initial public offering—Diamondback	999	—
Distribution to Diamondback (Note 1)	(726,513)	—
Net cash provided by financing activities	93,933	—
Net (decrease) increase in cash	(5,870)	6,466
Cash at beginning of period	8,564	8
Cash at end of period	$ 2,694	$ 6,474
Supplemental disclosure of non-cash financing activity:		
Contributions from Diamondback	$ 456,055	$ 176,535
Supplemental disclosure of non-cash investing activity:		
Increase in long term assets and inventory	$ 456,055	$ 176,535
Change in accrued liabilities related to property, plant and equipment	$ 4,083	$ (7,253)

See accompanying notes to consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Rattler Midstream LP (the “Partnership”) is a publicly traded Delaware limited partnership, the common units of which are listed on the Nasdaq Global Select Market under the symbol “RTLR”. The Partnership was formed on July 27, 2018 by Diamondback to own, operate, develop and acquire midstream infrastructure assets in the Midland and Delaware Basins of the Permian Basin. Unless the context requires otherwise, references to “we,” “us,” “our” or “the Partnership” are intended to mean the business and operations of the Partnership and its consolidated subsidiary, Rattler Midstream Partners LLC (the “Operating Company” and, prior to May 28, 2019 for accounting purposes, the “Predecessor”).

On January 31, 2018, Diamondback, through its wholly-owned subsidiary Tall City Towers LLC (“Tall Towers”), acquired from Fasken Midland LLC (“Fasken Midland”) certain real property and related assets in Midland, Texas (the “Fasken Center”). Tall Towers was contributed to the Predecessor effective January 31, 2018, see Note 4—Acquisitions.

The Predecessor’s assets, contributed from Diamondback, included (i) crude oil and natural gas gathering and transportation systems, (ii) saltwater gathering and disposal systems and (iii) fresh water sourcing and distribution systems. All of the Partnership’s businesses are located or operate in the Permian Basin in West Texas.

On August 7, 2018, a Registration Statement on Form S-1 (File No. 333-226645) was filed with the SEC relating to the proposed underwritten initial public offering (the “IPO”) of common units of the Partnership. Prior to the completion of the IPO, the Predecessor was a wholly-owned subsidiary of Diamondback.

Prior to the closing on May 28, 2019 of the Partnership’s IPO of 38,000,000 common units representing limited partner interests, Diamondback owned all of the general and limited partner interests in the Partnership. On May 30, 2019, the underwriters purchased an additional 5,700,000 common units following the exercise in full of their over-allotment option on the same terms, at a price to the public of $17.50 per common unit. The Partnership received net proceeds of approximately $719.4 million from the sale of these common units after deducting offering expenses and underwriting discounts and commissions.

In connection with the closing of the IPO, the Partnership (i) issued 107,815,152 Class B units representing an aggregate 71% voting limited partner interest in the Partnership in exchange for a $1.0 million cash contribution from Diamondback, (ii) issued a general partner interest in the Partnership to Rattler Midstream GP LLC (the “General Partner”) in exchange for a $1.0 million cash contribution from the General Partner, and (iii) caused the Operating Company to make a distribution of approximately $726.5 million to Diamondback. Diamondback, as the holder of the Class B units, and the General Partner, as the holder of the general partner interest, are entitled to receive cash preferred distributions equal to 8% per annum on the outstanding amount of their respective $1.0 million capital contributions, payable quarterly.

As of September 30, 2019, the General Partner held a 100% general partner interest in the Partnership. Diamondback owns all of the Partnership's 107,815,152 Class B units that provide a 71% voting interest. Diamondback owns and controls the General Partner.

As of September 30, 2019, the Partnership owned a 29% controlling membership interest in the Operating Company and Diamondback owned, through its ownership of the Operating Company units, a 71% economic, non-voting interest in the Operating Company. However, as required by GAAP, the Partnership consolidates 100% of the assets and operations of the Operating Company in its financial statements and reflects a non-controlling interest.

Basis of Presentation

Prior to May 28, 2019, the Partnership's services were performed by the Predecessor. The consolidated financial statements include the results of the Predecessor for the periods presented prior to the closing of the IPO on May 28, 2019. The Predecessor financial statements have been prepared from the separate records maintained by the Partnership and may not necessarily be indicative of the actual results of operations that might have occurred if the Predecessor had been operated separately during the periods reported.

The consolidated results of operations following the completion of the IPO are presented together with the results of operations pertaining to the Predecessor. The assets of the Predecessor consist of SWD wells and related gathering systems, office buildings, surface land, an oil gathering system and asset retirement obligations related to these assets, which were contributed effective January 1, 2019. See Note 4—Acquisitions. The capital contribution of the net proceeds from the IPO to the Operating Company in exchange for 29% of the limited liability company units of the Operating Company was accounted for as a combination of entities under common control, with assets and liabilities transferred at their carrying amounts in a manner similar to a pooling of interests. The Partnership did not own any assets prior to May 28, 2019, the date of the equity contribution agreement by and between the Partnership and the Predecessor. Prior to the IPO, the Predecessor was a wholly owned subsidiary of Diamondback. For periods prior to May 28, 2019, the accompanying consolidated financial statements and related notes thereto represent the financial position, results of operations, cash flows and changes in members' equity of the Predecessor and, for periods on and after May 28, 2019, the accompanying consolidated financial statements and related notes thereto represent the financial position, results of operations, cash flows and changes in partners' equity of the Partnership and its partially owned subsidiary.

The consolidated financial statements include the accounts of the Partnership and its subsidiaries after all significant intercompany balances and transactions have been eliminated upon consolidation.

Prior to 2018, the Partnership's operations comprised a single operating business segment; however, with the contribution of Tall Towers, the Partnership's operations are now reported in two operating business segments: (i) midstream services and (ii) real estate operations. See Note 19—Report of Operating Business Segments.

These consolidated financial statements have been prepared by the Partnership without audit, pursuant to the rules and regulations of the SEC. They reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to SEC rules and regulations, although the Partnership believes the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10–Q should be read in conjunction with the Partnership's final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019, which contains a summary of the Partnership's significant accounting policies and other disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of September 30, 2019, the Partnership's significant accounting policies are consistent with those discussed in Note 2—Summary of Significant Accounting Policies of its consolidated financial statements contained in the final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

Use of Estimates

Certain amounts included in or affecting the Partnership's financial statements and related notes must be estimated by management, requiring certain assumptions to be made with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. These estimates and assumptions affect the amounts the Partnership reports for assets and liabilities and the Partnership's disclosure of contingent assets and liabilities at the date of the financial statements.

Management evaluates these estimates on an ongoing basis, using historical experience, consultation with experts and other methods they consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from management's estimates. Any effects on the Partnership's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. Significant items subject to such estimates and assumptions include, but are not limited to, (i) revenue accruals, (ii) the fair value of long-lived assets and (iii) asset retirement obligations ("ARO").

Income Taxes

The Partnership is treated as a corporation for U.S. federal income tax purposes as a result of its election to be treated as a corporation effective May 24, 2019. Subsequent to the effective date of the Partnership's election, it is subject to U.S. federal and state income tax at corporate rates. The Partnership uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (ii) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized.

The Partnership is subject to margin tax in the state of Texas pursuant to the Tax Sharing Agreement with Diamondback, as discussed further in Note 14—Income Taxes. The Predecessor's 2016 through 2018 tax years, the periods during which the Predecessor's sole owner, Diamondback, was responsible for federal income taxes on the Predecessor's taxable income, remain open to examination by tax authorities. As of September 30, 2019, the Partnership had no unrecognized tax benefits that would have a material impact on the effective tax rate. The Partnership is continuing its practice of recognizing interest and penalties related to income tax matters as interest expense and general and administrative expenses, respectively. During the three and nine months ended September 30, 2019, there was no interest or penalties associated with uncertain tax positions recognized in the Partnership's consolidated financial statements.

Capital Contributions

A contribution of a set of assets and related liabilities (a "set") to the Partnership from Diamondback is analyzed to determine whether the set meets the definition of a business in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, "Business Combinations". A contribution of a set of assets that does not constitute a business is recognized at the date of the transfer at its carrying amount in the accounts of Diamondback in accordance with the guidance regarding transactions between entities under common control in ASC 805-50. Management then evaluates whether the asset contribution results in a change in the reporting entity, as defined in ASC Topic 250, "Accounting Changes and Error Corrections". An asset contribution that does not constitute a change in the reporting entity is accounted for prospectively from the date of the transfer, while an asset contribution that constitutes a change in the reporting entity would result in retrospective application of the transaction.

For the nine months ended September 30, 2019, the total capital contributions by Diamondback to the Predecessor were $456.1 million, of which $9.2 million related to an office building located in Midland Texas, $18.1 million related to land, $9.4 million related to fresh water assets, $228.3 million related to SWD assets, $35.8 million related to crude oil assets, $149.5 million related to the equity method investments in the EPIC and Gray Oak projects, $31.1 million related to elimination of current and deferred liabilities, and $(25.3) million in additional assets and liabilities, net, related to operations.

Investments

Equity investments in which the Partnership exercises significant influence but does not control are accounted for using the equity method. Under the equity method, generally the Partnership's share of investees' earnings or loss is recognized in the statement of operations. The Partnership reviews its investments to determine if a loss in value which is other than a temporary decline has occurred. If such loss has occurred, the Partnership recognizes an impairment provision.

Recent Accounting Pronouncements

Recently Adopted Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, “Leases (Topic 842)”. This update, codified in ASC Topic 842 "Leases" ("ASC Topic 842"), applies to any entity that enters into a lease, with some specified scope exemptions. Under this update, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. While there were no major changes to lessor accounting, changes were made to align key aspects with the revenue recognition guidance. This update was effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Entities were required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In the normal course of business, the Partnership enters into lease agreements and land easements to support its midstream operations. The Partnership adopted this update effective January 1, 2019. Upon adoption effective January 1, 2019, the Partnership recognized approximately $1.2 million of right-of-use assets, of which the total amount relates to the Partnership’s operating leases. See Note 16—Leases.

In January 2018, the FASB issued ASU 2018-01, “Leases - Land Easement Practical Expedient for Transition to Topic 842”. This update applies to any entity that holds land easements. The update allows entities to adopt a practical expedient to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under the current leases guidance. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In July 2018, the FASB issued ASU 2018-10, “Codification Improvements to Topic 842, Leases”. This update provides clarification and corrects unintended application of certain sections in the new lease guidance. This update was effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In July 2018, the FASB issued ASU 2018-11, “Lease (Topic 842): Targeted Improvements”. This update provides another transition method of allowing entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This update was effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In December 2018, the FASB issued ASU 2018-20, “Leases (Topic 842) - Narrow-Scope Improvements for Lessors”. This update provides a practical expedient for lessors to elect not to evaluate whether sales taxes and other similar taxes are lessor costs. The update also requires a lessor to exclude from variable payments those costs paid directly by the lessee to third parties and include lessor costs paid by the lessor and reimbursed by the lessee. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In January 2019, the FASB issued ASU 2019-01, “Leases (Topic 842): Codification Improvements”. This update clarifies certain presentation and transition disclosures under Topic 842. This update was effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In June 2018, the FASB issued ASU 2018-07, “Stock Compensation - Improvements to Nonemployee Share-Based Payment Accounting”. This update applies the existing employee guidance to nonemployee share-based transactions, with the exception of specific guidance related to the attribution of compensation cost. This update was effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In July 2018, the FASB issued ASU 2018-09, “Codification Improvements”. This update provides clarification and corrects unintended application of the guidance in various sections. This update was effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Partnership adopted this update effective January 1, 2019. It did not have a material impact on its financial position, results of operations or liquidity.

In July 2019, the FASB issued ASU 2019-07, “Codification Updates to SEC Sections”. This update simplifies the guidance in various sections that was duplicative, redundant or outdated. The Partnership adopted this update effective July 2019. It did not have a material impact on its financial position, results of operations or liquidity.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses”. This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This update will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Partnership does not believe the adoption of this standard will have an impact on its financial statements since it does not have a history of credit losses.

In November 2018, the FASB issued ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses”. This update clarifies that receivables arising from operating leases are not in scope of this topic, but rather ASC Topic 842. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This update will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Partnership does not believe the adoption of this standard will have an impact on its financial statements since it does not have a history of credit losses.

In April 2019, the FASB issued ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments”. This update clarifies guidance previously issued in ASU 2016-01, ASU 2016-13 and ASU 2017-12. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Partnership does not believe the updates to the referenced standards will have an impact on its financial position, results of operations or liquidity.

In May 2019, the FASB issued ASU 2019-05, “Financial Instruments-Credit Losses (Topic 326)”. This update allows a fair value option to be elected for certain financial assets, other than held-to-maturity debt securities, that were previously required to be measured at amortized cost basis. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Partnership does not believe the adoption of this standard will have an impact on its financial position, results of operations or liquidity.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement”. This update modifies the fair value measurement disclosure requirements specifically related to Level 3 fair value measurements and transfers between levels. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This update will be applied prospectively. The Partnership does not believe the adoption of this standard will have an impact on its financial position, results of operations or liquidity.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Partnership generates revenues by charging fees on a per unit basis for gathering crude oil and natural gas, delivering and storing fresh water, and collecting, recycling and disposing of produced water. The Partnership adopted ASC Topic 606, “Revenue from Contracts with Customers” (“ASC Topic 606”) on January 1, 2018, using the modified retrospective method. Under ASC Topic 606, performance obligations are the unit of account and generally represent distinct goods or services that are promised to customers. The adoption of ASC Topic 606 did not have a material impact on the recognition, measurement and presentation of the Partnership's revenues and expenses.

