

PLAINS ALL AMERICAN PIPELINE LP
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

or

- 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)

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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)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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):

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(Do not check if a smaller
reporting company)

Smaller Reporting Company

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

The aggregate market value of the Common Units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the Common Units outstanding, for this purpose, as if they may be affiliates of the registrant) was approximately \$8.4 billion on June 30, 2011, based on a closing price of \$64.00 per Common Unit as reported on the New York Stock Exchange on such date.

As of February 22, 2012, there were 155,568,749 Common Units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

FORM 10-K 2011 ANNUAL REPORT

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FORWARD-LOOKING STATEMENTS

All statements included in this report, other than statements of historical fact, are forward-looking statements, including but not limited to statements incorporating the words anticipate, believe, estimate, expect, plan, intend and forecast, as well as similar expressions and statements regarding our business strategy, plans and objectives for future operations. The absence of these words, however, does not mean that the statements are not forward-looking. These statements reflect our current views with respect to future events, based on what we believe to be reasonable assumptions. Certain factors could cause actual results to differ materially from the results anticipated in the forward-looking statements. The most important of these factors include, but are not limited to:

- failure to consummate and integrate the BP NGL Acquisition;
- failure to implement or capitalize on planned internal growth projects;
- maintenance of our credit rating and ability to receive open credit from our suppliers and trade counterparties;
- continued creditworthiness of, and performance by, our counterparties, including financial institutions and trading companies with which we do business;
- the effectiveness of our risk management activities;
- unanticipated changes in crude oil market structure, grade differentials and volatility (or lack thereof);
- environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;
- abrupt or severe declines or interruptions in outer continental shelf production located offshore California and transported on our pipeline systems;
- shortages or cost increases of supplies, materials or labor;

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- the availability of adequate third-party production volumes for transportation and marketing in the areas in which we operate and other factors that could cause declines in volumes shipped on our pipelines by us and third-party shippers, such as declines in production from existing oil and gas reserves or failure to develop additional oil and gas reserves;
- fluctuations in refinery capacity in areas supplied by our mainlines and other factors affecting demand for various grades of crude oil, refined products and natural gas and resulting changes in pricing conditions or transportation throughput requirements;
- the availability of, and our ability to consummate, acquisition or combination opportunities;
- our ability to obtain debt or equity financing on satisfactory terms to fund additional acquisitions, expansion projects, working capital requirements and the repayment or refinancing of indebtedness;
- the successful integration and future performance of acquired assets or businesses and the risks associated with operating in lines of business that are distinct and separate from our historical operations;
- the impact of current and future laws, rulings, governmental regulations, accounting standards and statements, and related interpretations;
- the effects of competition;
- interruptions in service on third-party pipelines;
- increased costs or lack of availability of insurance;
- fluctuations in the debt and equity markets, including the price of our units at the time of vesting under our long-term incentive plans;
- the currency exchange rate of the Canadian dollar;

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- weather interference with business operations or project construction;
- risks related to the development and operation of natural gas storage facilities;
- factors affecting demand for natural gas and natural gas storage services and rates;
- general economic, market or business conditions and the amplification of other risks caused by volatile financial markets, capital constraints and pervasive liquidity concerns; and
- other factors and uncertainties inherent in the transportation, storage, terminalling and marketing of crude oil and refined products, as well as in the storage of natural gas and the processing, transportation, fractionation, storage and marketing of natural gas liquids.

Other factors described herein, as well as factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read Item 1A. Risk Factors. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

PART I

Items 1 and 2. *Business and Properties*

General

Plains All American Pipeline, L.P. is a Delaware limited partnership formed in 1998. Our operations are conducted directly and indirectly through our primary operating subsidiaries. As used in this Form 10-K and unless the context indicates otherwise, the terms Partnership, Plains, PAA, we, us, our, ours and similar terms refer to Plains All American Pipeline, L.P. and its subsidiaries.

We engage in the transportation, storage, terminalling and marketing of crude oil and refined products, as well as in the processing, transportation, fractionation, storage and marketing of natural gas liquids (NGL). The term NGL includes ethane and natural gasoline products as well as propane and butane, products which are also commonly referred to as liquefied petroleum gas (LPG). As used in this Form 10-K, the terms NGL and LPG are sometimes used interchangeably depending on the context. Through our general partner interest and majority equity ownership position in PAA Natural Gas Storage, L.P. (NYSE: PNG), we also own and operate natural gas storage facilities. Our business

activities are conducted through three operating segments: Transportation, Facilities and Supply and Logistics.

