

NuStar Energy L.P.  
Form 10-K  
February 28, 2019  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-16417

NUSTAR ENERGY L.P.

(Exact name of registrant as specified in its charter)

Delaware

74-2956831

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

19003 IH-10 West

78257

San Antonio, Texas

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code (210) 918-2000

Securities registered pursuant to Section 12(b) of the Act: Common units representing limited partner interests listed on the New York Stock Exchange. 8.50% Series A, 7.625% Series B and 9.00% Series C Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units representing limited partner interests listed on the New York Stock Exchange.

Securities registered pursuant to 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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, 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:

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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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

The aggregate market value of the common units held by non-affiliates was approximately \$1.8 billion based on the last sales price quoted as of June 29, 2018, the last business day of the registrant's most recently completed second quarter.

The number of common units outstanding as of January 31, 2019 was 107,278,252.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Proxy Statement for the registrant's 2019 annual meeting of unitholders, expected to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III to the extent described therein.

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PART I

Unless otherwise indicated, the terms “NuStar Energy,” “the Partnership,” “we,” “our” and “us” are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In this Form 10-K, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, estimates, predictions, projections, assumptions, intentions and resources. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words “anticipates,” “believes,” “expects,” “plans,” “intends,” “estimates,” “forecasts,” “budgets,” “projects,” “will,” “could,” “should,” “may” and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions, which may cause actual results to differ materially. Please read Item 1A. “Risk Factors” for a discussion of certain of those risks, uncertainties and assumptions.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-K. We do not intend to update these statements unless we are required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

ITEMS 1., 1A. and 2. BUSINESS, RISK FACTORS AND PROPERTIES

OVERVIEW

NuStar Energy L.P. (NuStar Energy), a Delaware limited partnership, was formed in 1999 and completed its initial public offering of common units on April 16, 2001. Our common units trade on the New York Stock Exchange (NYSE) under the symbol “NS,” and our fixed-to-floating rate cumulative redeemable perpetual preferred units trade on the NYSE under the symbol “NSprA” for our 8.50% Series A Preferred Units, “NSprB” for our 7.625% Series B Preferred Units and “NSprC” for our 9.00% Series C Preferred Units. Our principal executive offices are located at 19003 IH-10 West, San Antonio, Texas 78257 and our telephone number is (210) 918-2000.

We are engaged in the transportation of petroleum products and anhydrous ammonia, and the terminalling, storage and marketing of petroleum products. The term “throughput” as used in this document generally refers to barrels of crude oil or refined product or tons of ammonia, as applicable, that pass through our pipelines, terminals or storage tanks.

We divide our operations into the following three reportable business segments: pipeline, storage and fuels marketing. As of December 31, 2018, our assets included approximately 9,800 miles of pipeline and 75 terminal and storage facilities, which provide approximately 88 million barrels of storage capacity. The following table summarizes operating income for each of our business segments:

	Year Ended
	December 31,
	2018
	(Thousands
	of Dollars)
Pipeline	\$ 272,695
Storage	\$ 181,471

Fuels marketing \$ 24,440

We conduct our operations through our wholly owned subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). Our revenues include:

•tariffs for transporting crude oil, refined products and anhydrous ammonia through our pipelines;  
•fees for the use of our terminal and storage facilities and related ancillary services; and  
•sales of petroleum products.

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We strive to increase unitholder value by:

- enhancing our existing assets through strategic internal growth projects that expand our business with current and new customers;
- pursuing strategic projects to expand and optimize our existing assets and to construct new assets;
- improving our operations, including safety and environmental stewardship, cost control and asset reliability; and
- identifying strategic acquisition targets that meet our financial criteria.

Our internet website address is <http://www.nustarenergy.com>. Information contained on our website is not part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our website, free of charge, as soon as reasonably practicable after we file or furnish such material (select the “Investors” link, then the “SEC Filings” link). We also post our corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers and the charters of our board’s committees on our website free of charge (select the “Investors” link, then the “Corporate Governance” link).

Our governance documents are available in print to any unitholder that makes a written request to Corporate Secretary, NuStar Energy L.P., 19003 IH-10 West, San Antonio, Texas 78257 or [corporatesecretary@nustarenergy.com](mailto:corporatesecretary@nustarenergy.com).