Performance Obligations: For gathering crude oil and natural gas, delivering fresh water, and collecting, recycling and disposing of produced water, the Partnership's performance obligations are satisfied over time using volumes delivered to measure progress. The Partnership records revenue related to the volumes delivered at the contract price at the time of delivery.

The Partnership began generating revenue from water sales during first quarter 2018 upon the contribution of fresh water assets from Diamondback. For its water sales, each unit sold is generally considered a distinct good and the related performance obligation is generally satisfied at a point in time (i.e. at the time control of the water is transferred to the customer). The Partnership recognizes revenue from the sale of water when its contracted performance obligation to deliver water is satisfied and control of the water is transferred to the customer. This usually occurs when the water is delivered to the location specified in the contract and the title and risks of rewards and ownership are transferred to the customer.

Transaction Price Allocated to Remaining Performance Obligations: The majority of the Partnership's revenue agreements have a term greater than one year and, as such, the Partnership has utilized the practical expedient in ASC Topic 606, which states that the Partnership is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under its revenue agreements, each delivery generally represents a separate performance obligation; therefore, future volumes delivered are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

The remainder of the Partnership's revenue agreements, which relate to agreements with third parties, are short-term in nature with a term of one year or less. The Partnership has utilized an additional practical expedient in ASC Topic 606 which exempts it from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of an agreement that has an original expected duration of one year or less.

Contract Balances: Under the Partnership's revenue agreements, the Partnership invoices customers after our performance obligations have been satisfied, at which point payment is unconditional. As such, the Partnership's revenue agreements do not give rise to contract assets or liabilities under ASC Topic 606.

The following is a summary of the Partnership's types of revenue agreements:

- ***Crude Oil Gathering Agreement***. Under the crude oil gathering agreement, the Partnership receives a volumetric fee per Bbl for gathering and delivering crude oil produced by Diamondback within the dedicated acreage.

- ***Gas Gathering and Compression Agreement***. Under the gas gathering and compression agreement, the Partnership receives a volumetric fee per MMBtu for gathering and processing all natural gas produced by Diamondback within the dedicated acreage.

- ***Produced and Flowback Water Gathering and Disposal Agreement***. Under the produced and flowback water gathering and disposal agreement, the Partnership receives a fee for gathering or disposing of water produced from operating crude oil and natural gas wells within the dedicated acreage. The fee is comprised of a volumetric fee per Bbl for the produced water services the Partnership provides. In addition, the Partnership retains the skim oil that is a part of the produced water. The skim oil is processed by a third party, which provides the Partnership a volumetric fee per Bbl.

- ***Fresh water Purchase and Services Agreement***. Under the fresh water purchase and services agreement, the Partnership receives a fee for sourcing, transporting and delivering all raw fresh water and recycled fresh water required by Diamondback to carry out its oil and natural gas activities within the dedicated acreage. The fee is comprised of a volumetric fee per Bbl for the type of fresh water services the Partnership provides.

Real Estate Contracts: The Partnership recognizes rental revenue from tenants on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. Rental income—related party is comprised of revenues earned from lease agreements with Diamondback and its affiliates. Other real estate revenue is derived from tenants' use of parking, telecommunications and miscellaneous services. Parking and other miscellaneous service revenue is recognized when the related services are utilized by the tenants. Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, as the Partnership is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

It is noted that surface revenue, rental and real estate income and amortization of out of market leases is outside the scope of ASC Topic 606.

Disaggregation of Revenue

In the following table, revenue is disaggregated by type of service and type of fee. The table also identifies the reportable segment to which the disaggregated revenues relate. For more information on reportable segments, see Note 19—Report of Operating Business Segments.

	Three Months Ended September 30,		Nine Months Ended September 30,		
(In thousands)	**2019**	**2018**	**2019**	**2018**	**Segment**
Type of Service:					
Fresh water services	$ 26,485	$ 19,913	$ 83,966	$ 54,677	Midstream
Saltwater services	73,928	19,235	198,344	53,419	Midstream
Crude oil gathering	7,248	4,738	19,231	11,004	Midstream
Natural gas gathering	3,871	2,081	9,908	4,535	Midstream
Surface revenue (non ASC 606 revenues)	174	320	464	814	Midstream
Real estate contracts (non ASC 606 revenues)	3,709	3,014	10,452	8,515	Real Estate
Total revenues	$ 115,415	$ 49,301	$ 322,365	$ 132,964	

4. ACQUISITIONS

Ajax and Energen Assets

Effective January 1, 2019, Diamondback contributed to the Predecessor certain midstream assets (the "Ajax Assets") within the Permian Basin that it acquired from Ajax Resources LLC ("Ajax") as part of an upstream acquisition in the fourth quarter of 2018. These assets included 17 water wells, four SWD wells and one related gathering system, a field office, surface land, five hydraulic fracturing pits and one related fresh water transportation system. Prior to their contribution, these assets were fully integrated into the upstream business acquired from Ajax. The carrying value of assets included in this contribution was $21.5 million. The contributed assets were recognized by the Predecessor at Diamondback's historical basis due to the entities being under common control.

Effective January 1, 2019, Diamondback contributed to the Predecessor certain midstream assets ("the Energen Assets") within the Permian Basin that it acquired from Energen Corporation ("Energen") as part of an upstream acquisition in the fourth quarter of 2018. These assets included 56 SWD wells and related gathering systems, an office building located in Midland Texas, surface land and an oil gathering system and asset retirement obligations related to these assets. Prior to their contribution, these assets were fully integrated into the upstream business acquired from Energen. The carrying value of assets included in this contribution was $279.0 million, net of $3.0 million in associated asset retirement obligations. The contributed assets were recognized by the Predecessor at Diamondback's historical basis due to the entities being under common control.

The contribution of the Ajax and Energen Assets was an asset contribution that did not result in a change in the reporting entity at the Predecessor. As a result, the Ajax and Energen Assets were initially recognized at the date of the transfer at their carrying amounts in the accounts of Diamondback, and presented prospectively from that date.

Fresh Water Assets

In connection with its business operations, Diamondback constructed and/or acquired various fresh water assets, including certain freshwater wells, fresh water transportation lines and related assets (the "Fresh Water Assets"), located in the Delaware and Midland Basins of the Permian Basin. Effective January 1, 2018, Diamondback contributed the Fresh Water Assets to the Predecessor. The carrying value of assets included in this contribution was $32.8 million and $6.0 million of that amount related to fresh water inventory. The contributed assets were recognized by the Partnership at Diamondback's historical basis due to the entities being under common control.

The contribution of the Fresh Water Assets was an asset contribution that did not result in a change in the reporting entity at the Predecessor. As a result, the Fresh Water Assets were initially recognized at the date of the transfer at their carrying amounts in the accounts of Diamondback, and presented prospectively from that date.

Tall Towers

On January 31, 2018, Diamondback, through Tall Towers, acquired from Fasken Midland certain real property and related assets in Midland, Texas for a purchase price of approximately $110.0 million. All of the membership interests in Tall Towers were contributed to the Predecessor effective January 31, 2018. Diamondback allocated the purchase price between the tangible assets, consisting of land and two office towers, and to identified intangible lease assets. The contributed assets were recognized by the Predecessor at Diamondback's historical basis due to the entities being under common control.

Midstream Assets and Land

In connection with its business operations, Diamondback constructed and/or acquired various midstream assets located in the Delaware and Midland Basins of the Permian Basin. Upon asset completion dates during 2018, Diamondback contributed the midstream assets to the Predecessor. Such midstream assets include SWD gathering assets and wells with a carrying value of $18.2 million, land valued at $1.5 million, and a field office valued at $1.3 million. The contributed assets were recognized by the Predecessor at Diamondback's historical basis due to the entities being under common control.

5. REAL ESTATE ASSETS

In conjunction with Diamondback’s contribution of Tall Towers, the Predecessor allocated the $110.0 million purchase price between real estate assets and intangible lease assets related to in-place and above-market leases. During the year ended December 31, 2018, Diamondback also contributed a field office with a fair value of $1.3 million to the Operating Company. During the three months ended March 31, 2019, as part of the Energen contribution, Diamondback contributed an office building located in Midland Texas with a value of $9.2 million. The following schedules present the cost and related accumulated depreciation or amortization (as applicable) of the Partnership’s real estate assets and intangible lease assets:

		As of	
	Estimated Useful Lives	**September 30, 2019**	**December 31, 2018**
	(Years)	**(In thousands)**	
Buildings	30	$ 102,247	$ 92,349
Tenant improvements	15	4,446	4,160
Land improvements	15	484	484
Total real estate assets		107,177	96,993
Less: accumulated depreciation		(7,513)	(3,970)
Total investment in real estate, net		$ 99,664	$ 93,023

		As of	
	Weighted Average Useful Lives	**September 30, 2019**	**December 31, 2018**
	(Months)	**(In thousands)**	
In-place lease intangibles	45	$ 11,301	$ 10,866
Less: accumulated amortization		(5,304)	(3,076)
In-place lease intangibles, net		5,997	7,790
Above-market lease intangibles	45	3,623	3,623
Less: accumulated amortization		(866)	(459)
Above-market lease intangibles, net		2,757	3,164
Total intangible lease assets, net		$ 8,754	$ 10,954

6. PROPERTY, PLANT AND EQUIPMENT

The following table sets forth the Partnership’s property, plant and equipment:

	Estimated Useful Lives	As of September 30, 2019	As of December 31, 2018
	(Years)	(In thousands)	
SWD systems	10-30	$ 560,514	$ 220,084
Crude oil gathering systems[1]	30	128,302	66,760
Natural gas gathering and compression systems[1]	10-30	95,573	60,350
Fresh water gathering systems[1]	30	99,335	68,694
Total property, plant and equipment		883,724	415,888
Land	N/A	88,509	70,373
Less: accumulated depreciation, amortization and accretion		(53,166)	(28,317)
Total property, plant and equipment, net		$ 919,067	$ 457,944

(1) Included in gathering systems are $100.9 million and $55.2 million of assets at September 30, 2019 and December 31, 2018, respectively, that are not subject to depreciation, amortization and accretion as the systems were under construction and had not yet been put into service.

The Partnership purchased an additional SWD system for $1.5 million during the quarter ended September 30, 2019.

Internal costs capitalized to property, plant and equipment represent management's estimate of costs incurred directly related to construction activities. Capitalized internal costs were approximately $1.4 million for the three and nine months ended September 30, 2019. There were no capitalized internal costs for the three and nine months ended September 30, 2018.

At September 30, 2019, there was $0.3 million of capitalized interest that was related to property, plant and equipment.

7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations consist primarily of estimated costs of dismantlement, removal, site reclamation, plugging and abandonment and similar activities associated with the Partnership’s infrastructure assets. The following table reflects the changes in the Partnership’s asset retirement obligation for the following periods:

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	(In thousands)	
Asset retirement obligation, beginning of period	$ 561	$ 383
Liabilities incurred	7,798	136
Liabilities settled	(21)	—
Estimates revised	5	—
Accretion expense during period	1,177	25
Asset retirement obligation, end of period	$ 9,520	$ 544

8. EQUITY METHOD INVESTMENTS

In October 2014, Diamondback obtained a 25% interest in HMW Fluid Management LLC (“HMW LLC”), which was formed to develop, own and operate an integrated water management system to gather, store, process, treat, distribute and dispose of water to exploration and production companies operating in Midland, Martin and Andrews Counties, Texas.

On June 30, 2018, HMW LLC’s operating agreement was amended. As a result of the amendment, the Partnership no longer recognizes an equity investment in HMW LLC but instead consolidates its undivided interest in the salt water disposal assets owned by HMW LLC. In exchange for the Partnership’s 25% investment, the Partnership received a 50% undivided ownership interest in two of the four SWD wells and associated assets previously owned by HMW LLC. The Partnership’s basis in the assets is equivalent to its basis in the equity investment in HMW LLC.

On February 1, 2019, Diamondback funded and the Predecessor acquired a 10% equity interest in EPIC Crude Holdings, LP (“EPIC”), which is building a pipeline (the “EPIC project”) that, once fully operational, will transport crude and natural gas liquids across Texas for delivery into the Corpus Christi market. As of September 30, 2019, the Partnership's total investment in the EPIC project was $89.2 million. During the nine months ended September 30, 2019, the Partnership recorded net expenses of $0.5 million related to the EPIC project. The EPIC project began initial operations during the third quarter of 2019.

On February 15, 2019, Diamondback funded and the Predecessor acquired a 10% equity interest in Gray Oak Pipeline, LLC (“Gray Oak”), which is building a pipeline (the “Gray Oak project”) that, once operational, will transport crude from the Permian to Corpus Christi on the Texas Gulf Coast. As of September 30, 2019, the Partnership's total investment in the Gray Oak project was $114.5 million. During the nine months ended September 30, 2019, the Partnership recorded net expenses of $0.2 million related to the Gray Oak project. The Gray Oak project is anticipated to be operational in the fourth quarter of 2019.