Organizational History

We were formed as a master limited partnership to acquire and operate the midstream crude oil businesses and assets of a predecessor entity and completed our initial public offering in 1998. Our 2% general partner interest is held by PAA GP LLC, a Delaware limited liability company, whose sole member is Plains AAP, L.P., a Delaware limited partnership. Plains All American GP LLC, a Delaware limited liability company, is Plains AAP, L.P.'s general partner. 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. Plains AAP, L.P. and Plains All American GP LLC are owned by 18 holders and their affiliates. The five largest of these holders and their affiliates own an aggregate interest of approximately 95%. See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters Beneficial Ownership of General Partner Interest.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. Plains All American GP LLC has ultimate responsibility for conducting our business and managing our operations. See Item 10. Directors and Executive Officers of our General Partner and Corporate Governance. Our general partner does not receive a management fee or other compensation in connection with its management of our business, but it is reimbursed for substantially all direct and indirect expenses incurred on our behalf (other than expenses related to the Class B units of Plains AAP, L.P.).

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The chart below depicts the current structure and ownership of Plains All American Pipeline, L.P. and certain subsidiaries as of February 22, 2012.

(1) Based on Form 4 filings for executive officers and directors, 13D filings for Richard Kayne and other information believed to be reliable for the remaining investors, this group, or affiliates of such investors, owns approximately 9.5 million limited partner units, representing approximately 6% of all outstanding units.

(2) Incentive Distribution Rights (IDRs). See Item 5. Market for Registrant's Common Units, Related Unitholder Matters and Issuer Purchases of Equity Securities for discussion of our general partner's incentive distribution rights.

(3) The Partnership holds direct and indirect ownership interests in consolidated operating subsidiaries including, but not limited to, Plains Pipeline, L.P., Plains Marketing, L.P., Plains LPG Services, L.P., Pacific Energy Group LLC and Plains Midstream Canada ULC (PMC).

(4) The Partnership holds direct and indirect equity interests in unconsolidated entities including Settoon Towing, LLC (Settoon Towing), White Cliffs Pipeline, LLC (White Cliffs), Butte Pipe Line Company (Butte) and Frontier Pipeline Company (Frontier).

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Business Strategy

Our principal business strategy is to provide competitive and efficient midstream transportation, terminalling, storage, processing, fractionation and supply and logistics services to our producer, refiner and other customers. Toward this end, we endeavor to address regional supply and demand imbalances for crude oil, refined products, NGL and natural gas in the United States and Canada by combining the strategic location and capabilities of our transportation, terminalling, storage, processing and fractionation assets with our extensive supply, logistics and distribution expertise.

We believe successful execution of this strategy will enable us to generate sustainable earnings and cash flow. We intend to manage and grow our business by:

- optimizing our existing assets and realizing cost efficiencies through operational improvements;

- using our transportation, terminalling, storage, processing and fractionation assets in conjunction with our supply and logistics activities to capitalize on inefficient energy markets and to address physical market imbalances, mitigate inherent risks and increase margin;

- developing and implementing internal growth projects that (i) address evolving crude oil, refined products, natural gas and NGL needs in the midstream transportation and infrastructure sector and (ii) are well positioned to benefit from long-term industry trends and opportunities;

- selectively pursuing strategic and accretive acquisitions that complement our existing asset base and distribution capabilities; and

- capitalizing on the anticipated long-term growth in demand for natural gas storage services in North America by owning and operating high-quality natural gas storage facilities and providing our current and future customers reliable, competitive and flexible natural gas storage and related services through our ownership interest in PNG.

Financial Strategy

Targeted Credit Profile

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We believe that a major factor in our continued success is our ability to maintain a competitive cost of capital and access to the capital markets. In that regard, we intend to maintain a credit profile that we believe is consistent with our investment grade credit rating. We have targeted a general credit profile with the following attributes:

- an average long-term debt-to-total capitalization ratio of approximately 45% to 50%;
- a long-term debt-to-adjusted EBITDA multiple averaging between 3.5x and 4.0x (Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, equity compensation plan charges, gains and losses from derivative activities and other selected items that impact comparability. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Non-GAAP Financial Measures for a discussion of our selected items that impact comparability and our non-GAAP measures.);
- an average total debt-to-total capitalization ratio of approximately 60%; and
- an average adjusted EBITDA-to-interest coverage multiple of approximately 3.3x or better.