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RECENT DEVELOPMENTS

In early 2018, we launched a comprehensive plan to achieve the characteristics now demanded by the master limited partnership market: simplified corporate governance with no incentive distribution rights, minimal equity capital needs, lower leverage and strong distribution coverage. Over the course of the year, we executed our plan, by, among other things, selling our European operations, completing the Merger and issuing the Series D Preferred Units, all discussed in more detail below. We accomplished our objectives and believe we now have the financial flexibility to allow for strong, stable growth.

**Sale of European Operations.** On November 30, 2018, we sold our European operations to Inter Terminals, Ltd. for approximately \$270.0 million. The operations sold include six liquids storage terminals in the United Kingdom and one facility in Amsterdam. Please refer to Note 5 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for further discussion of the sale.

**Merger.** On February 7, 2018, NuStar Energy, Riverwalk Logistics, L.P., NuStar GP, LLC, Marshall Merger Sub LLC, a wholly owned subsidiary of NuStar Energy (Merger Sub), Riverwalk Holdings, LLC and NuStar GP Holdings, LLC (NuStar GP Holdings) entered into an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the Merger Agreement, Merger Sub merged with and into NuStar GP Holdings, with NuStar GP Holdings being the surviving entity (the Merger), such that NuStar Energy became the sole member of NuStar GP Holdings following the Merger on July 20, 2018. Pursuant to the Merger Agreement and at the effective time of the Merger, our partnership agreement was amended and restated to, among other things, (i) cancel the incentive distribution rights held by our general partner, (ii) convert the 2% general partner interest in NuStar Energy held by our general partner into a non-economic management interest and (iii) provide the holders of our common units with voting rights in the election of the members of the board of directors of NuStar GP, LLC, beginning at the annual meeting in 2019. We issued approximately 13.4 million incremental NuStar Energy common units as a result of the Merger. Please refer to the following two pages for organizational charts at December 31, 2018 and before the Merger and Note 4 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for further discussion.

**Issuances of Units.** In June and July of 2018, we issued 23,246,650 Series D Cumulative Convertible Preferred Units at a price of \$25.38 per unit in a private placement for net proceeds of \$555.8 million. Please refer to Note 19 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for further discussion. On June 29, 2018, we also issued 413,736 common units at a price of \$24.17 per unit to William E. Greehey, Chairman of the Board of Directors of NuStar GP, LLC.

**Council Bluffs Acquisition.** On April 16, 2018, we acquired CHS Inc.’s Council Bluffs pipeline system, comprised of a 227-mile pipeline and 18 storage tanks, for approximately \$37.5 million. The assets acquired and the results of operations are included in our pipeline segment, within the East Pipeline, from the date of acquisition. We accounted for this acquisition as an asset purchase.

**Hurricane Activity.** In the third quarter of 2017, several of our facilities were affected by the hurricanes in the Caribbean and Gulf of Mexico, including our St. Eustatius terminal, which experienced the most damage and was temporarily shut down. The damage caused by the Caribbean hurricane resulted in lower revenues for our bunker fuel operations in our fuels marketing segment and lower throughput and associated handling fees in our storage segment in 2017 and in the first quarter of 2018. In 2017, we recorded a \$5.0 million loss in “Other income (expense), net” in the consolidated statements of income for property damage at the terminal, which represents the amount of our property deductible under our insurance policy, and we received \$12.5 million of insurance proceeds, of which \$3.8 million was for business interruption. In January 2018, we received \$87.5 million of insurance proceeds in settlement of our property damage claim for our St. Eustatius terminal, of which \$9.1 million related to business interruption. Although

the repairs are not complete, we expect that the costs to repair the property damage at the terminal will not exceed the amount of insurance proceeds received. Please refer to Note 1 of the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for further discussion.