On March 29, 2019, the Predecessor executed a short-term promissory note to Gray Oak. The note allows for borrowing by Gray Oak of up to $123.0 million at 2.52% interest rate with a maturity date of March 31, 2022. During the three months ended September 30, 2019, there were no borrowings or repayments under this note. There were no outstanding loans at September 30, 2019.

On July 30, 2019, the Operating Company joined Wink to Webster Pipeline LLC as a 4% member, together with affiliates of ExxonMobil, Plains All American Pipeline, Delek US, MPLX LP, and Lotus Midstream. The joint venture is developing a crude oil pipeline with origin points at Wink and Midland in the Permian Basin for delivery to multiple Houston area locations (the "Wink to Webster project"). As of September 30, 2019, the Partnership's total investment in the Wink to Webster project was $21.2 million. During the nine months ended September 30, 2019, the Partnership recorded net income of less than $0.1 million related to interest. The Wink to Webster project is expected to begin service in the first half of 2021.

No impairments were recorded for the Partnership’s equity method investments for the nine months ended September 30, 2019 or 2018.

At September 30, 2019, there was $0.1 million of capitalized interest that was related to equity method investments that have not yet begun operations.

9. DEBT

Long-term debt consisted of the following as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in thousands)	
Rattler revolving credit facility	$ 103,000	$ —
Total long-term debt	$ 103,000	$ —

Credit Agreement—Wells Fargo

The Partnership, as parent, and the Operating Company, as borrower, entered into a credit agreement, dated May 28, 2019, (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and a syndicate of banks, including Wells Fargo Bank, National Association, as lenders party thereto.

The Credit Agreement provides for a revolving credit facility in the maximum amount of $600.0 million. Loan principal may be optionally repaid from time to time without premium or penalty (other than customary LIBOR breakage), and is required to be paid at the maturity date of May 28, 2024. The loan is guaranteed by the Partnership and Tall City, and is secured by substantially all of the assets of the Partnership, the Operating Company and Tall City. As of September 30, 2019, the Operating Company had $103.0 million of outstanding borrowings and $497.0 million available for future borrowings under the Credit Agreement.

The outstanding borrowings under the Credit Agreement bear interest at a per annum rate elected by the Operating Company that is based on the prime rate or LIBOR, in each case plus an applicable margin. The applicable margin ranges from 0.250% to 1.250% per annum for prime-based loans and 1.250% to 2.250% per annum for LIBOR loans, in each case depending on the Consolidated Total Leverage Ratio (as defined in the Credit Agreement). The Operating Company is obligated to pay a quarterly commitment fee ranging from 0.250% to 0.375% per annum on the unused portion of the commitment, which fee is also dependent on the Consolidated Total Leverage Ratio.

The Credit Agreement contains various affirmative and negative covenants. These covenants, among other things, limit additional indebtedness, additional liens, sales of assets, mergers and consolidations, distributions and other restricted payments, transactions with affiliates, and entering into certain swap agreements, in each case of the Partnership, the Operating Company and their restricted subsidiaries. The covenants are subject to exceptions set forth in the Credit Agreement, including an exception allowing the Partnership or the Operating Company to issue unsecured debt securities and an exception allowing payment of distributions if no default exists. The Credit Agreement may be used to fund capital expenditures, to finance working capital, for general company purposes, to pay fees and expenses related to the Credit Agreement, and to make distributions permitted under the Credit Agreement.

The Credit Agreement also contains financial maintenance covenants that require the maintenance of the financial ratios described below:

Financial Covenant	Required Ratio
Consolidated Total Leverage Ratio commencing with the fiscal quarter ending September 30, 2019	Not greater than 5.00 to 1.00 (or not greater than 5.50 to 1.00 for 3 fiscal quarters following certain acquisitions), but if the Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) is applicable, then not greater than 5.25 to 1.00)
Consolidated Senior Secured Leverage Ratio commencing with the last day of any fiscal quarter in which the Financial Covenant Election (as defined in the Credit Agreement) is made	Not greater than 3.50 to 1.00
Consolidated Interest Coverage Ratio (as defined in the Credit Agreement) commencing with the fiscal quarter ending September 30, 2019	Not less than 2.50 to 1.00

For purposes of calculating the financial maintenance covenants prior to the fiscal quarter ending June 30, 2020, EBITDA (as defined in the Credit Agreement) will be annualized based on the actual EBITDA for the preceding fiscal quarters starting with the fiscal quarter ending September 30, 2019.

As of September 30, 2019, each of the Partnership and the Operating Company was in compliance with all financial covenants under the Credit Agreement. The lenders may accelerate all of the indebtedness under the Credit Agreement upon the occurrence and during the continuance of any event of default. The Credit Agreement contains customary events of default, including non-payment, breach of covenants, materially incorrect representations, cross-default, bankruptcy and change in control. There are no cure periods for events of default due to non-payment of principal and breaches of negative and financial maintenance covenants, but non-payment of interest and breaches of certain affirmative covenants are subject to customary cure periods. With certain specified exceptions, the terms and provisions of the Credit Agreement generally may be amended with the consent of the lenders holding a majority of the outstanding loans or commitments to lend.

10. UNIT-BASED COMPENSATION

On May 22, 2019, the board of directors of the General Partner adopted the Rattler Midstream LP Long Term Incentive Plan ("LTIP"), for employees, consultants and directors of the General Partner and any of its affiliates, including Diamondback, who perform services for the Partnership. The LTIP provides for the grant of unit options, unit appreciation rights, restricted units, unit awards, phantom units, distribution equivalent rights, cash awards, performance awards, other unit-based awards and substitute awards. As of September 30, 2019, a total of 15,151,515 common units had been reserved for issuance pursuant to the LTIP. Common units that are cancelled, forfeited or withheld to satisfy exercise prices or tax withholding obligations will be available for delivery pursuant to other awards. The LTIP is administered by the board of directors of the General Partner or a committee thereof.

For the three and nine months ended September 30, 2019, the Partnership incurred $2.2 million and $3.0 million, respectively, of unit–based compensation.

Phantom Units

Under the LTIP, the board of directors of the General Partner is authorized to issue phantom units to eligible employees and non-employee directors. The Partnership estimates the fair value of phantom units as the closing price of the Partnership's common units on the grant date of the award, which is expensed over the applicable vesting period. Upon vesting, the phantom units entitle the recipient to one common unit of the Partnership for each phantom unit. The recipients are also entitled to distribution equivalent rights, which represent the right to receive a cash payment equal to the value of the distributions paid on one phantom unit between the grant date and the vesting date.

The following table presents the phantom unit activity under the LTIP for the nine months ended September 30, 2019:

	Phantom Units	Weighted Average Grant-Date Fair Value
Unvested at May 28, 2019	—	$ —
Granted	2,248,572	$ 19.20
Forfeited	(57,143)	$ 19.21
Unvested at September 30, 2019	2,191,429	$ 19.20

As of September 30, 2019, the unrecognized compensation cost related to unvested phantom units was $39.1 million. Such cost is expected to be recognized over a weighted-average period of 2.65 years.

11. UNITHOLDERS' EQUITY AND PARTNERSHIP DISTRIBUTIONS

The Partnership has general partner and limited partner units. At September 30, 2019, the Partnership had a total of 43,700,000 common units issued and outstanding and 107,815,152 Class B units issued and outstanding, of which no common units and 107,815,152 Class B units were owned by Diamondback, representing approximately 71% of the Partnership's total units outstanding. The Operating Company units and the Partnership's Class B units owned by Diamondback are exchangeable from time to time for the Partnership's common units (that is, one Operating Company unit and one Partnership Class B unit, together, will be exchangeable for one Partnership common unit).

The following table summarizes changes in the number of the Partnership's common units:

	Common Units
Balance at May 28, 2019	—
Common units issued in public offerings	43,700,000
Balance at September 30, 2019	43,700,000

The following table summarizes changes in the number of the Partnership’s class B units:

	Class B Units
Balance at May 28, 2019	—
Units related to tax conversion	107,815,152
Balance at September 30, 2019	107,815,152

In connection with the closing of the Partnership's IPO, the board of directors of the General Partner adopted a policy pursuant to which the Partnership will pay, to the extent legally available, cash distributions of $0.25 per common unit to common unitholders of record on the applicable record date within 60 days after the end of each quarter beginning with the quarter ending September 30, 2019. The Partnership's first distribution will be prorated for the period from the closing of the IPO through September 30, 2019 and will total $0.34 per common unit. The board of directors of the General Partner may change the Partnership's distribution policy at any time and from time to time. The Partnership Agreement (discussed below) does not require the Partnership to pay cash distributions on the Partnership's common units on a quarterly or other basis.

12. EARNINGS PER UNIT

The net income per common unit on the consolidated statements of operations is based on the net income of the Partnership for the three months ended September 30, 2019 and the period after the closing of the IPO on May 28, 2019 through September 30, 2019, since this is the amount of net income that is attributable to the Partnership’s common units.

The Partnership’s net income is allocated wholly to the common units, as the General Partner does not have an economic interest.

Basic and diluted net income per common unit is calculated by dividing net income by the weighted-average number of common units outstanding during the period.

	Three Months Ended September 30, 2019	May 28, 2019 to September 30, 2019
	(In thousands, except per unit amounts)	
Net income attributable to Rattler Midstream LP	$ 11,531	$ 16,334
Weighted average common units outstanding:		
Basic weighted average common units outstanding	43,700	43,564
Effect of dilutive securities:		
Potential common units issuable	1,136	1,146
Diluted weighted average common units outstanding	44,836	44,710
Net income per common unit, basic	$ 0.26	$ 0.37
Net income per common unit, diluted	$ 0.26	$ 0.37

13. RELATED PARTY TRANSACTIONS

Partnership Agreement

In connection with the closing of the IPO, the General Partner and Energen Resources Corporation, a subsidiary of Energen, entered into the first amended and restated agreement of limited partnership of Rattler Midstream LP, dated May 28, 2019 (the “Partnership Agreement”). The Partnership Agreement requires the Partnership to reimburse the General Partner for all direct and indirect expenses incurred or paid on the Partnership’s behalf and all other expenses allocable to the Partnership or otherwise incurred by the General Partner in connection with operating the Partnership’s business. The Partnership Agreement does not set a limit on the amount of expenses for which its General Partner and its affiliates may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for the Partnership or on its behalf and expenses allocated to the General Partner by its affiliates. The General Partner is entitled to determine the expenses that are allocable to the Partnership. For the three and nine months ended September 30, 2019, the General Partner allocated $0.2 million and $0.3 million, respectively, of such expenses to the Partnership.

Services and Secondment Agreement

In connection with the closing of the IPO, the Partnership entered into a services and secondment agreement with Diamondback, Diamondback E&P LLC, the General Partner and the Operating Company, dated as of May 28, 2019 (the "Services and Secondment Agreement"). Pursuant to the Services and Secondment Agreement, Diamondback and its subsidiaries second certain operational, construction, design and management employees and contractors of Diamondback to the General Partner, the Partnership and its subsidiaries, providing management, maintenance and operational functions with respect to the Partnership's assets. The Services and Secondment Agreement requires the General Partner and the Partnership to reimburse Diamondback for the cost of the seconded employees and contractors, including their wages and benefits. For the three and nine months ended September 30, 2019, the General Partner and the Partnership paid Diamondback $1.0 million and $3.1 million under the Services and Secondment Agreement, respectively.

Tax Sharing Agreement

In connection with the closing of the IPO, the Operating Company entered into a tax sharing agreement with Diamondback (the "Tax Sharing Agreement"). Pursuant to the Tax Sharing Agreement, the Operating Company reimburses Diamondback for its share of state and local income and other taxes borne by Diamondback as a result of the Operating Company's results being included in a combined or consolidated tax return filed by Diamondback with respect to taxable periods including or beginning on May 28, 2019. The amount of any such reimbursement is limited to the tax the Operating Company would have paid had it not been included in a combined group with Diamondback. Diamondback may use its tax attributes to cause its combined or consolidated group, of which the Operating Company may be a member for this purpose, to owe less or no tax. In such a situation, the Operating Company agreed to reimburse Diamondback for the tax the Operating Company would have owed had the tax attributes not been available or used for the Operating Company's benefit, even though Diamondback had no cash tax expense for that period.

For the three and nine months ended September 30, 2019, the Partnership accrued state income tax expense of approximately $0.1 million for its share of Texas margin tax for which the Partnership's share of the Operating Company results are included in a combined tax return filed by Diamondback.

14. INCOME TAXES

Prior to the Partnership's IPO, all of the membership interests of the Predecessor were owned by a single member. Under applicable federal income tax provisions, the Predecessor's legal existence as an entity separate from its sole owner was disregarded for U.S. federal income tax purposes. As a result, the Predecessor's owner, Diamondback, was responsible for federal income taxes on its share of the Predecessor's taxable income. Similarly, the Predecessor had no tax attributes such as net operating loss carryforwards because such tax attributes are treated for federal income tax purposes as attributable to the Predecessor's owner.

