PLAINS ALL AMERICAN PIPELINE LP
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**76-0582150** (I.R.S. Employer Identification No.)
333 Clay Street, Suite 1600, Houston, Texas (Address of principal executive offices)	**77002** (Zip Code)

(713) 646-4100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 1, 2010, there were 136,419,175 Common Units outstanding. The common units trade on the New York Stock Exchange under the ticker symbol PAA.

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except units)

	September 30, 2010	December 31, 2009
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 13	$ 25
Trade accounts receivable and other receivables, net	2,144	2,253
Inventory	1,556	1,157
Other current assets	58	223
Total current assets	3,771	3,658
PROPERTY AND EQUIPMENT	7,599	7,240
Accumulated depreciation	(1,067)	(900)
	6,532	6,340
OTHER ASSETS		
Goodwill	1,294	1,287
Linefill and base gas	510	501
Long-term inventory	120	121
Investments in unconsolidated entities	204	82
Other, net	306	369
Total assets	$ 12,737	$ 12,358
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,485	$ 2,295
Short-term debt	895	1,074
Other current liabilities	187	413
Total current liabilities	3,567	3,782
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discount of $13 and $14, respectively	4,362	4,136
Long-term debt under credit facilities and other	231	6
Other long-term liabilities and deferred credits	234	275
Total long-term liabilities	4,827	4,417
COMMITMENTS AND CONTINGENCIES (NOTE 10)		

PARTNERS CAPITAL				
Common unitholders (136,419,175 and 136,135,988 units outstanding, respectively)		4,014		4,002
General partner		97		94
Total partners capital excluding noncontrolling interests		4,111		4,096
Noncontrolling interests		232		63
Total partners capital		4,343		4,159
Total liabilities and partners capital	$	12,737	$	12,358

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per unit data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(unaudited)		(unaudited)	
REVENUES				
Supply & Logistics segment revenues	$ 6,179	$ 4,645	$ 17,992	$ 11,876
Transportation segment revenues	144	147	421	401
Facilities segment revenues	91	65	249	165
Total revenues	6,414	4,857	18,662	12,442
COSTS AND EXPENSES				
Purchases and related costs	5,971	4,417	17,233	11,036
Field operating costs	176	163	510	474
General and administrative expenses	56	52	174	153
Depreciation and amortization	61	59	192	173
Total costs and expenses	6,264	4,691	18,109	11,836
OPERATING INCOME	150	166	553	606
OTHER INCOME/(EXPENSE)				
Equity earnings in unconsolidated entities	1	5	3	13
Interest expense (net of capitalized interest of $4, $4, $13 and $9, respectively)	(64)	(59)	(183)	(165)
Other income/(expense), net	(7)	12	(9)	17
INCOME BEFORE TAX	80	124	364	471
Current income tax benefit/(expense)	1	(2)		(5)
Deferred income tax benefit	3		4	4
NET INCOME	84	122	368	470
Less: Net income attributable to noncontrolling interests	(3)		(5)	(1)
NET INCOME ATTRIBUTABLE TO PLAINS:	$ 81	$ 122	$ 363	$ 469
NET INCOME ATTRIBUTABLE TO PLAINS:				
LIMITED PARTNERS	$ 40	$ 88	$ 241	$ 370
GENERAL PARTNER	$ 41	$ 34	$ 122	$ 99
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 0.28	$ 0.65	$ 1.73	$ 2.84
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 0.28	$ 0.65	$ 1.72	$ 2.82
BASIC WEIGHTED AVERAGE UNITS OUTSTANDING	136	130	136	128
DILUTED WEIGHTED AVERAGE UNITS OUTSTANDING	137	131	137	129

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 368	$ 470
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	192	173
Equity compensation charge	50	47
Gain on sale of linefill	(18)	(4)
Loss on early redemption of senior notes (Note 5)	6	
Other		(39)
Changes in assets and liabilities, net of acquisitions	(135)	(300)
Net cash provided by operating activities	463	347
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions, net of cash acquired	(197)	(117)
Additions to property, equipment and other	(323)	(354)
Cash received for sale of noncontrolling interest in a subsidiary	268	26
Net cash received for linefill	20	8
Investment in unconsolidated entities		(4)
Other investing activities	5	4
Net cash used in investing activities	(227)	(437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on Plains revolving credit facility	(281)	(454)
Net borrowings on PNG revolving credit facility	222	
Net borrowings/(repayments) on short-term letter of credit and hedged inventory facility	100	(180)
Repayment of PNGS debt		(446)
Repayments of senior notes	(175)	(175)
Net proceeds from the issuance of senior notes	400	1,346
Net proceeds from the issuance of common units		458
Distributions paid to common unitholders (Note 7)	(382)	(344)
Distributions paid to general partner (Note 7)	(125)	(98)
Distributions to noncontrolling interests (Note 7)	(5)	
Other financing activities	(1)	(9)
Net cash provided by/(used in) financing activities	(247)	98
Effect of translation adjustment on cash	(1)	(3)
Net increase/(decrease) in cash and cash equivalents	(12)	5
Cash and cash equivalents, beginning of period	25	11
Cash and cash equivalents, end of period	$ 13	$ 16
Cash paid for interest, net of amounts capitalized	$ 191	$ 150
Cash paid for income taxes, net of amounts refunded	$ 20	$ 7