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ORGANIZATIONAL STRUCTURE

As a result of the Merger, NuStar GP Holdings, which indirectly owns our general partner, became a wholly owned subsidiary of ours on July 20, 2018. The following chart depicts a summary of our organizational structure at December 31, 2018:

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The following chart depicts a summary of our organizational structure prior to the Merger on July 20, 2018, which is further described in Note 4 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data”:

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SEGMENTS

Detailed financial information about our segments is included in Note 26 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data.” The following map depicts our assets at December 31, 2018:

PIPELINE

Our pipeline operations consist of the transportation of refined products, crude oil and anhydrous ammonia. As of December 31, 2018, we owned and operated:

- refined product pipelines with an aggregate length of 3,130 miles and crude oil pipelines with an aggregate length of 2,070 miles in Texas, Oklahoma, Kansas, Colorado and New Mexico (collectively, the Central West System);
- a 2,150-mile refined product pipeline originating in southern Kansas and terminating at Jamestown, North Dakota, with a western extension to North Platte, Nebraska and an eastern extension into Iowa (the East Pipeline);
- a 450-mile refined product pipeline originating at Marathon Petroleum Corporation’s (Marathon) Mandan, North Dakota refinery and terminating in Minneapolis, Minnesota (the North Pipeline); and
- a 2,000-mile anhydrous ammonia pipeline originating in the Louisiana delta area that travels north through the Midwestern United States to Missouri before forking east and west to terminate in Indiana and Nebraska (the Ammonia Pipeline).

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The following table lists information about our pipeline assets as of December 31, 2018:

Region / Pipeline System	Length (Miles)	Tank Capacity (Barrels)	Throughput For the year ended December 31,	
			2018	2017
<b>Central West System:</b>				
McKee System	2,276	—	193,396	171,815
Three Rivers System	373	—	81,174	78,165
Other	481	—	51,130	53,829
Central West Refined Products Pipelines	3,130	—	325,700	303,809
South Texas Crude System	328	2,157,000	144,976	114,920
Other	200	—	70,251	52,969
Eagle Ford System	528	2,157,000	215,227	167,889
McKee System	598	1,039,000	154,718	137,675
Ardmore System	119	824,000	70,967	84,801
Permian Crude System	825	1,000,000	435,743	192,958
Central West Crude Oil Pipelines	2,070	5,020,000	876,655	583,323
<b>Total Central West System</b>	<b>5,200</b>	<b>5,020,000</b>	<b>1,202,355</b>	<b>887,132</b>
<b>Central East System:</b>				
East Pipeline	2,150	5,851,000	150,635	139,317
North Pipeline	450	1,494,000	50,180	41,438
Ammonia Pipeline	2,000	—	30,529	32,172
<b>Total Central East System</b>	<b>4,600</b>	<b>7,345,000</b>	<b>231,344</b>	<b>212,927</b>
<b>Total</b>	<b>9,800</b>	<b>12,365,000</b>	<b>1,433,699</b>	<b>1,100,059</b>

**Description of Pipelines**

**Central West System.** The Central West System covers a total of 5,200 miles, including refined product and crude oil pipelines. The refined product pipelines have an aggregate length of 3,130 miles (Central West Refined Products Pipelines) and transport gasoline, distillates (including diesel and jet fuel), natural gas liquids and other products produced at the refineries to which they are connected, including Valero Energy Corporation's (Valero Energy) McKee and Three Rivers refineries.

The crude oil pipelines have an aggregate length of 2,070 miles (Central West Crude Oil Pipelines). Our crude oil pipelines transport crude oil and other feedstocks to the refineries to which they are connected, including Valero Energy's McKee, Three Rivers and Ardmore refineries, or from the Eagle Ford Shale region to our North Beach marine export terminal and to third-party refineries in Corpus Christi, Texas.

Our Permian Crude System, which is comprised of the assets we acquired in May 2017, together with the assets we have constructed through various expansion projects since the date of the acquisition, consists of crude oil transportation, pipeline connection and storage assets located in the Midland Basin of West Texas. The Permian Crude System is an interconnected system that aggregates receipts from wellhead connection lines into intra-basin trunk lines for delivery to regional hubs and to connections with third-party mainline takeaway pipelines. The system consists of 825 miles of pipelines and covers over 500,000 dedicated acres owned by producers, with approximately 200 well-connection sites. The Permian Crude System also includes two terminals, at Big Spring and Colorado City, as well as several truck stations and other operational storage facilities, with an aggregate storage capacity of 1.0 million barrels.