In certain circumstances, GAAP requires or permits entities such as the Predecessor to account for income taxes under the principles of ASC Topic 740, "Income Taxes" ("ASC Topic 740"), notwithstanding the fact that the separate legal entity's activity is attributed to its owner for income tax purposes. Accordingly, the Predecessor has applied the principles of ASC Topic 740 to its financial statements herein, for periods prior to the Partnership's IPO, as if the Predecessor had been subject to taxation as a corporation. Consistent with the overall basis of presentation as described in Note 1—Organization and Basis of Presentation, for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018, net income for the period prior to the Partnership's IPO reflects income taxes based on federal and state income tax rates, net of federal benefit, applicable to the Predecessor as if it had been subject to taxation as a corporation. In connection with the completion of the IPO, an adjustment of $31.1 million to equity of the Predecessor was recorded for the elimination of current and deferred tax liabilities related to the period prior to the IPO.

For the nine months ended September 30, 2019, net income for the period prior to the IPO reflects income tax expense of $18.2 million and for the three and nine months ended September 30, 2019, net income for the period subsequent to the IPO reflects income tax expense of $3.3 million and $4.7 million, respectively. For the three and nine months ended September 30, 2018, net income of the Predecessor reflects income tax expense of $4.9 million and $13.1 million, respectively. Total income tax expense for these periods differed from applying the U.S. statutory corporate income tax rate to pre-tax income primarily due to state income taxes, net of federal benefit, and due to net income attributable to the noncontrolling interest for the period subsequent to the IPO.

The effective income tax rates for the three and nine months ended September 30, 2019, were 6.4% and 14.6%, respectively. The effective income tax rate for the three and nine months ended September 30, 2018 was 21.6%. The decrease in the effective income tax rates for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018, is primarily due to net income attributable to the noncontrolling interest in 2019 periods subsequent to the Partnership's IPO.

15. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Partnership's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The Partnership uses appropriate valuation techniques based on available inputs to measure the fair values of its assets and liabilities.

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data. These are inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 - Unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The Partnership estimates asset retirement obligations pursuant to the provisions of FASB ASC Topic 410, "Asset Retirement and Environmental Obligations." The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with SWD wells. Given the unobservable nature of the inputs, including plugging costs and useful lives, the initial measurement of the ARO liability is deemed to use Level 3 inputs. See Note 7—Asset Retirement Obligations for further discussion of the Partnership's asset retirement obligations.

16. LEASES

The Partnership leases certain compression assets and other equipment.

As discussed in Note 2—Summary of Significant Accounting Policies, the Partnership adopted ASC Topic 842 on January 1, 2019 using the optional transition method of adoption. The Partnership elected a package of practical expedients that together allows an entity to not reassess (i) whether a contract is or contains a lease, (ii) lease classification and (iii) initial direct costs. In addition, the Partnership elected the following practical expedients: (i) to not reassess certain land easements; (ii) to not apply the recognition requirements under the standard to short-term leases; (iii) to not reassess lease terms for lease terms on leases entered into prior to the effective date of adoption and (iv) lessor accounting policy election to exclude lessor costs paid directly by the lessee.

For leases where the Partnership is the lessee, the Partnership recorded a total of $1.2 million in right-of-use assets and corresponding new lease liabilities on its Consolidated Balance Sheet representing the present value of its future operating lease payments. Adoption of the standard did not require an adjustment to the opening balance of retained earnings. The discount rate used to determine present value was based on the rate of interest that the Partnership estimated it would have to pay to borrow (on a collateralized-basis over a similar term) an amount equal to the lease payments in a similar economic environment as of January 1, 2019. The Partnership is required to reassess the discount rate for any new and modified lease contracts as of the lease effective date.

The right-of-use assets and lease liabilities recognized upon adoption of ASC Topic 842 were based on the lease classifications, lease commitment amounts and terms recognized under the prior lease accounting guidance. Leases with an initial term of twelve months or less are considered short-term leases and are not recorded on the balance sheet.

The following table summarizes operating lease costs for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(in thousands)	
Operating lease costs	$ 460	$ 1,570

For the nine months ended September 30, 2019, cash paid for operating lease liabilities, and reported in cash flows provided by operating activities on the Partnership's Statement of Consolidated Cash Flows, was $1.5 million. During the nine months ended September 30, 2019, the Partnership recorded an additional $0.9 million of right-of-use assets in exchange for new lease liabilities.

The operating lease right-of-use assets were reported on the Consolidated Balance Sheet. As of September 30, 2019, the operating right-of-use assets were $0.7 million and the operating lease liabilities were $0.7 million, of which $0.7 million was classified as current. As of September 30, 2019, the weighted average remaining lease term was 0.7 years and the weighted average discount rate was 8.5%.

Schedule of Operating Lease Liability Maturities

The following table summarizes undiscounted cash flows owed by the Partnership to lessors pursuant to contractual agreements in effect as of September 30, 2019:

	As of September 30, 2019
	(In thousands)
2019 (October - December)	$ 335
2020	426
Total lease payments	761
Less: interest	19
Present value of lease liabilities	$ 742

For leases in which the Partnership is the lessor, the Partnership (i) retained classification of its historical leases as the Partnership is not required to reassess classification upon adoption of the new standard, (ii) expensed indirect leasing costs in connection with new or extended tenant leases, the recognition of which would have been deferred under prior accounting guidance and (iii) aggregated revenue from its lease components and non-lease components (comprised of tenant expense reimbursements) into revenue from rental properties.

17. COMMITMENTS AND CONTINGENCIES

The Partnership is a party to various legal proceedings, disputes and claims from time to time arising in the course of its business, including those that arise from interpretation of federal and state laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. While the ultimate outcome of the pending proceedings, disputes or claims, and any resulting impact on the Partnership, cannot be predicted with certainty, the Partnership believes that none of these matters, if ultimately decided adversely, will have a material adverse effect on the Partnership's financial condition, cash flows or results of operations. The Partnership's assessment is based on information known about the pending matters and its experience in contesting, litigating and settling similar matters. Actual outcomes could differ materially from the Partnership's assessment. The Partnership records reserves for contingencies related to outstanding legal proceedings, disputes or claims when information available indicates that a loss is probable and the amount of the loss can be reasonably estimated.

As of September 30, 2019, the Partnership's anticipated future capital commitments for its equity investments include $42.8 million for the remainder of 2019 and total $141.9 million in aggregate.

18. SUBSEQUENT EVENTS

Cash Distribution

On October 31, 2019, the board of directors of the General Partner approved a cash distribution for the third quarter of 2019 of $0.25 per common unit, totaling $0.34 per common unit as prorated for the period from the closing of the IPO through September 30, 2019, payable on November 22, 2019, to unitholders of record at the close of business on November 15, 2019.

Recent Acquisitions

Reliance Acquisition

On October 3, 2019, the Partnership and Oryx Midstream, a portfolio company of Stonepeak Infrastructure Partners ("Oryx"), announced that OMOG JV LLC, their newly-formed joint venture entity (the "Joint Venture"), had entered into a definitive purchase and sale agreement with Reliance Midstream, LLC and other third-party sellers to acquire 100% of Reliance Gathering, LLC ("Reliance Gathering") for $355 million in cash, subject to certain adjustments under the purchase and sale agreement (the "Pending Acquisition"). In accordance with their membership interests in the Joint Venture, the Partnership and Oryx will pay 60% and 40% of the purchase price, respectively.

Reliance Gathering operates a crude oil gathering system with over 230 miles of gathering and regional transportation pipelines and approximately 200,000 barrels of crude oil storage in Midland, Martin, Andrews, and Ector Counties, Texas. The system has current throughput of over 110,000 Bbl/d primarily from six oil and gas operators, including Diamondback. The top three producers, who had contributed over 85% of the throughput through July 2019, have, on average, over ten years of dedication remaining. Over 160,000 gross acres in Northern Midland Basin are dedicated to the system under long-term, fixed-fee agreements, some of which benefit from minimum volume commitments. Diamondback operates approximately 38% of the dedicated acreage and produced approximately 35% of the throughput through July 2019.

Pursuant to the limited liability company agreement entered into in connection with the formation of the Joint Venture, the Joint Venture will be managed by a board of managers consisting of designees of the Partnership and Oryx. Oryx will be the operator of the gathering system under an operating and management services agreement entered into with the Joint Venture.

The Pending Acquisition is anticipated to close in the fourth quarter of 2019, subject to certain closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. The Partnership intends to fund its portion of the purchase price for the Pending Acquisition with cash on hand and borrowings under its credit facility. The Partnership will account for the Joint Venture as an equity method investment.

Rattler Midstream LP
Condensed Notes to Consolidated Financial Statements - Continued
(Unaudited)

Other Acquisitions

In October 2019, the Partnership acquired from third party sellers two SWD wells and two approved permits with an aggregate of 110,000 Bbl/d of additional disposal capacity and 12.7 miles of SWD gathering lines for a total of $15.3 million. One of these wells is in the Delaware Basin. The other well and both approved permits are in the Midland Basin.

Amendment to Credit Agreement

On October 23, 2019, the Partnership entered into a first amendment (the “First Amendment”) to the Credit Agreement, with the Operating Company, Wells Fargo Bank, National Association, as the administrative agent, and certain lenders from time to time party thereto. The First Amendment, among other things, provides the Operating Company with additional flexibility to make investments in joint ventures and other third parties, including investments in the Wink to Webster project and the Joint Venture. Pursuant to the First Amendment, the Joint Venture is designated as an unrestricted subsidiary under the Credit Agreement.

19. REPORT OF OPERATING BUSINESS SEGMENTS

The Partnership's operations are reported in two operating business segments: (i) midstream services and (ii) real estate operations. The following tables summarize the results of the Partnership's operating business segments during the periods presented:

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
(In thousands)	**Midstream Services**	**Real Estate Operations**	**Total**	**Midstream Services**	**Real Estate Operations**	**Total**
Revenues—related party	$ 104,866	$ —	$ 104,866	$ 46,369	$ —	$ 46,369
Revenues—third party	6,840	—	6,840	(82)	—	(82)
Rental income—related party	—	1,399	1,399	—	672	672
Rental income—third party	—	1,894	1,894	—	2,087	2,087
Other real estate income—related party	—	111	111	—	707	707
Other real estate income—third party	—	305	305	—	(452)	(452)
Total revenues	111,706	3,709	115,415	46,287	3,014	49,301
Direct operating expenses	29,789	—	29,789	8,458	—	8,458
Cost of goods sold (exclusive of depreciation and amortization)	17,350	—	17,350	10,850	—	10,850
Real estate operating expenses	—	742	742	—	553	553
Depreciation, amortization and accretion	9,835	1,901	11,736	4,134	1,905	6,039
Segment profit	54,732	1,066	55,798	22,845	556	23,401
General and administrative expenses			(3,240)			(729)
Interest expense, net			(553)			—
Expense from equity investments			(631)			—
Net income before income taxes	54,732	1,066	51,374	22,845	556	22,672
Provision for income taxes			3,294			4,892
Net income	$ 54,732	$ 1,066	$ 48,080	$ 22,845	$ 556	$ 17,780
Segment assets	$ 917,577	$ 109,908	$ 1,027,485	$ 401,887	$ 106,832	$ 508,719

Rattler Midstream LP
Condensed Notes to Consolidated Financial Statements - Continued
(Unaudited)

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
(In thousands)	**Midstream Services**	**Real Estate Operations**	**Total**	**Midstream Services**	**Real Estate Operations**	**Total**
Revenues—related party	$ 296,508	$ —	$ 296,508	$ 124,170	$ —	$ 124,170
Revenues—third party	15,405	—	15,405	279	—	279
Rental income—related party	—	3,370	3,370	—	1,683	1,683
Rental income—third party	—	5,999	5,999	—	6,053	6,053
Other real estate income—related party	—	265	265	—	779	779
Other real estate income—third party	—	818	818	—	—	—
Total revenues	311,913	10,452	322,365	124,449	8,515	132,964
Direct operating expenses	76,381	—	76,381	24,656	—	24,656
Cost of goods sold (exclusive of depreciation and amortization)	46,252	—	46,252	24,368	—	24,368
Real estate operating expenses	—	1,963	1,963	—	1,371	1,371
(Gain) loss on sale of property, plant and equipment	(4)	—	(4)	2,568	—	2,568
Depreciation, amortization and accretion	26,028	5,770	31,798	12,722	5,108	17,830
Segment profit	163,256	2,719	165,975	60,135	2,036	62,171
General and administrative expenses			(7,677)			(1,409)
Interest expense, net			(638)			—
Expense from equity investments			(695)			—
Net income before income taxes	163,256	2,719	156,965	60,135	2,036	60,762
Provision for income taxes			22,850			13,114
Net income	$ 163,256	$ 2,719	$ 134,115	$ 60,135	$ 2,036	$ 47,648
Segment assets	$ 917,577	$ 109,908	$ 1,027,485	$ 401,887	$ 106,832	$ 508,719

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and audited consolidated financial statements and related notes thereto included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019, and with the unaudited consolidated financial statements and related notes thereto presented in this Quarterly Report on Form 10-Q.