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

(in millions)

	Common Units		General	Partners Capital Excluding Noncontrolling	Noncontrolling	Partners
	Units	Amount	Partner	Interests	Interests	Capital
				(unaudited)		
Balance, December 31, 2009	136	$ 4,002	$ 94	$ 4,096	$ 63	$ 4,159
Net income		241	122	363	5	368
Sale of noncontrolling interest in a subsidiary (Note 7)		99	2	101	167	268
Distributions (Note 7)		(382)	(125)	(507)	(5)	(512)
Issuance of common units under LTIP (Note 7)		16		16		16
Other comprehensive income		36	1	37		37
Other		2	3	5	2	7
Balance, September 30, 2010	136	$ 4,014	$ 97	$ 4,111	$ 232	$ 4,343

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Net income	$ 84	$ 122	$ 368	$ 470
Other comprehensive income	17	210	37	57
Comprehensive income	101	332	405	527
Less: Comprehensive income attributable to noncontrolling interests	(3)		(5)	(1)
Comprehensive income attributable to Plains	$ 98	$ 332	$ 400	$ 526

CONDENSED CONSOLIDATED STATEMENT OF

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

(in millions)

	Derivative Instruments	Translation Adjustments	Other	Total
		(unaudited)		
Balance, December 31, 2009	$ 18	$ 106	$ (1)	$ 123

Reclassification adjustments		11						11
Net deferred loss on cash flow hedges		(6)						(6)
Currency translation adjustment				32				32
Total period activity		5		32				37
Balance, September 30, 2010	$	23	$	138	$	(1)	$	160

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Organization and Basis of Presentation

Organization

We engage in the transportation, storage, terminalling and marketing of crude oil, refined products and LPG. We also engage in the development and operation of natural gas storage facilities. We manage our operations through three operating segments: (i) Transportation, (ii) Facilities and (iii) Supply and Logistics. See Note 11 for further detail of our operating segments.

As used in this Form 10-Q, the terms Partnership, Plains, PAA, we, us, our, ours and similar terms refer to Plains All American Pipeli and its subsidiaries, unless the context indicates otherwise. References to our general partner, as the context requires, include any or all of PAA GP LLC, Plains AAP, L.P. and Plains All American GP LLC.

Definitions

The following additional defined terms are used in this Form 10-Q and shall have the meanings indicated below:

AOCI	= Accumulated other comprehensive income
API 653	= American Petroleum Institute Standard 653
Bcf	= Billion cubic feet
CAA	= Clean Air Act
CAD	= Canadian Dollar
DCP	= Disclosure controls and procedures
DERs	= Distribution Equivalent Rights
DOJ	= United States Department of Justice
EPA	= United States Environmental Protection Agency
FERC	= Federal Energy Regulation Commission
FASB	= Financial Accounting Standards Board
ICE	= IntercontinentalExchange

IPO	= Initial Public Offering
LIBOR	= London Interbank Offered Rate
LPG	= Liquefied petroleum gas and other natural gas-related petroleum products
LTIP	= Long term incentive plan
Mcf	= Thousand cubic feet
MLP	= Master limited partnership
MTBE	= Methyl tertiary-butyl ether
NJDEP	= New Jersey Department of Environmental Protection
NYMEX	= New York Mercantile Exchange
NPNS	= Normal purchase and normal sale
PAA Class B units	= Class B units of our general partner, Plains AAP, L.P.
PLA	= Pipeline loss allowance
PNG	= PAA Natural Gas Storage, L.P.
PNG Class B units	= Class B units of PNG s general partner, PNGS GP LLC
PNG Plan	= PAA Natural Gas Storage, L.P. 2010 Long Term Incentive Plan
PNGS	= PAA Natural Gas Storage, LLC
PAT	= Pacific Atlantic Terminals, LLC
Rainbow	= Rainbow Pipe Line Company Ltd.
RMPS	= Rocky Mountain Pipeline System
SEC	= Securities and Exchange Commission
U.S. GAAP	= United States generally accepted accounting principles
USD	= United States Dollar
WTI	= West Texas Intermediate

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Basis of Consolidation and Presentation

The accompanying condensed consolidated interim financial statements should be read in conjunction with our consolidated financial statements and notes thereto presented in our 2009 Annual Report on Form 10-K. The financial statements have been prepared in accordance with the instructions for interim reporting as prescribed by the SEC. All adjustments (consisting only of normal recurring adjustments) that in the opinion of management were necessary for a fair statement of the results for the interim periods have been reflected. All significant intercompany transactions have been eliminated in consolidation, and certain reclassifications have been made to information from previous years to conform to the current presentation. These reclassifications do not affect net income attributable to Plains. The condensed balance sheet data as of December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three and nine months ended September 30, 2010 should not be taken as indicative of the results to be expected for the full year.