Central East System. The Central East System covers a total of 4,600 miles and consists of the East Pipeline, North Pipeline and Ammonia Pipeline.

The East Pipeline covers 2,150 miles and transports refined products and natural gas liquids north via pipelines to our terminals and third-party terminals along the system and to receiving pipeline connections in Kansas. Shippers on the East Pipeline

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obtain refined products from refineries in Kansas, Oklahoma and Texas. The East Pipeline system includes 18 truck-loading terminals, with storage capacity of approximately 4.4 million barrels and two tank farms with storage capacity of approximately 1.4 million barrels at McPherson and El Dorado, Kansas.

The North Pipeline originates at Marathon's Mandan, North Dakota refinery and runs from west to east for approximately 450 miles to its termination in the Minneapolis, Minnesota area. The North Pipeline system includes four truck-loading terminals with storage capacity of approximately 1.5 million barrels.

The 2,000-mile Ammonia Pipeline originates in the Louisiana delta area, where it connects to three third-party marine terminals and three anhydrous ammonia plants on the Mississippi River. The line runs north through Louisiana and Arkansas into Missouri, where at Hermann, Missouri it splits and one branch goes east into Illinois and Indiana, while the other branch continues north into Iowa and then turns west into Nebraska. The Ammonia Pipeline is connected to multiple third-party-owned terminals, which include industrial facility delivery locations. Product is supplied to the pipeline from anhydrous ammonia plants in Louisiana and imported product delivered through the marine terminals. Anhydrous ammonia is primarily used as agricultural fertilizer. It is also used as a feedstock to produce other nitrogen derivative fertilizers and explosives.

### Pipeline Operations

We charge tariffs on a per barrel basis for transporting refined products, crude oil and other feedstocks in our refined product and crude oil pipelines and on a per ton basis for transporting anhydrous ammonia in the Ammonia Pipeline. Revenues earned at storage facilities included with these pipeline systems predominately relate to the volumes transported on the pipelines through fees included in the respective pipeline tariff. As a result, these storage facilities are included in this segment instead of the storage segment.

In general, shippers on our crude oil and refined product pipelines deliver petroleum products to our pipelines for transport to/from: (i) refineries that connect to our pipelines, (ii) third-party pipelines or terminals and (iii) our terminals for further delivery to marine vessels or pipelines. We charge our shippers tariff rates based on transportation from the origination point on the pipeline to the point of delivery.

Our pipelines are subject to federal regulation by one or more of the following governmental agencies: the Federal Energy Regulatory Commission (the FERC), the Surface Transportation Board (the STB), the Department of Transportation (the DOT), the Environmental Protection Agency (the EPA) and the Department of Homeland Security. Additionally, our pipelines are subject to the respective state jurisdictions. See "Rate Regulation" and "Environmental, Health, Safety and Security Regulation" below for additional discussion.

The majority of our pipelines are common carrier. Common carrier activities are those for which transportation through our pipelines is available to any shipper who requests such services and satisfies the conditions and specifications for transportation. Published tariffs are (i) filed with the FERC for interstate petroleum product shipments, (ii) filed with the relevant state authority for intrastate petroleum product shipments or (iii) regulated by the STB for our Ammonia Pipeline.

We operate our pipelines remotely through an operational technology system called the Supervisory Control and Data Acquisition, or SCADA, system.

### Demand for and Sources of Refined Products and Crude Oil

Throughputs on our Central West Refined Product Pipelines and the East and North Pipelines depend on the level of demand for refined products in the markets served by those pipelines, as well as the ability and willingness of the refiners and marketers with access to the pipelines to supply that demand through our pipelines.

The majority of the refined products delivered through the Central West Refined Product Pipelines and the North Pipeline are gasoline and diesel fuel that originate at refineries connected to our pipelines. Demand for motor fuels fluctuates as prices for these products fluctuate. Prices fluctuate for a variety of reasons, including the overall balance in supply and demand, which is affected by general economic conditions, among other factors. Prices for gasoline and diesel fuel tend to increase in the warm weather months when people tend to drive automobiles more often and for longer distances.