Overview

We are a growth-oriented Delaware limited partnership formed by Diamondback in July 2018 to own, operate, develop and acquire midstream infrastructure assets in the Midland and Delaware Basins of the Permian Basin, one of the most prolific oil producing areas in the world. We are the only publicly-traded, pure-play Permian midstream company focused on the Midland and Delaware Basins. We provide crude oil, natural gas and water-related midstream services (including fresh water sourcing and transportation and saltwater gathering and disposal) to Diamondback under long-term, fixed-fee contracts. As of September 30, 2019, our assets include 851 miles of pipeline across the Midland and Delaware Basins with approximately 236,000 Bbl/d of crude oil gathering capacity, 105,000 Mcf/d of natural gas compression capability, 150,000 Mcf/d of natural gas gathering capacity, 3.2 MMBbl/d of SWD capacity and 575,000 Bbl/d of fresh water gathering capacity. In addition to the midstream infrastructure assets, we own equity interests in three long-haul crude oil pipelines, which, upon completion, will run from the Permian to the Texas Gulf Coast. We are critical to Diamondback's growth plans because we provide a long-term midstream solution to its increasing crude oil, natural gas and water-related services needs through our robust infield gathering systems and SWD capabilities.

As of September 30, 2019, our General Partner had a 100% general partner interest in us, and Diamondback owned no common units and all of our 107,815,152 outstanding Class B units, representing approximately 71% of our total units outstanding. Diamondback also owns and controls our General Partner.

As of September 30, 2019, we own a 29% controlling membership interest in the Operating Company and Diamondback owns, through its ownership of the Operating Company units, a 71% economic, non-voting interest in the Operating Company. However, as required by GAAP, we consolidate 100% of the assets and operations of the Operating Company in our financial statements and reflect a non-controlling interest.

Recent Developments

Initial Public Offering

Prior to the closing on May 28, 2019 of our IPO of common units representing limited partner interests, Diamondback owned all of the general and limited partner interests in our Predecessor. On May 22, 2019, we priced 38,000,000 common units in our IPO at a price of $17.50 per share, and on May 23, 2019 our common units began trading on the Nasdaq Global Select Market under the symbol "RTLR". On May 30, 2019, the underwriters purchased an additional 5,700,000 common units following the exercise in full of their over-allotment option. We received aggregate net proceeds of $719.4 million from the sale of these common units, after deducting the underwriting discount and offering expenses.

In connection with the closing of our IPO, we (i) issued 107,815,152 Class B units representing an aggregate 71% voting limited partner interest in us in exchange for a $1.0 million cash contribution from Diamondback, (ii) issued a general partner interest in us to our General Partner in exchange for a $1.0 million cash contribution from our General Partner, and (iii) caused the Operating Company to make a distribution of approximately $726.5 million to Diamondback. Diamondback, as the holder of the Class B units, and our General Partner, as the holder of our general partner interest, are entitled to receive cash preferred distributions equal to 8% per annum on the outstanding amount of their respective $1.0 million capital contributions, payable quarterly.

Sources of Our Income

Our results are primarily driven by the volumes of crude oil that we gather, transport and deliver; natural gas that we gather, compress, transport and deliver; fresh water that we source, transport and deliver; and produced water that we gather, transport and dispose of, and the fees we charge per unit of throughput for our midstream services.

Our crude oil infrastructure assets consist of gathering pipelines and metering facilities, which collectively gather crude oil for our customers. Our facilities gather crude oil from horizontal and vertical wells in Diamondback's ReWard, Spanish Trail, Pecos and Fivestones areas within the Permian. Our natural gas gathering and compression system consists of gathering pipelines, compression and metering facilities, which collectively service the production from Diamondback's Pecos area assets within the Permian. Our fresh water sourcing and distribution assets consist of water wells, hydraulic fracturing pits, pipelines and water treatment facilities, which collectively gather and distribute water from Permian aquifers to the drilling and completion sites through buried pipelines and temporary surface pipelines. Our saltwater gathering and disposal system spans approximately 460 miles and consists of gathering pipelines along with SWD wells and facilities which collectively gather and dispose of saltwater from operations throughout Diamondback's Permian acreage.

We have entered into multiple fee-based commercial agreements with Diamondback, each with an initial term ending in 2034, utilizing our infrastructure assets or our planned infrastructure assets to provide an array of essential services critical to Diamondback's upstream operations in the Delaware and Midland Basins. Our agreements include substantial acreage dedications. Please read "Business—Our Acreage Dedication" included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

We have indirect exposure to commodity price risk in that persistent low commodity prices may cause Diamondback or other customers to delay drilling or shut in production, which would reduce the volumes available for gathering and processing by our infrastructure assets. If Diamondback delays drilling or temporarily shuts in production due to persistently low commodity prices or for any other reason, our revenue could decrease, as our commercial agreements do not contain minimum volume commitments. Please read "Risk Factors—Risks Related to Our Business—Because of the natural decline in hydrocarbon production from existing wells, our success depends, in part, on our ability to maintain or increase hydrocarbon throughput volumes on our midstream systems, which depends on our customers' levels of development and completion activity on our "Dedicated Acreage" and "Risk Factors—Risks Related to Our Business—Our construction of new midstream assets may not result in revenue increases and may be subject to regulatory, environmental, political, contractual, legal and economic risks, which could adversely affect our cash flow, results of operations and financial condition and, as a result, our ability to distribute cash to unitholders" included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

Under each of our commercial agreements (other than the FERC-regulated crude oil gathering services agreement), the volumetric fees we charge are adjusted each calendar year by the amount of percentage change, if any, in the consumer price index from the preceding calendar year. No adjustment will be made if the percentage change would result in a fee below the initial fee set forth in the applicable commercial agreement and any adjustment to the volumetric fees shall not exceed 3% of the then-current fee. Further, the total adjustment of the fees shall never result in a cumulative volumetric fee adjustment of more than 30% of the initial fees set forth in the applicable commercial agreement. Please read "Business—Our Commercial Agreements with Diamondback" included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

Recent Acquisitions

Ajax and Energen Assets

Effective January 1, 2019, Diamondback contributed to our Predecessor the Ajax Assets within the Permian Basin that it acquired from Ajax as part of an upstream acquisition in the fourth quarter of 2018. These assets included 17 water wells, four SWD wells and one related gathering system (35,000 Bbl/d of capacity), a field office, surface land, five hydraulic fracturing pits (4.4 MMBbls of capacity) and one related fresh water transportation system (25,000 Bbl/d of capacity). Prior to their contribution, these assets were fully integrated into the upstream business acquired from Ajax and used for disposal of produced water generated or fresh water sourcing when drilling. All assets contributed have estimated remaining useful lives of between 20-30 years.

Effective January 1, 2019, Diamondback contributed to our Predecessor the Energen Assets within the Permian Basin that it acquired from Energen as part of an upstream acquisition in the fourth quarter of 2018. These assets included 56 SWD wells (1.2 MMBbl/d of permitted capacity) and related gathering systems (1.0 MMBbl/d of capacity), an office building located in Midland Texas, surface land and an oil gathering system (16,000 Bbl/d of capacity). Prior to their contribution, these assets were fully integrated into the upstream business acquired from Energen and used for disposal of produced water generated or delivering oil under upstream contracts. All assets contributed have estimated remaining useful lives of 30 years.

EPIC and Gray Oak Projects

Diamondback funded and our Predecessor acquired a 10% equity interest in each of the EPIC and Gray Oak projects, long-haul crude oil pipelines under development that we expect, following commencement of full operations, will provide us with a steady, oil-weighted cash flow stream. These pipelines will also provide Diamondback with long-term long-haul transportation capacity for a portion of its Delaware and Midland Basin crude oil production. These pipelines will provide Diamondback a total takeaway capacity of up to 200,000 Bbl/d.

Reliance Acquisition

On October 3, 2019, we and Oryx announced the Pending Acquisition, whereby the Joint Venture will acquire 100% of Reliance Gathering from Reliance Midstream, LLC and other third-party sellers for $355 million in cash, subject to certain adjustments under the purchase and sale agreement. In accordance with our membership interests in the Joint Venture, we and Oryx will pay 60% and 40% of the purchase price, respectively.

Reliance Gathering operates a crude oil gathering system with over 230 miles of gathering and regional transportation pipelines and approximately 200,000 barrels of crude oil storage in Midland, Martin, Andrews, and Ector Counties, Texas. The system has current throughput of over 110,000 Bbl/d from six oil and gas operators, including Diamondback. The top three producers, who had contributed over 85% of the 2019 throughput through July 2019, have, on average, over ten years of dedication remaining. Over 160,000 gross acres in Northern Midland Basin are dedicated to the system under long-term, fixed-fee agreements, some of which benefit from minimum volume commitments. Diamondback operates approximately 38% of the dedicated acreage and produced approximately 35% of the 2019 throughput through July 2019.

Pursuant to the limited liability company agreement entered into in connection with the formation of the Joint Venture, the Joint Venture will be managed by a board of managers consisting of our designees and designees of Oryx. Oryx will be the operator of the gathering system under an operating and management services agreement entered into with the Joint Venture.

The Pending Acquisition is anticipated to close in the fourth quarter of 2019, subject to certain closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. We intend to fund our portion of the purchase price for the Pending Acquisition with cash on hand and borrowings under its credit facility.

Other Acquisitions

In October 2019, we acquired from third party sellers two SWD wells with an aggregate of 110,000 Bbl/d of additional disposal capacity and 12.7 miles of SWD gathering lines for a total of $15.3 million. One of these wells is in the Delaware Basin and the other is in the Midland Basin.

Amendment to Credit Agreement

On October 23, 2019, we entered into the First Amendment to the Credit Agreement, with the Operating Company, Wells Fargo Bank, National Association, as the administrative agent, and certain lenders from time to time party thereto. The First Amendment, among other things, provides the Operating Company with additional flexibility to make investments in joint ventures and other third parties, including investments in the Wink to Webster project and the Joint Venture. Pursuant to the First Amendment, the Joint Venture is designated as an unrestricted subsidiary under the Credit Agreement.

2019 Highlights

Significant Operating Results

The following are the significant operating results for the three months ended September 30, 2019 as compared with the three months ended September 30, 2018:

- average crude oil gathering volumes of 88,990 Bbl/d, an increase of 62% year over year;
- average natural gas gathering volumes of 91,455 MMBtu/d, an increase of 95% year over year;
- average saltwater services volumes of 845,877 Bbl/d, an increase of 157% year over year; and
- average fresh water delivered volumes of 384,066 Bbl/d, and increase of 37% year over year.

Operational Update

As of September 30, 2019, we have a total of 851 miles of pipelines across the Midland and Delaware Basins with a total of approximately 236,000 Bbl/d of crude oil gathering capacity, 105,000 Mcf/d of natural gas compression capability, 150,000 Mcf/d of natural gas gathering capacity, 3.2 MMBbl/d of SWD capacity and 575,000 Bbl/d of fresh water gathering capacity, all located in what we believe is the core of the Midland and Delaware Basins of the Permian and overlaying Diamondback's seven core development areas.

Pipeline Infrastructure Assets

The following tables provide information regarding our gathering, compression and transportation system as of September 30, 2019 and utilization for the quarter ended September 30, 2019:

(miles)	Delaware Basin	Midland Basin	Permian Total
Crude oil	102	44	146
Natural gas	148	—	148
SWD	250	210	460
Fresh water	26	71	97
Total	526	325	851

(capacity/capability)	Delaware Basin	Midland Basin	Permian Total	Utilization
Crude oil (Bbl/d)	180,000	56,000	236,000	38%
Natural gas compression (Mcf/d)	105,000	—	105,000	83%
Natural gas pipeline (Mcf/d)	150,000	—	150,000	51%
SWD (Bbl/d)	1,702,300	1,526,500	3,228,800	28%
Fresh water (Bbl/d)	120,000	455,000	575,000	67%

Throughput and Volumes

The amount of revenue we generate primarily depends on the volumes of crude oil, natural gas and water for which we provide midstream services. These volumes are affected primarily by changes in the supply of and demand for crude oil and natural gas in the markets served directly or indirectly by our assets. The following table summarizes throughput and crude oil sales volumes for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(throughput)	**2019**	**2018**	**2019**	**2018**
Crude oil gathering volumes (Bbl/d)	88,990	54,995	80,594	42,875
Natural gas gathering volumes (MMBtu/d)	91,455	46,916	78,918	36,912
Saltwater services volumes (Bbl/d)	845,877	329,332	776,215	262,642
Fresh water services volumes (Bbl/d)	384,066	280,528	394,946	268,948

Principal Components of Our Cost Structure

General and Administrative

In connection with the closing of the IPO, we entered into the Services and Secondment Agreement with Diamondback under which we will pay fees to Diamondback with respect to certain operational services Diamondback will provide in support of our operations. The Partnership Agreement requires us to reimburse our General Partner for all direct and indirect expenses incurred or paid on our behalf and all other expenses allocable to us or otherwise incurred by our General Partner in connection with operating our business. The Partnership Agreement does not set a limit on the amount of expenses for which our General Partner and its affiliates may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our General Partner by its affiliates. Our General Partner is entitled to determine the expenses that are allocable to us.

Depreciation, Amortization and Accretion

This represents the depreciation, amortization and accretion on the assets and liabilities of the Operating Company.

Income Taxes

Prior to our IPO, our Predecessor was organized as a disregarded entity for income tax purposes. As a result, our Predecessor's sole owner, Diamondback, was responsible for federal income taxes on the Predecessor's taxable income. Subsequent to the IPO, we are subject to federal income taxes at the corporate statutory rate of 21%.

We are subject to the Texas margin tax. For the three and nine months ended September 30, 2019, we accrued approximately $0.1 million for Texas margin tax payable pursuant to the Tax Sharing Agreement with Diamondback.

Other income (expense)

Interest income

This represents the interest received on our cash and cash equivalents.