Subsequent events have been evaluated through the financial statements issuance date and have been included within the following footnotes where applicable.

Note 2 Recent Accounting Pronouncements

Other than as discussed below and in our 2009 Annual Report on Form 10-K, no new accounting pronouncements have become effective during the nine months ended September 30, 2010 that are of significance or potential significance to us.

Fair Value Measurement Disclosure Requirements. In January 2010, the FASB issued guidance to enhance disclosures related to the existing fair value hierarchy disclosure requirements. A fair value measurement is designated as Level 1, 2 or 3 within the hierarchy based on the nature of the inputs used in the valuation process. Level 1 measurements generally reflect quoted market prices in active markets for identical assets or liabilities, Level 2 measurements generally reflect the use of significant observable inputs and Level 3 measurements typically utilize significant unobservable inputs. This new guidance requires additional disclosures regarding transfers into and out of Level 1 and Level 2 measurements and requires a gross presentation of activities within the Level 3 roll forward. This guidance was effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. We adopted the guidance relating to Level 1 and Level 2 measurements as of January 1, 2010. Our adoption did not have any material impact on our financial position, results of operations or cash flows. We will adopt the guidance relating to Level 3 measurements on January 1, 2011. We do not expect that adoption of this guidance will have any material impact on our financial position, results of operations, or cash flows.

Variable Interest Entities. In June 2009, the FASB issued guidance that requires an enterprise to perform an analysis to determine whether the enterprise s variable interest(s) provide a controlling financial interest in a variable interest entity (VIE). This analysis identifies the primary beneficiary of a VIE as the enterprise that has (i) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the entity, or the right to receive benefits from the entity, that could potentially be significant to the VIE. This guidance also (i) requires such assessments to be ongoing, (ii) amends certain guidance for determining whether an entity is a VIE and (iii) enhances disclosures that will provide users of financial statements with more transparent information regarding an enterprise s involvement in a VIE. We adopted this guidance as of January 1, 2010. Our adoption did not have any material impact on our financial position, results of operations or cash flows.

Note 3 Trade Accounts Receivable

We review all outstanding accounts receivable balances on a monthly basis and record a reserve for amounts that we expect will not be fully recovered. We do not apply actual balances against the reserve until we have exhausted substantially all collection efforts. At September 30, 2010 and December 31, 2009, substantially all of our accounts receivable (net of allowance for doubtful accounts) were less than 60 days past their scheduled invoice date. Our allowance for doubtful accounts receivable totaled $4 million and $9 million at September 30, 2010 and December 31, 2009, respectively. The decrease in our allowance for doubtful accounts receivable balance during the nine months ended September 30, 2010 primarily is due to the collection and related settlement of claims for receivables that had been reserved for during the years ended December 31, 2009 and 2008. Although we consider our allowance for doubtful accounts receivable to be adequate, actual amounts could vary significantly from estimated amounts.

At September 30, 2010 and December 31, 2009, we had received approximately $142 million and $212 million, respectively, of advance cash payments from third parties to mitigate credit risk. In addition, we enter into netting arrangements (contractual agreements that allow us and the counterparty to offset receivables and payables between the two) that cover a significant part of our transactions and also serve to mitigate credit risk.

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Note 4 Inventory, Linefill, Base Gas and Long-term Inventory

Inventory, linefill, base gas and long-term inventory consisted of the following (barrels in thousands, natural gas volumes in millions and total value in millions):

	September 30, 2010				December 31, 2009			
	Volumes	Unit of Measure	Total Value	Price/ Unit (1)	Volumes	Unit of Measure	Total Value	Price/ Unit (1)
Inventory								
Crude oil	14,556	barrels	$ 1,066	$ 73.23	12,232	barrels	$ 886	$ 72.43
LPG	9,627	barrels	462	$ 47.99	6,051	barrels	247	$ 40.82
Refined products	300	barrels	25	$ 83.33	283	barrels	21	$ 74.20
Natural gas (2)	114	mcf	1	$ 3.58	181	mcf	1	$ 3.30
Parts and supplies	N/A		2	N/A	N/A		2	N/A
Inventory subtotal			1,556				1,157	
Linefill and base gas								
Crude oil	9,166	barrels	468	$ 51.06	9,404	barrels	471	$ 50.09
Natural gas (2)	11,194	mcf	38	$ 3.39	9,194	mcf	28	$ 3.04
LPG	77	barrels	4	$ 51.95	52	barrels	2	$ 38.46
Linefill and base gas subtotal			510				501	
Long-term inventory								
Crude oil	1,420	barrels	97	$ 68.31	1,497	barrels	103	$ 68.80
LPG	544	barrels	23	$ 42.28	458	barrels	18	$ 39.30
Long-term inventory subtotal			120				121	
Total			$ 2,186				$ 1,779	

(1) Price per unit represents a weighted average associated with various grades, qualities, and locations; accordingly, these prices may not be comparable to published benchmarks for such products.