Much of the refined products and natural gas liquids delivered through the East Pipeline and a portion of volumes on the North Pipeline are ultimately used as fuel for railroads, ethanol denaturant or in agricultural operations, including

fuel for farm equipment, irrigation systems, trucks used for transporting crops and crop-drying facilities. Demand for refined products for agricultural use, and the relative mix of products required, is affected by weather conditions in the markets served by the East and North Pipelines. The agricultural sector is also affected by government agricultural policies and crop prices. Although periods of drought suppress agricultural demand for some refined products, particularly those used for fueling farm equipment, the demand for fuel for irrigation systems often increases during such times. The mix of refined products delivered for

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agricultural use varies seasonally, with gasoline demand peaking in early summer, diesel fuel demand peaking in late summer and propane demand higher in the fall.

Our refined product pipelines are also dependent upon adequate levels of production of refined products by refineries connected to the pipelines, directly or through connecting pipelines. The refineries are, in turn, dependent upon adequate supplies of suitable grades of crude oil. Certain of our Central West Refined Products Pipelines are subject to long-term throughput agreements with Valero Energy. Valero Energy refineries connected directly to our pipelines obtain crude oil from a variety of foreign and domestic sources. If operations at one of these refineries were discontinued or significantly reduced, it could have a material adverse effect on our operations, although we would endeavor to minimize the impact by seeking alternative customers for those pipelines.

The North Pipeline is heavily dependent on Marathon's Mandan, North Dakota refinery, which primarily runs North Dakota crude oil (although it has the ability to process other crude oils), and an interruption in operations at the Marathon refinery could have a material adverse effect on our operations. The majority of the refined products transported through the East Pipeline are produced at three refineries located at McPherson and El Dorado, Kansas and Ponca City, Oklahoma, which are operated by CHS Inc., HollyFrontier Corporation and Phillips 66, respectively. The East Pipeline also has access to Gulf Coast supplies of products through third-party connecting pipelines that receive products originating from Gulf Coast refineries.

Other than the Valero Energy refineries and the Marathon refinery described above, if operations at any one refinery were discontinued, we believe (assuming stable demand for refined products in markets served by the refined product pipelines) that the effects thereof would be short-term in nature and our business would not be materially adversely affected over the long-term because such discontinued production could be replaced by other refineries or other sources.

Our crude oil pipelines are dependent on our customers' continued access to sufficient crude oil and sufficient demand for refined products for our customers to operate their refineries. The supply of crude oil production (domestic and foreign) could fluctuate with the price of crude oil. Changes in crude oil prices could also affect the exploration and production of shale plays, which could affect demand for crude oil pipelines serving those regions, such as our Eagle Ford System and Permian Crude System. However, certain of our crude oil pipelines, including the McKee System, are the primary source of crude oil for our customers' refineries. Therefore, these "demand-pull" pipelines are less affected by changes in crude oil prices.

### Demand for and Sources of Anhydrous Ammonia

The Ammonia Pipeline currently is one of two major anhydrous ammonia pipelines in the United States transporting anhydrous ammonia into the nation's corn belt and the only one with the connectivity to receive products from outside the United States directly into the system.

Throughputs on our Ammonia Pipeline depend on overall demand for nitrogen fertilizer use, the price of natural gas, which is the primary component of anhydrous ammonia, and the level of demand for direct application of anhydrous ammonia as a fertilizer for crop production (Direct Application). Demand for Direct Application is dependent on the weather, as Direct Application is not effective if the ground is too wet or too dry.

Corn producers have fertilizer alternatives to anhydrous ammonia, such as liquid or dry nitrogen fertilizers. Liquid and dry nitrogen fertilizers are both less sensitive to weather conditions during application but are generally more costly than anhydrous ammonia. In addition, anhydrous ammonia has the highest nitrogen content of any nitrogen-derivative fertilizer.

### Customers

Valero Energy, the largest customer of our pipeline segment, accounted for approximately 30% of the total segment revenues for the year ended December 31, 2018. In addition to Valero Energy, our customers include integrated oil companies, refining companies, farm cooperatives, railroads and others. No other customer accounted for more than 10% of the total revenues of the pipeline segment for the year ended December 31, 2018.