Interest expense

We have financed a portion of our working capital requirements, capital expenditures and acquisitions with borrowings under our revolving credit facility. We incur interest expense that is affected by both fluctuations in interest rates and our financing decisions. We reflect interest paid to our lender in interest expense. In addition, we include the amortization of deferred financing costs (including origination and amendment fees), commitment fees and annual agency fees in interest expense.

Expense from equity investments

This represents our proportional expense from our equity investments.

Factors Affecting the Comparability of Our Financial Results

Our future results of operations may not be comparable to our Predecessor's historical results of operations for the reasons described below:

Contribution of Midstream Assets

During the period from 2014 through 2017, Diamondback constructed and/or acquired various midstream and related assets located in the Delaware and Midland Basins, which Diamondback contributed to our Predecessor during fiscal years 2016 and 2017. These assets included 20 SWD wells and related gathering systems, two oil gathering systems, surface land, and other pipelines not yet placed into service. Prior to their contribution, these assets were fully integrated into Diamondback's upstream operations.

Effective February 28, 2017, Diamondback contributed to our Predecessor certain midstream assets in the Pecos area within the Permian that it acquired from Brigham Resources Operating, LLC, Brigham Resources Midstream, LLC and other unrelated third parties. These assets included five SWD wells and seven hydraulic fracturing ponds across one main gathering system, and various pipelines and compression assets related to a gas gathering system and an oil gathering system, the majority of which were not yet in service. Prior to their contribution from Diamondback, these assets were owned by Brigham and were fully integrated into Brigham's upstream operations where the assets were already in service. All of the assets contributed have estimated remaining useful lives of between 20-30 years.

Effective January 1, 2018, Diamondback contributed to our Predecessor the Fresh Water Assets located within the Permian Basin. These assets included numerous fresh water wells and 28 hydraulic fracturing ponds, located across nine fresh water transportation systems, that had previously been used to store and transport fresh water for Diamondback's drilling operations. All of the assets contributed have estimated remaining useful lives of between 20-30 years.

Throughout 2018, Diamondback continued to assist our Predecessor in the construction of various other gathering assets, which included additional oil and gas and produced water pipelines, SWD wells and hydraulic fracturing ponds. These assets were never used as part of upstream operations, but were contributed immediately upon completion.

Effective January 1, 2019, Diamondback contributed to our Predecessor the Ajax Assets within the Permian Basin that it acquired from Ajax as part of an upstream acquisition in the fourth quarter of 2018. These assets included 17 water wells, four SWD wells and one related gathering system (35,000 Bbl/d of capacity), a field office, surface land, five hydraulic fracturing pits (4.4 MMBbls of capacity) and one related fresh water transportation system (25,000 Bbl/d of capacity). Prior to their contribution, these assets were fully integrated into the upstream business acquired from Ajax and used for disposal of produced water generated or fresh water sourcing when drilling. All assets contributed have estimated remaining useful lives of between 20-30 years.

Effective January 1, 2019, Diamondback contributed to our Predecessor the Energen Assets within the Permian Basin that it acquired from Energen, as part of an upstream acquisition in the fourth quarter of 2018. These assets included 56 SWD wells (1.2 MMBbl/d of permitted capacity) and related gathering systems (1.0 MMBbl/d of capacity), an office building located in Midland, Texas, surface land and an oil gathering system (16,000 Bbl/d of capacity). Prior to their contribution, these assets were fully integrated into the upstream business acquired from Energen and used for disposal of produced water generated or delivering oil under upstream contracts. All assets contributed have estimated remaining useful lives of 30 years.

Contribution of Fasken Center

Effective January 31, 2018, Diamondback contributed to our Predecessor all of its membership interest in its wholly-owned subsidiary, Tall Towers, which acquired from Fasken Midland LLC on January 31, 2018 certain real property consisting of land and two office towers in Midland, Texas, which we refer to as the Fasken Center, for a purchase price of approximately $110.0 million. With the asset contribution, our Predecessor also acquired third-party leases, which were valued as part of Diamondback's purchase price. All of the assets contributed have estimated remaining useful lives of between 15-30 years.

Equity Investments

On February 1, 2019, Diamondback funded and our Predecessor acquired a 10% equity interest in the EPIC project and on February 15, 2019, Diamondback funded and our Predecessor acquired a 10% equity interest in the Gray Oak project. On July 30, 2019, the Operating Company joined the Wink to Webster project as a 4% member, together with affiliates of ExxonMobil, Plains All American Pipeline, Delek US, MPLX LP, and Lotus Midstream.

Revenues

Prior to their contribution to our Predecessor, infrastructure assets were part of the integrated operations of Diamondback and were financed from cash flows from operations and funding from Diamondback. Commencing January 1, 2016, our Predecessor began to earn revenues under our long-term commercial agreements with Diamondback and began receiving separate fixed fees for the midstream services that we provide.

Our Predecessor real estate assets were contributed by Diamondback effective January 31, 2018 and we earn revenue from these assets through various lease agreements.

Operating Expenses

In connection with our IPO, we entered into the Services and Secondment Agreement with Diamondback under which we pay fees to Diamondback with respect to certain operational services Diamondback provides in support of our operations. Our Predecessor recorded direct costs of running our businesses as well as certain costs allocated from Diamondback. As such, we expect that there will be differences in the results of our operations between our Predecessor's historical financial statements and our future financial statements.

General and Administrative Expenses

Our Predecessor's general and administrative expense included an allocation of charges for the management and operation of our assets by Diamondback for general and administrative services, such as information technology, treasury, accounting, human resources and legal services and other financial and administrative services. Following the completion of our IPO, Diamondback charges us a combination of direct and allocated charges for general and administrative services pursuant to the Partnership Agreement and the Services and Secondment Agreement.

We anticipate incurring approximately $1.4 million annually of incremental general and administrative expenses attributable to being a publicly traded partnership, which includes expenses associated with annual, quarterly and current reporting with the SEC, tax return preparation, Sarbanes-Oxley compliance, listing on Nasdaq, independent auditor fees, legal fees, investor relations expenses, transfer agent and registrar fees, incremental salary and benefits costs of seconded employees, outside director fees and insurance expenses. These incremental general and administrative expenses and the variable component of the general and administrative costs that we anticipate incurring under the Services and Secondment Agreement are not reflected in our historical financial statements.

Financing

There are differences in the way we will finance our operations as compared to the way our Predecessor historically financed operations. Historically, our Predecessor's operations were financed as part of Diamondback's integrated operations. Our sources of liquidity following our IPO include cash generated from operations and borrowings under our new revolving credit facility.

Income Taxes

Income tax expense includes U.S. federal and state taxes on operations, as applicable. Prior to our IPO, our Predecessor was organized as a disregarded entity for income tax purposes. As a result, our Predecessor's sole owner, Diamondback, was responsible for federal income taxes on our Predecessor's taxable income. Even though we are organized as a limited partnership under state law, we are treated as a corporation for U.S. federal income tax purposes and are subject to U.S. federal and state income tax at corporate rates, subsequent to the effective date of our election to be treated as a corporation. As such, our net income for the three and nine months ended September 30, 2019 reflects a provision for income taxes for the period subsequent to our IPO. For the periods prior to our IPO, net income for the nine months ended September 30, 2019 and the three and nine months ended 2018 reflects on a pro forma basis, a provision for income taxes as if our Predecessor had been treated as a corporation for U.S. federal income tax purposes.

Other Factors Impacting Our Business

We expect our business to continue to be affected by the following key factors. Our expectations are based on assumptions made by us and information currently available to us. To the extent our underlying assumptions about, or interpretations of, available information prove to be incorrect, our actual results may vary materially from our expected results.

Supply and Demand for Crude Oil and Natural Gas

We currently generate a substantial portion of our revenues under fee-based commercial agreements with Diamondback. We expect these contracts to promote cash flow stability and minimize our direct exposure to commodity price fluctuations, since we generally do not own any of the crude oil, natural gas or water that we gather and do not engage in the trading of crude oil or natural gas. However, the volumetric fees we charge are adjusted each calendar year by the amount of percentage change, if any, in the consumer price index from the preceding calendar year. No adjustment will be made if the percentage change would result in a fee below the initial fee set forth in the applicable commercial agreement and any adjustment to the volumetric fees shall not exceed 3% of the then-current fee. Further, the total adjustment of the fees shall never result in a cumulative volumetric fee adjustment of more than 30% of the initial fees set forth in the applicable commercial agreement.

Additionally, commodity price fluctuations indirectly influence our activities and results of operations over the long-term, since they can affect production rates and investments by Diamondback and third-parties in the development of new crude oil and natural gas reserves. Generally, drilling and production activity will increase as crude oil and natural gas prices increase. Our throughput volumes depend primarily on the volumes of crude oil and natural gas produced by Diamondback in the Permian and, with respect to fresh water, the number of wells drilled and completed. Commodity prices are volatile and influenced by numerous factors beyond our or Diamondback's control, including the domestic and global supply of and demand for crude oil and natural gas. The commodities trading markets, as well as other supply and demand factors, may also influence the selling prices of crude oil and natural gas. Furthermore, our ability to execute our growth strategy in the Permian will depend on crude oil and natural gas production in that area, which is also affected by the supply of and demand for crude oil and natural gas.

Regulatory Compliance

The regulation of crude oil and natural gas gathering and transportation and water services activities by federal and state regulatory agencies has a significant impact on our business. Please read "Business—Regulation of Operations" included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019. Our operations are also impacted by new regulations, which have increased the time that it takes to obtain required permits.

Additionally, increased regulation of crude oil and natural gas producers in our areas of operation, including regulation associated with hydraulic fracturing, could reduce regional supply of crude oil, natural gas and water and, therefore, throughput on our infrastructure assets. For more information, see "Business—Regulation of Operations" included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

Results of Operations for the Three Months Ended September 30, 2019 and 2018

The following table sets forth selected historical operating data for the periods indicated:

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Midstream Services	Real Estate Operations	Total	Midstream Services	Real Estate Operations	Total
Operating Results:			(In thousands)			
Revenues:						
Total revenues	$ 111,706	$ 3,709	$ 115,415	$ 46,287	$ 3,014	$ 49,301
Costs and expenses:						
Direct operating expenses	29,789	—	29,789	8,458	—	8,458
Cost of goods sold (exclusive of depreciation and amortization)	17,350	—	17,350	10,850	—	10,850
Real estate operating expenses	—	742	742	—	553	553
Depreciation, amortization and accretion	9,835	1,901	11,736	4,134	1,905	6,039
General and administrative expenses			3,240			729
Total costs and expenses	56,974	2,643	62,857	23,442	2,458	26,629
Income from operations	54,732	1,066	52,558	22,845	556	22,672
Other income (expense):						
Interest expense, net			(553)			—
Expense from equity investments			(631)			—
Total other income (expense)			(1,184)			—
Net income before income taxes	54,732	1,066	51,374	22,845	556	22,672
Provision for income taxes			3,294			4,892
Net income after taxes	$ 54,732	$ 1,066	$ 48,080	$ 22,845	$ 556	$ 17,780
Net income before initial public offering						
Net income subsequent to initial public offering						
Net income attributable to non-controlling interest subsequent to initial public offering			36,549			
Net income attributable to Rattler Midstream LP	$ 54,732	$ 1,066	$ 11,531			

Comparison of the Three Months Ended September 30, 2019 and 2018

Revenues

Revenues increased by $66.1 million, or 134%, to $115.4 million for the three months ended September 30, 2019 from $49.3 million for the three months ended September 30, 2018. This increase relates to increased volumes largely due to the contribution of certain crude oil gathering, SWD wells and land and buildings that Diamondback acquired pursuant to the Ajax acquisition and the Energen acquisition, which Diamondback contributed to us effective January 1, 2019, as well as the additional build out of historical Partnership systems.

Direct Operating Expenses

Direct operating expenses increased by $21.3 million, or 252%, to $29.8 million for the three months ended September 30, 2019 from $8.5 million for three months ended September 30, 2018. This increase was primarily due to increased volumes largely attributable to the contribution of certain crude oil gathering, SWD wells and land and buildings that Diamondback acquired pursuant to the Ajax acquisition and the Energen acquisition, which Diamondback contributed to us effective January 1, 2019, as well as the additional build out of historical Partnership systems.

Cost of Goods Sold

Cost of goods sold (exclusive of depreciation and amortization) increased by $6.5 million, or 60%, to $17.4 million for the three months ended September 30, 2019 from $10.9 million for the three months ended September 30, 2018. The increase relates to the increased build out of historical fresh water systems of the Operating Company.

Real Estate Operating Expenses

Real estate operating expenses increased by $0.2 million, or 34%, to $0.7 million for the three months ended September 30, 2019 from $0.6 million for the three months ended September 30, 2018. The increase primarily relates to the normal maintenance and the addition of new tenants.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion expense increased by $5.7 million, or 94%, to $11.7 million for the three months ended September 30, 2019 from $6.0 million for the three months ended September 30, 2018. This increase was primarily due to asset contributions from Diamondback and further development of existing gathering, transportation and disposal systems.

General and Administrative Expenses

General and administrative expenses increased by $2.5 million to $3.2 million for the three months ended September 30, 2019 from $0.7 million for the three months ended September 30, 2018. This increase was primarily due to increased shared service allocations and additional professional service fees attributable to business growth, the contribution of additional midstream assets and additional public company costs incurred.