(2) The volumetric ratio of mcf of natural gas to barrels of crude oil is 6:1; thus, natural gas volumes can be converted to barrels by dividing by 6.

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Note 5 Debt

Debt consisted of the following (in millions):

	September 30, 2010	December 31, 2009
Short-term debt:		
Senior secured hedged inventory facility bearing interest at a rate of 2.5% at both September 30, 2010 and December 31, 2009	$ 400	$ 300
Senior unsecured revolving credit facility, bearing interest at a rate of 0.7% and 0.8% at September 30, 2010 and December 31, 2009, respectively (1)	493	772
Other	2	2
Total short-term debt	895	1,074
Long-term debt:		
4.25% senior notes due September 2012 (2)	500	500
7.75% senior notes due October 2012	200	200
5.63% senior notes due December 2013	250	250
5.25% senior notes due June 2015	150	150
3.95% senior notes due September 2015 (3)	400	
6.25% senior notes due September 2015 (4)		175
5.88% senior notes due August 2016	175	175
6.13% senior notes due January 2017	400	400
6.50% senior notes due May 2018	600	600
8.75% senior notes due May 2019	350	350
5.75% senior notes due January 2020	500	500
6.70% senior notes due May 2036	250	250
6.65% senior notes due January 2037	600	600
Unamortized discount	(13)	(14)
Long-term debt under credit facilities and other (5)	231	6
Total long-term debt (1) (6)	4,593	4,142
Total debt	$ 5,488	$ 5,216

(1) We classify as short-term our borrowings under our senior unsecured revolving credit facility. These borrowings are designated as working capital borrowings, must be repaid within one year and are primarily for hedged LPG and crude oil inventory and NYMEX and ICE margin deposits.

(2) These notes were issued in July 2009 and the proceeds are being used to supplement capital available from our hedged inventory facility. At September 30, 2010 and December 31, 2009, approximately $500 million and $222 million, respectively, had been used to fund hedged inventory and would be classified as short-term debt if funded on our credit facilities.

(3) In July 2010, we completed the issuance of $400 million of 3.95% senior notes due September 15, 2015. The senior notes were sold at 99.889% of face value. Interest payments are due on March 15 and September 15 of each year, beginning on September 15, 2010. We used the net proceeds from this offering to repay outstanding indebtedness under our credit facilities.

(4) On September 15, 2010, our $175 million, 6.25% senior notes due 2015 were redeemed in full. In conjunction with the early redemption, we recognized a loss of approximately $6 million. We utilized cash on hand and available capacity under our credit facilities to redeem these notes.

(5) In April 2010, our consolidated subsidiary PNG entered into a three year, $400 million senior unsecured revolving credit facility that matures in May 2013. This credit facility, which bears interest based on LIBOR plus an applicable margin (as defined by the credit agreement), may be expanded to $600 million, subject to additional lender commitments, with approval of the

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administrative agent for the credit facility. At September 30, 2010, borrowings of approximately $222 million were outstanding under this facility.

(6) Our fixed-rate senior notes have a face value of approximately $4.4 billion as of September 30, 2010. We estimate the aggregate fair value of these notes as of September 30, 2010 to be approximately $4.9 billion. Our fixed-rate senior notes are traded among institutions, which trades are routinely published by a reporting service. Our determination of fair value is based on reported trading activity near quarter end.

Credit Facilities

In October 2010, we renewed our 364-day committed hedged inventory credit facility, which matures in October 2011. The facility has a borrowing capacity of $500 million, which may be increased to $1.2 billion, subject to obtaining additional lender commitments. Borrowings under this facility will be used to finance (i) the purchase of hedged crude oil inventory for storage activities and (ii) foreign import activities.

Letters of Credit

In connection with our crude oil supply and logistics activities, we provide certain suppliers with irrevocable standby letters of credit to secure our obligation for the purchase of crude oil. At September 30, 2010 and December 31, 2009, we had outstanding letters of credit of approximately $68 million and $76 million, respectively.

Note 6 Net Income Per Limited Partner Unit

The following table sets forth the computation of basic and diluted earnings per limited partner unit for the three and nine months ended September 30, 2010 and 2009 (amounts in millions, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator for basic and diluted earnings per limited partner unit:				