### Competition and Other Business Considerations

Because pipelines are generally the lowest-cost method for intermediate and long-haul movement of crude oil and refined products, our more significant competitors are common carrier and proprietary pipelines owned and operated by major integrated and large independent oil companies and other pipeline companies in the areas where we deliver

products. Competition between common carrier pipelines is based primarily on transportation charges, quality of customer service and proximity to end users. Trucks may competitively deliver products in some of the areas served by our pipelines; however, trucking costs render that mode of transportation uncompetitive for longer hauls or larger volumes.

Most of our refined product pipelines and certain of our crude oil pipelines within the Central West System are physically integrated with and principally serve refineries owned by Valero Energy. As a result, we do not believe that we will face significant competition for transportation services provided to the Valero Energy refineries we serve.

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Certain of our crude oil pipelines serve areas and/or refineries that are affected by domestic shale oil production in the Eagle Ford, Permian Basin and Granite Wash regions. Our pipelines also face competition from other crude oil pipelines and truck transportation in these regions. However, some of that exposure is mitigated through our long-term contracts and minimum volume commitments with creditworthy customers.

The East and North Pipelines compete with an independent common carrier pipeline system owned by Magellan Midstream Partners, L.P. (Magellan) that operates approximately 100 miles east of and parallel to the East Pipeline and in close proximity to the North Pipeline. Certain of the East Pipeline's and the North Pipeline's delivery terminals are in direct competition with Magellan's terminals. Competition with Magellan is based primarily on transportation charges, quality of customer service and proximity to end users.

Competitors of the Ammonia Pipeline include the other major anhydrous ammonia pipeline, also owned by Magellan, which originates in Oklahoma and Texas and terminates in Minnesota. The competing pipeline has the same Direct Application demand and weather issues as the Ammonia Pipeline but is restricted to domestically produced anhydrous ammonia. On January 31, 2019, Magellan announced its plans to discontinue commercial operations of its ammonia pipeline in late 2019. Midwest production facilities, nitrogen fertilizer substitutes and barge and railroad transportation also compete with the Ammonia Pipeline under certain market conditions.

**STORAGE**

Our storage segment consists of facilities that provide storage, handling and other services for petroleum products, crude oil, specialty chemicals and other liquids. On November 30, 2018, we sold our European operations, including six liquids storage terminals in the United Kingdom and one facility in Amsterdam, with total storage capacity of approximately 9.5 million barrels. Please refer to Note 5 of the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for further discussion of the sale.

As of December 31, 2018, we owned and operated:

• 40 terminal and storage facilities in the United States and one terminal in Nuevo Laredo, Mexico, with total storage capacity of 53.8 million barrels;

▲ a terminal on the island of St. Eustatius with tank capacity of 14.3 million barrels and a transshipment facility; and

▲ a terminal located in Point Tupper, Canada with tank capacity of 7.8 million barrels and a transshipment facility.

The following table sets forth information about our terminal and storage facilities as of December 31, 2018:

Facility	Tank Capacity (Barrels)
Colorado Springs, CO	328,000
Denver, CO	110,000
Albuquerque, NM	251,000
Rosario, NM	166,000
Catoosa, OK	358,000
Abernathy, TX	160,000
Amarillo, TX	269,000
Corpus Christi, TX	491,000
Corpus Christi, TX (North Beach)	3,339,000
Edinburg, TX	340,000
El Paso, TX (a)	419,000
Harlingen, TX	286,000
Laredo, TX	215,000
San Antonio, TX (b)	375,000
Southlake, TX	569,000
Nuevo Laredo, Mexico	35,000
Central West Terminals	7,711,000