Net Interest Expense

Net interest expense was $0.6 million for the three months ended September 30, 2019. For the three months ended September 30, 2018, there was no net interest expense. This increase was due to the Partnership entering into the Credit Agreement on May 28, 2019 and having a full period of borrowings during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

Expense from Equity Investments

Expense from equity investments was $0.6 million for the three months ended September 30, 2019, and was primarily related to interest expense incurred on Gray Oak's promissory note and operating expenses related to EPIC assets that were placed into service. There was no expense from equity investments for the three months ended September 30, 2018.

Provision for Income Taxes

We recorded income tax expense of $3.3 million and $4.9 million for the three months ended September 30, 2019 and 2018, respectively. The change in our income tax provision was primarily due to the impact of net income attributable to the non-controlling interest, partially offset by an increase in pre-tax income, for the three months ended September 30, 2019. Total income tax expense for the three months ended September 30, 2019 differed from amounts computed by applying the federal statutory tax rate to pre-tax income for the period primarily due to net income attributable to the non-controlling interest.

Results of Operations for the Nine Months Ended September 30, 2019 and 2018

The following table sets forth selected historical operating data for the periods indicated:

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Midstream Services	Real Estate Operations	Total	Midstream Services	Real Estate Operations	Total
Operating Results:	(In thousands)					
Revenues:						
Total revenues	$ 311,913	$ 10,452	$ 322,365	$ 124,449	$ 8,515	$ 132,964
Costs and expenses:						
Direct operating expenses	76,381	—	76,381	24,656	—	24,656
Cost of goods sold (exclusive of depreciation and amortization)	46,252	—	46,252	24,368	—	24,368
Real estate operating expenses	—	1,963	1,963	—	1,371	1,371
Depreciation, amortization and accretion	26,028	5,770	31,798	12,722	5,108	17,830
General and administrative expenses			7,677			1,409
(Gain) loss on sale of property, plant and equipment	(4)	—	(4)	2,568	—	2,568
Total costs and expenses	148,657	7,733	164,067	64,314	6,479	72,202
Income from operations	163,256	2,719	158,298	60,135	2,036	60,762
Other income (expense):						
Interest expense, net			(638)			—
Expense from equity investments			(695)			—
Total other income (expense)			(1,333)			—
Net income before income taxes	163,256	2,719	156,965	60,135	2,036	60,762
Provision for income taxes			22,850			13,114
Net income after taxes	$ 163,256	$ 2,719	$ 134,115	$ 60,135	$ 2,036	$ 47,648
Net income before initial public offering			$ 65,995			
Net income subsequent to initial public offering			$ 68,120			
Net income attributable to non-controlling interest subsequent to initial public offering			51,786			
Net income attributable to Rattler Midstream LP	$ 163,256	$ 2,719	$ 16,334			

Comparison of the Nine Months Ended September 30, 2019 and 2018

Revenues

Revenues increased by $189.4 million, or 142%, to $322.4 million for the nine months ended September 30, 2019 from $133.0 million for the nine months ended September 30, 2018. This increase relates to increased volumes largely due to the contribution of certain crude oil gathering, SWD wells and land and buildings that Diamondback acquired pursuant to the Ajax acquisition and the Energen acquisition, which Diamondback contributed to us effective January 1, 2019, as well as the additional build out of historical Partnership systems.

Direct Operating Expenses

Direct operating expenses increased by $51.7 million, or 210%, to $76.4 million for the nine months ended September 30, 2019 from $24.7 million for the nine months ended September 30, 2018. This increase was primarily due to increased volumes largely attributable to the contribution of certain crude oil gathering, SWD wells and land and buildings that Diamondback acquired pursuant to the Ajax acquisition and the Energen acquisition, which Diamondback contributed to us effective January 1, 2019, as well as the additional build out of historical Partnership systems.

Cost of Goods Sold

Cost of goods sold (exclusive of depreciation and amortization) increased by $21.9 million, or 90%, to $46.3 million for the nine months ended September 30, 2019 from $24.4 million for the nine months ended September 30, 2018. The increase relates to the increased build out of historical fresh water systems of the Operating Company.

Real Estate Operating Expenses

Real estate operating expenses increased by $0.6 million, or 43%, to $2.0 million for the nine months ended September 30, 2019 from $1.4 million for the nine months ended September 30, 2018. The increase primarily relates to the normal maintenance and the addition of new tenants.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion increased by $14.0 million, or 78%, to $31.8 million for the nine months ended September 30, 2019 from $17.8 million for the nine months ended September 30, 2018. This increase was primarily due to asset contributions from Diamondback and further development of existing gathering, transportation and disposal systems.

General and Administrative Expenses

General and administrative expenses increased by $6.3 million to $7.7 million for the nine months ended September 30, 2019 from $1.4 million for the nine months ended September 30, 2018. This increase was primarily due to increased shared service allocations and additional professional service fees attributable to business growth, the contribution of additional midstream assets and additional public company costs incurred.

(Gain) loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment was $2.6 million for the nine months ended September 30, 2018, and was due to the exchange of interest in SWD assets. Gain on sale of property, plant and equipment was negligible for the nine months ended September 30, 2019.

Net Interest Expense

Net interest expense was $0.6 million for the nine months ended September 30, 2019. For the nine months ended September 30, 2018, there was no net interest expense. This increase was due to the Partnership entering into the Credit Agreement on May 28, 2019 and having a full period of borrowings during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

Expense from Equity Investments

Expense from equity investments was $0.7 million for the nine months ended September 30, 2019, and was primarily related to interest expense incurred on Gray Oak's promissory note and operating expenses related to EPIC assets that were placed into service. There was no income or expense from equity investments for the nine months ended September 30, 2018.

Provision for Income Taxes

We recorded income tax expense of $22.9 million and $13.1 million for the nine months ended September 30, 2019 and 2018, respectively. The change in our income tax provision was primarily due to an increase in pre-tax income for the nine months ended September 30, 2019, partially offset by the impact of net income attributable to non-controlling interest for the 2019 period subsequent to our IPO. Total income tax expense for the nine months ended September 30, 2019 differed from amounts computed by applying the federal statutory tax rate to pre-tax income for the period primarily due to net income attributable to the non-controlling interest.

Adjusted EBITDA

Adjusted EBITDA is a supplemental non-GAAP financial measure used by management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. We believe Adjusted EBITDA is useful because it allows us to more effectively evaluate our operating performance and compare the results of our operations period to period without regard to our financing methods or capital structure.

We define Adjusted EBITDA as net income before income taxes, interest expense, net of amount capitalized, interest expense related to equity investments, non-cash unit-based compensation expense and depreciation, amortization and accretion. Depreciation, amortization and accretion includes depreciation, amortization and accretion on assets and liabilities of the Operating Company, in addition to depreciation, amortization and accretion on our equity investments. Interest expense related to equity investments represents our proportional income (loss) from equity investments plus interest on that amount. The GAAP measure most directly comparable to Adjusted EBITDA is net income. Adjusted EBITDA should not be considered an alternative to net income or any other measure of financial performance or liquidity presented in accordance with GAAP. Adjusted EBITDA excludes some, but not all, items that affect net income, and these measures may vary from those of other companies. As a result, Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP financial measures for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Reconciliation of net income to Adjusted EBITDA:				
Net income	$ 48,080	$ 17,780	$ 134,115	$ 47,648
Depreciation, amortization and accretion	11,736	6,039	31,798	17,830
Interest expense, net of amount capitalized	553	—	638	—
Interest expense related to equity investments	1,012	—	1,161	—
Depreciation related to equity investments	193	—	193	—
Non-cash unit-based compensation expense	2,158	—	2,989	—
Provision for income taxes	3,294	4,892	22,850	13,114
Adjusted EBITDA	67,026	$ 28,711	193,744	$ 78,592
Less: Adjusted EBITDA prior to the Offering	—		(100,743)	
Adjusted EBITDA subsequent to the Offering	67,026		93,001	
Less: Adjusted EBITDA attributable to non-controlling interest	(47,694)		(66,177)	
Adjusted EBITDA attributable to Rattler Midstream LP	$ 19,332		$ 26,824	

Liquidity and Capital Resources

Liquidity and Financing Arrangements

Prior to our IPO, our sources of liquidity were based on cash flow from operations and funding from Diamondback.

We do not have any commitment from Diamondback or our General Partner or any of their respective affiliates to fund our cash flow deficits or provide other direct or indirect financial assistance to us. Our sources of liquidity following the IPO include cash generated from operations, borrowings under our new revolving credit facility and, if necessary, the issuance of additional equity or debt securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements and to make quarterly cash distributions.

On October 31, 2019, the board of directors of our General Partner approved a cash distribution for the third quarter of 2019 of $0.25 per common unit, totaling $0.34 per common unit as prorated for the period from the closing of the IPO through September 30, 2019, payable on November 22, 2019, to unitholders of record at the close of business on November 15, 2019.

Cash Flows

Net cash provided by (used in) operating activities, investing activities and financing activities for the nine months ended September 30, 2019 and 2018 were as follows:

	Nine Months Ended September 30,	
	2019	2018
	(In thousands)	
Cash Flow Data:		
Net cash provided by operating activities	$ 163,864	$ 115,425
Net cash used in investing activities	(263,667)	(108,959)
Net cash provided by financing activities	93,933	—
Net (decrease) increase in cash	$ (5,870)	$ 6,466

Operating Activities

Net cash provided by operating activities increased by $48.4 million during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was due to increased operations as additional assets have been placed into service and the contribution of certain crude oil gathering, SWD wells and land and buildings that Diamondback acquired pursuant to the Ajax acquisition and the Energen acquisition, which Diamondback contributed to us on January 1, 2019.

Investing Activities

Net cash used in investing activities was $263.7 million and $109.0 million during the nine months ended September 30, 2019 and 2018, respectively, and primarily related to additions to property, plant and equipment and contributions to our EPIC, Gray Oak, Wink to Webster equity method investments. See Note 8—Equity Method Investments.

Financing Activities

Net cash provided by financing activities was $93.9 million during the nine months ended September 30, 2019, primarily related to net proceeds from our IPO of common units of $719.4 million, a contribution of $1.0 million from our General Partner for its general partner interest in the Partnership, a contribution of $1.0 million from Diamondback for its Class B units and borrowings, net of repayment of $103.0 million, partially offset by distributions to our unitholders of $726.5 million during the period. There was no net cash provided by or used in financing activities during the nine months ended September 30, 2018.

Capital Requirements and Sources of Liquidity

The midstream energy business is capital intensive, requiring the maintenance of existing gathering systems and other midstream assets and facilities and the acquisition or construction and development of new gathering systems and other midstream assets and facilities.

We estimate that our total capital expenditures related to midstream assets for 2019 will be between $225.0 million and $250.0 million, excluding our anticipated capital commitments associated with our equity interest in certain pipeline projects. For the nine months ended September 30, 2019, our total capital expenditures were $187.5 million, of which $116.8 million were related to SWD assets, $23.1 million were related to crude oil gathering assets, $32.9 million were related to natural gas gathering assets, $13.7 million were related to fresh water assets and $1.0 million were related to other assets and liabilities.

As of September 30, 2019, our anticipated future capital commitments for our equity investments includes $42.8 million for the remainder of 2019 and totals $141.9 million in aggregate.

Based upon current expectations for 2019, we believe that our cash flow from operations, cash on hand and borrowing under our revolving credit facility will be sufficient to fund our operations and anticipated future capital commitments through year-end 2019.

Credit Agreement—Wells Fargo

We, as parent, and the Operating Company, as borrower, entered into a credit agreement, dated May 28, 2019, with Wells Fargo Bank, National Association, as administrative agent, and a syndicate of banks, including Wells Fargo Bank, National Association, as lenders party thereto, which we refer to as the “Credit Agreement”.

The Credit Agreement provides for a revolving credit facility in the maximum credit amount of $600.0 million. Loan principal may be optionally repaid from time to time without premium or penalty (other than customary LIBOR breakage), and is required to be paid at the maturity date of May 28, 2024. The loan is guaranteed by us and Tall City, and is secured by substantially all of our, the Operating Company and Tall City's assets. As of September 30, 2019, we had $103.0 million of outstanding borrowings and $497.0 million available for future borrowings under the Credit Agreement.

The outstanding borrowings under the Credit Agreement bear interest at a per annum rate elected by Rattler LLC that is based on the prime rate or LIBOR, in each case plus an applicable margin. The applicable margin ranges from 0.250% to 1.250% per annum for prime-based loans and 1.250% to 2.250% per annum for LIBOR loans, in each case depending on the Consolidated Total Leverage Ratio (as defined in the Credit Agreement). The Operating Company is obligated to pay a quarterly commitment fee ranging from 0.250% to 0.375% per annum on the unused portion of the commitment, which fee is also dependent on the Consolidated Total Leverage Ratio.

The Credit Agreement contains various affirmative and negative covenants. These covenants, among other things, limit additional indebtedness, additional liens, sales of assets, mergers and consolidations, distributions and other restricted payments, transactions with affiliates, and entering into certain swap agreements, in each case with us, the Operating Company and our restricted subsidiaries. The covenants are subject to exceptions set forth in the Credit Agreement, including an exception allowing the Operating Company or us to issue unsecured debt securities, and an exception allowing payment of distributions if no default exists. The Credit Agreement may be used to fund capital expenditures, to finance working capital, for general company purposes, to pay fees and expenses related to the Credit Agreement, and to make distributions permitted under the Credit Agreement.