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The first two of these four metrics include long-term debt as a critical measure. In certain market conditions, we also incur short-term debt in connection with our supply and logistics activities that involve the simultaneous purchase and forward sale of crude oil, NGL and natural gas. The crude oil, NGL and natural gas purchased in these transactions are hedged. We do not consider the working capital borrowings associated with these activities to be part of our long-term capital structure. These borrowings are self-liquidating as they are repaid with sales proceeds. We also incur short-term debt to fund New York Mercantile Exchange (NYMEX) and IntercontinentalExchange (ICE) margin requirements.

In order for us to maintain our targeted credit profile and achieve growth through internal growth projects and acquisitions, we intend to fund 55% of the capital requirements associated with these activities with equity and cash flow in excess of distributions. From time to time, we may be outside the parameters of our targeted credit profile as, in certain cases, these capital expenditures and acquisitions may be financed initially using debt or there may be delays in realizing anticipated synergies from acquisitions or contributions from capital expansion projects to adjusted EBITDA.

Competitive Strengths

We believe that the following competitive strengths position us to successfully execute our principal business strategy:

- *Many of our transportation segment and facilities segment assets are strategically located and operationally flexible.* The majority of our primary transportation segment assets are in crude oil service, are located in well-established oil producing regions and transportation corridors and are connected, directly or indirectly, with our facilities segment assets located at major trading locations and premium markets that serve as gateways to major North American refinery and distribution markets where we have strong business relationships.
- *We possess specialized crude oil market knowledge.* We believe our business relationships with participants in various phases of the crude oil distribution chain, from crude oil producers to refiners, as well as our own industry expertise, provide us with an extensive understanding of the North American physical crude oil markets.
- *Our supply and logistics activities typically generate a base level of margin with the opportunity to realize incremental margins.* We believe the variety of activities executed within our supply and logistics segment in combination with our risk management strategies provides us with a balance that generally affords us the flexibility to maintain a base level of margin in a variety of market conditions (subject to the effects of seasonality). In certain circumstances, we are able to realize incremental margins during volatile market conditions.
- *We have the evaluation, integration and engineering skill sets and the financial flexibility to continue to pursue acquisition and expansion opportunities.* Over the past fourteen years, we have completed and integrated over 70 acquisitions with an aggregate purchase price of approximately \$8.2 billion. We have also implemented internal expansion capital projects totaling approximately \$3.0 billion. In addition, we believe we have resources to finance future strategic expansion and acquisition opportunities. As of December 31, 2011, we had over \$3.6 billion available under our committed credit facilities, subject to continued covenant compliance.

- *We have an experienced management team whose interests are aligned with those of our unitholders.* Our executive management team has an average of 27 years industry experience, and an average of 16 years with us or our predecessors and affiliates. In addition, through their ownership of common units, indirect interests in our general partner, grants of phantom units and the Class B units in Plains AAP, L.P., our management team has a vested interest in our continued success.

Acquisitions

The acquisition of assets and businesses that are strategic and complementary to our existing operations constitutes an integral component of our business strategy and growth objective. Such assets and businesses include crude oil related assets, refined products assets, NGL assets and natural gas storage assets, as well as other energy transportation related assets that have characteristics and opportunities similar to these business lines and enable us to leverage our asset base, knowledge base and skill sets.

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The following table summarizes acquisitions greater than \$200 million that we have completed over the past five years (in millions). See Note 3 to our Consolidated Financial Statements for a full discussion regarding our acquisition activities.

Acquisition	Date	Description	Approximate Purchase Price(1)
Western Refining, Inc. (Western)	Dec-2011	Multi-product storage facility in Virginia and Crude oil pipeline in southeastern New Mexico	\$ 220(2)
Velocity South Texas Gathering, LLC (Velocity)	Nov-2011	Crude oil and condensate gathering and transportation assets in South Texas (Gardendale Gathering System)	\$ 349
SG Resources Mississippi, LLC (SG Resources)	Feb-2011	Southern Pines Energy Center (Southern Pines) natural gas storage facility	\$ 765(3)
Nexen Holdings U.S.A. Inc. (Nexen)	Dec-2010	Crude oil gathering business and transportation assets in North Dakota and Montana	\$ 229(4)
PAA Natural Gas Storage, LLC (PNGS)	Sep-2009	Remaining 50% interest in PNGS	\$ 215(5)
Rainbow Pipe Line Company, Ltd. (Rainbow)	May-2008	Crude oil gathering and transportation assets in Alberta, Canada	\$ 687(6)

(1) As applicable, the approximate purchase price includes total cash paid and debt assumed, including amounts for working capital and inventory.

(2) Includes two transactions with Western.