The Credit Agreement also contains financial maintenance covenants that require the maintenance of the financial ratios described below:

Financial Covenant	Required Ratio
Consolidated Total Leverage Ratio commencing with the fiscal quarter ending September 30, 2019	Not greater than 5.00 to 1.00 (or not greater than 5.50 to 1.00 for 3 fiscal quarters following certain acquisitions), but if the Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) is applicable, then not greater than 5.25 to 1.00)
Consolidated Senior Secured Leverage Ratio commencing with the last day of any fiscal quarter in which the Financial Covenant Election (as defined in the Credit Agreement) is made	Not greater than 3.50 to 1.00
Consolidated Interest Coverage Ratio (as defined in the Credit Agreement) commencing with the fiscal quarter ending September 30, 2019	Not less than 2.50 to 1.00

For purposes of calculating the financial maintenance covenants prior to the fiscal quarter ending June 30, 2020, EBITDA (as defined in the Credit Agreement) will be annualized based on the actual EBITDA for the preceding fiscal quarters starting with the fiscal quarter ending September 30, 2019.

As of September 30, 2019, we were in compliance with all financial covenants under the Credit Agreement. The lenders may accelerate all of the indebtedness under the Credit Agreement upon the occurrence and during the continuance of any event of default. The Credit Agreement contains customary events of default, including non-payment, breach of covenants, materially incorrect representations, cross-default, bankruptcy and change in control. There are no cure periods for events of default due to non-payment of principal and breaches of negative and financial maintenance covenants, but non-payment of interest and breaches of certain affirmative covenants are subject to customary cure periods. With certain specified exceptions, the terms and provisions of the Credit Agreement generally may be amended with the consent of the lenders holding a majority of the outstanding loans or commitments to lend.

Contractual Obligations

As of September 30, 2019, except for the capital commitments and capital contributions described above and the operating leases described in Note 16—Leases, we did not have any material contractual obligations.

Critical Accounting Policies

There have been no changes in our critical accounting policies from those disclosed in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We currently generate the majority of our revenues pursuant to fee-based agreements with Diamondback under which we are paid based on volumetric fees, rather than the underlying value of the commodity. Consequently, our existing operations and cash flow have little direct exposure to commodity price risk. However, Diamondback and our other customers are exposed to commodity price risk, and extended reduction in commodity prices could reduce the production volumes available for our midstream services in the future below expected levels. Although we intend to maintain fee-based pricing terms on both new contracts and existing contracts for which prices have not yet been set, our efforts to negotiate such terms may not be successful, which could have a materially adverse effect on our business.

We may acquire or develop additional midstream assets in a manner that increases our exposure to commodity price risk. Future exposure to the volatility of crude oil, natural gas and natural gas liquids prices could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make cash distributions to our unitholders.

Credit Risk

We derive substantially all of our revenue from our commercial agreements with Diamondback, which agreements do not contain minimum volume commitments, as well as volumes attributable to third-party interest owners that participate in Diamondback's operated wells and are charged under short-term contracts at market sensitive rates. As a result, we are subject to the operational and business risks of Diamondback, the most significant of which include the following:

- a reduction in or slowing of Diamondback's drilling and development plan on the dedicated acreage, which would directly and adversely impact Diamondback's demand for our midstream services;
- the volatility of crude oil, natural gas and natural gas liquids prices, which could have a negative effect on Diamondback's drilling and development plan on the dedicated acreage or Diamondback's ability to finance its operations and drilling and completion costs on that acreage;
- the availability of capital on an economic basis to fund Diamondback's exploration and development activities, if needed;
- drilling and operating risks, including potential environmental liabilities, associated with Diamondback's operations on the dedicated acreage;
- future wells, or wells that are currently in the process of being completed, on acreage that is dedicated to us and do not produce sufficient hydrocarbons or are dry holes, which would directly and adversely impact the hydrocarbon volumes on our systems and our revenue;
- downstream processing and transportation capacity constraints and interruptions, including the failure of Diamondback to have sufficient contracted processing or transportation capacity; and
- adverse effects of increased or changed governmental and environmental regulation or enforcement of existing regulation.

In addition, we are indirectly subject to the business risks of Diamondback generally and other factors; including, among others:

- Diamondback's financial condition, credit ratings, leverage, market reputation, liquidity and cash flow;
- Diamondback's ability to maintain or replace its reserves;
- adverse effects of governmental and environmental regulation on Diamondback's upstream operations; and
- losses from pending or future litigation.

Further, we have no control over Diamondback's business decisions and operations, and Diamondback is under no obligation to adopt a business strategy that is favorable to us. Thus, we are subject to the risk that Diamondback could cancel its planned development, breach its commitments with respect to future dedications or otherwise fail to pay or perform, including with respect to our commercial agreements. We cannot predict the extent to which Diamondback's businesses would be impacted if conditions in the energy industry were to deteriorate nor can we estimate the impact such conditions would have on Diamondback's ability to execute its drilling and development plan on the dedicated acreage or to perform under our commercial agreements. Any material non-payment or non-performance by Diamondback under our commercial agreements would have a significant adverse impact on our business, financial condition, results of operations and cash flow and could therefore materially adversely affect our ability to make cash distributions to our common unitholders.

Our commercial agreements with Diamondback provide for temporary or permanent releases of volumes or acreage from the acreage dedication under certain circumstances. Any temporary or permanent release of volumes or acreage from the acreage dedication could materially adversely affect our business, financial condition, results of operations, cash flow and ability to make cash distributions. For more information, see "Business-Our Commercial Agreements with Diamondback" included in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019.

Our commercial agreements with Diamondback carry initial terms ending in 2034, and there is no guarantee that we will be able to renew or replace these agreements on equal or better terms, or at all, upon their expiration. Our ability to renew or replace our commercial agreements following their expiration at rates sufficient to maintain our current revenues and cash flow could be adversely affected by activities beyond our control, including the activities of federal and state regulators, our competitors and Diamondback.

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates on our indebtedness under our revolving credit facility. The terms of our revolving credit facility provide for interest at a rate elected by the Operating Company that is based on the prime rate or LIBOR, in each case plus margins ranging from 0.250% to 1.250% for prime-based loans and 1.250% to 2.250% per annum for LIBOR loans, in each case depending on the Consolidated Total Leverage Ratio (as defined in the Credit Agreement). The Operating Company is obligated to pay a quarterly commitment fee ranging from 0.250% to 0.375% per annum on the unused portion of the commitment, which fee is also dependent on the Consolidated Total Leverage Ratio.

As of September 30, 2019, we had $103.0 million of outstanding borrowings and $497.0 million available for future borrowings under its revolving credit facility. An increase or decrease of 1% in the interest rate would have a corresponding increase or decrease in our interest expense of approximately $1.0 million based on the $103.0 million outstanding under our revolving credit facility as of such date.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures. Under the direction of the Chief Executive Officer and Chief Financial Officer of our General Partner, we have established disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer of our General Partner, as appropriate to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

As of September 30, 2019, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of our General Partner, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer of our General Partner have concluded that as of September 30, 2019, our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting. There have not been any changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Due to the nature of our business, we are, from time to time, involved in routine litigation or subject to disputes or claims related to our business activities. In the opinion of our management, none of the pending litigation, disputes or claims against us, if decided adversely, will have a material adverse effect on our financial condition, cash flows or results of operations.

ITEM 1A. RISK FACTORS

Our business faces many risks. Any of the risks discussed in this report and our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially impair our business operations, financial condition or future results.

For a discussion of our potential risks and uncertainties, see the information in our final prospectus dated May 22, 2019 and filed with the SEC pursuant to Rule 424(b) under the Securities Act on May 24, 2019. There have been no material changes in our risk factors from those described in our prospectus filed pursuant to Rule 424(b) on May 24, 2019 other than the risks described below.

We own a 60% interest in the Joint Venture, which is operated by Oryx. While we have the ability to influence certain business decisions affecting the Joint Venture, the success of its investment in the Joint Venture will depend on Oryx's operation of the Joint Venture.

On October 3, 2019, we announced that we had entered into the Joint Venture with Oryx. While we own a 60% interest in the Joint Venture, Oryx is the primary operator of the Joint Venture. Accordingly, following the Joint Venture's acquisition of Reliance Gathering, we will depend on Oryx for the day-to-day operations of the Joint Venture. Our lack of control over the Joint Venture's day-today operations and the associated costs of operations could result in receiving lower cash distributions from the Joint Venture than currently anticipated, which could reduce our cash available for distribution to our unitholders. In addition, differences in views among the owners of the Joint Venture could result in delayed decisions or in failures to agree on significant matters, potentially adversely affecting the business and results of operations or prospects of the Joint Venture and, in turn, the amount of cash from the Joint Venture operations distributed to us.

We conduct a portion of our operations through joint ventures, which subjects us to risks that could have a material adverse effect on the accuracy of our reported financial position, results of operations, or cash flows.

We have ownership in several joint ventures, and we may enter into other joint venture arrangements in the future. The nature of our joint ventures grant operatorship, which includes the accounting for operations of the joint venture, to our joint venture partner. These joint ventures have controls environments independent of our oversight and review. Contractually, we can only exercise limited review and perform limited queries into the accounting performed by the operators. We have no control over the actual day-to-day accounting performed by the operator. If our joint venture partners have control deficiencies in their accounting or financial reporting environments, it may result in reporting our percentage of the financial results for the joint venture that are inaccurate. This may result in material misstatement in our reported consolidated financial results. If the operators determine that material misstatements have occurred in previously issued financials, it may result in a material misstatement for us that can result in the need to restate and reissue previously issued consolidated financials as filed with the SEC.

We have entered into joint ventures, and may in the future enter into additional or modify existing joint ventures, that might restrict our operational and corporate flexibility. In addition, these joint ventures are subject to many of the same operational risks to which we are subject.

We have entered into joint ventures to construct and operate the EPIC, Gray Oak and Wink to Webster projects and a joint venture to acquire and operate Reliance Gathering and may in the future enter into additional joint venture arrangements with third parties. Joint venture arrangements may restrict our operational and organizational flexibility. Because we do not control all of the decisions of the EPIC, Gray Oak and Wink to Webster projects or the joint venture relating to Reliance Gathering, it may be difficult or impossible for us to cause the joint venture to take actions that we believe would be in our or the respective joint venture's best interests. Moreover, joint venture arrangements involve various risks and uncertainties, such as committing us to fund operating and/or capital expenditures, the timing and amount of which we may not control, and our joint venture partners may not satisfy their financial obligations to the joint venture.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Limited Partnership of Rattler Midstream LP (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on August 7, 2018).
3.2	Certificate of Amendment to the Certificate of Limited Partnership of Rattler Midstream LP (incorporated by reference to Exhibit 3.2 of Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on January 22, 2019).
3.3	First Amended and Restated Agreement of Limited Partnership of Rattler Midstream LP, dated May 28, 2019 (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on May 29, 2019).
4.1	Registration Rights Agreement, dated May 28, 2019, by and between Rattler Midstream LP and Energen Resources Corporation (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on May 29, 2019).
10.1	First Amendment to the Credit Agreement, dated as of October 23, 2019, by and among Rattler Midstream Operating LLC, as borrower, Rattler Midstream LP, as parent, Wells Fargo Bank, National Association, as the administrative agent, and certain lenders from time to time party thereto (incorporated by reference to Exhibit 10.1 of the Partnership's Current Report on Form 8-K (File 001-38919) filed on October 28, 2019).
31.1*	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Changes in Unitholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Condensed Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			RATTLER MIDSTREAM LP
		By:	RATTLER MIDSTREAM GP LLC, its general partner
Date:	November 6, 2019	By:	/s/ Travis D. Stice
			Travis D. Stice Chief Executive Officer (Principal Executive Officer)
Date:	November 6, 2019	By:	/s/ Teresa L. Dick
			Teresa L. Dick Chief Financial Officer (Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATION

I, Travis D. Stice, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rattler Midstream LP (the “registrant”).
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	November 6, 2019	/s/ Travis D. Stice
		Travis D. Stice
		Chief Executive Officer
		Rattler Midstream GP LLC
		(as general partner of Rattler Midstream LP)

EXHIBIT 31.2

CERTIFICATION

I, Teresa L. Dick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rattler Midstream LP (the "registrant").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Teresa L. Dick

Teresa L. Dick
Chief Financial Officer
Rattler Midstream GP LLC
(as general partner of Rattler Midstream LP)

EXHIBIT 32.1

CERTIFICATION OF PERIOD REPORT

In connection with the Quarterly Report on Form 10-Q of Rattler Midstream LP (the “Partnership”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Travis D. Stice, Chief Executive Officer of Rattler Midstream GP LLC, the general partner of the Partnership, and Teresa L. Dick, Chief Financial Officer of Rattler Midstream GP LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date:	November 6, 2019	/s/ Travis D. Stice
		Travis D. Stice Chief Executive Officer Rattler Midstream GP LLC (as general partner of Rattler Midstream LP)
Date:	November 6, 2019	/s/ Teresa L. Dick
		Teresa L. Dick Chief Financial Officer Rattler Midstream GP LLC (as general partner of Rattler Midstream LP)