(3) Acquisition made by our subsidiary, PNG. Approximate purchase price of \$750 million, net of cash and other working capital acquired.

(4) Approximate purchase price of \$170 million, net of cash, inventory and other working capital acquired.

(5) In connection with the PNGS acquisition we consolidated and subsequently refinanced approximately \$450 million of previously non-recourse joint venture debt.

(6) Approximate purchase price of \$544 million, net of linefill acquired.

Ongoing Acquisition Activities

Consistent with our business strategy, we are continuously engaged in discussions with potential sellers regarding the possible purchase of assets and operations that are strategic and complementary to our existing operations. In addition, we have in the past evaluated and pursued, and intend in the future to evaluate and pursue, other energy-related assets that have characteristics and opportunities similar to our existing business lines and enable us to leverage our asset base, knowledge base and skill sets. Such acquisition efforts may involve participation by us in processes that have been made public and involve a number of potential buyers, commonly referred to as auction processes, as well as situations in which we believe we are the only party or one of a limited number of potential buyers in negotiations with the potential seller. These acquisition efforts often involve assets which, if acquired, could have a material effect on our financial condition and results of operations.

We typically do not announce a transaction until after we have executed a definitive acquisition agreement. However, in certain cases in order to protect our business interests or for other reasons, we may defer public announcement of an acquisition until closing or a later date. Past experience has demonstrated that discussions and negotiations regarding a potential acquisition can advance or terminate in a short period of time. Moreover, the closing of any transaction for which we have entered into a definitive acquisition agreement will be subject to customary and other closing conditions, which may not ultimately be satisfied or waived. Accordingly, we can give no assurance that our current or future acquisition efforts will be successful. Although we expect the acquisitions we make to be accretive in the long term, we can provide no assurance that our expectations will ultimately be realized. See Item 1A. Risk Factors Risks Related to Our Business If we do not make acquisitions or if we make acquisitions that fail to perform as anticipated, our future growth may be limited and Our acquisition strategy involves risks that may adversely affect our business.

Pending BP NGL Acquisition. On December 1, 2011, we entered into a definitive agreement to acquire all outstanding shares of BP Canada Energy Company, a wholly owned subsidiary of BP Corporation North America Inc. (BP North America). Total consideration for the acquisition, which will be based on an October 1, 2011 effective date, is approximately \$1.67 billion, subject to working capital and other adjustments. A cash deposit of \$50 million was paid upon signing, and the balance, plus 2% interest from October 1, 2011, is payable in cash upon closing. Subject to Canadian and U.S. regulatory approvals and other customary closing conditions, the acquisition is expected to close in the second quarter of 2012.

Upon completion of this acquisition, we will become the indirect owner of all of BP North America's Canadian-based NGL business and certain of BP North America's NGL assets located in the upper-Midwest United States (collectively the BP NGL Assets). The BP NGL Assets to be acquired include varying ownership interests and contractual rights relating to approximately 2,600 miles of NGL pipelines; approximately 20 million barrels of NGL storage capacity; seven fractionation plants with an aggregate net capacity of approximately 232,000 barrels per day; four straddle plants and two field gas processing plants with an aggregate net capacity of approximately six Bcf per day; and long-term and seasonal NGL inventories of approximately 10 million barrels as of October 1, 2011. Certain of these pipelines and storage assets are currently inactive. The acquired business also includes various third-party supply contracts at other field gas processing plants and a supply contract relating to a third-party owned straddle plant with throughput capacity of 2.5 Bcf per day, shipping arrangements on third-party NGL pipelines and long-term leases on 720 rail cars used to move product among various locations. Collectively, these assets and activities provide access to approximately 140,000 to 150,000 barrels per day of NGL supply that are transported through an integrated network to fractionation facilities and markets in Western and Eastern

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Canada and in the U.S. Subject to closing the transaction, we have also entered into an Integrated Supply and Trading Agreement, pursuant to which an affiliate of BP North America will, for a period of two years following the closing of the acquisition, continue to provide sourcing services for gas supply to feed certain of the straddle plants to be acquired as a result of the acquisition.

Global Petroleum Market Overview

The United States comprises less than 4% of the world's population, generates approximately 12% of the world's petroleum production, and consumes approximately 22% of the world's petroleum production. The following table sets forth projected world supply and demand for petroleum products (including crude oil and NGL) and is derived from the Energy Information Administration's (EIA) Annual Energy Outlook 2012 Early Release (see EIA website at www.eia.doe.gov):

2011 (1)	2012	2013	Projected	2015
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