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Facility	Tank Capacity (Barrels)
Jacksonville, FL	2,593,000
St. James, LA	9,917,000
Houston, TX	86,000
Texas City, TX (b)	2,964,000
Gulf Coast Terminals	15,560,000
Blue Island, IL	690,000
Andrews AFB, MD (c)	75,000
Baltimore, MD	813,000
Piney Point, MD	5,402,000
Linden, NJ (b)	5,134,000
Paulsboro, NJ	74,000
Virginia Beach, VA (c)	41,000
North East Terminals	12,229,000
Los Angeles, CA	608,000
Pittsburg, CA	398,000
Selby, CA	3,074,000
Stockton, CA	816,000
Portland, OR	1,345,000
Tacoma, WA	391,000
Vancouver, WA (b)	774,000
West Coast Terminals	7,406,000
Benicia, CA	3,683,000
Corpus Christi, TX	4,030,000
Texas City, TX	3,141,000
Refinery Storage Tanks	10,854,000
St. Eustatius, the Netherlands	14,256,000
Point Tupper, Canada	7,778,000
International Terminals	22,034,000
Total	75,794,000

(a) We own a 67% undivided interest in the El Paso refined product terminal. The tank capacity represents the proportionate share of capacity attributable to our ownership interest.

(b) Location includes two terminal facilities.

(c) Terminal facility also includes pipelines to U.S. government military base locations.

#### Description of Major Terminal Facilities

St. Eustatius. We own and operate a 14.3 million barrel petroleum storage and terminalling facility located on the island of St. Eustatius in the Caribbean Netherlands, which is located at a point of minimal deviation from major shipping routes. This facility is capable of handling a wide range of petroleum products, including crude oil and refined products, and it has the capability to load or unload up to three vessels at a time, including heavily laden ultra large crude carriers, or ULCCs. The facility has a two-berth jetty, a two-berth monopile with platform and buoy systems, a floating hose station and an offshore single point mooring (SPM) buoy with the ability to load and unload

two different products at the SPM and segregate various grades of crude and fuel oil to and from the SPM. The fuel oil and petroleum product facilities have in-tank and in-line

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blending capabilities, while the crude tanks have tank-to-tank blending capability and in-tank mixers. In addition to the storage and blending services at St. Eustatius, this facility has the flexibility to utilize certain storage capacity for both feedstock and refined products to support our atmospheric distillation unit, which is capable of handling up to 25,000 barrels per day of feedstock, ranging from condensates to heavy crude oil. We own and operate all of the berthing facilities at the St. Eustatius terminal. Separate fees apply for use of the berthing facilities, as well as associated services, including pilotage, tug assistance, line handling, launch service, emergency response services and other ship services.

**Refinery Storage Tanks.** We own and operate crude oil storage tanks with an aggregate storage capacity of 10.9 million barrels that are physically integrated with and serve refineries owned by Valero Energy at Corpus Christi and Texas City, TX and Benicia, CA. Effective January 1, 2017, we lease our refinery storage tanks to Valero Energy in exchange for a fixed fee, whereas we previously earned fees based upon throughput.

**St. James, Louisiana.** Our St. James terminal, which is located on the Mississippi River near St. James, Louisiana, has a total storage capacity of 9.9 million barrels. The facility is located on almost 900 acres of land, some of which is undeveloped. The majority of the storage tanks and infrastructure are suited for light crude oil, with certain of the tanks capable of fuel oil or heated crude oil storage. Additionally, the facility has one barge dock and two ship docks. Our St. James terminal is connected to (i) offshore pipelines in the Gulf of Mexico, (ii) long-haul pipelines that can receive crude oil from the Eagle Ford, Permian and other domestic shale plays, and (iii) pipelines to refineries in the Gulf Coast and Midwest. The St. James terminal also has two unit train rail facilities and a manifest rail facility that are served by the Union Pacific Railroad and have a combined capacity of approximately 200,000 barrels per day.

**Point Tupper.** We own and operate a 7.8 million barrel terminalling and storage facility located at Point Tupper on the Strait of Canso, near Port Hawkesbury, Nova Scotia. This facility is the deepest independent, ice-free marine terminal on the North American Atlantic coast, with access to the East Coast, Canada and the Midwestern United States via the St. Lawrence Seaway and the Great Lakes system. With one of the premier jetty facilities in North America, the Point Tupper facility can accommodate heavily laden ULCCs for loading and discharging crude oil, petroleum products and petrochemicals. Crude oil and petroleum product movements at the terminal are fully automated. Separate fees apply for use of the jetty facility, as well as associated services, including pilotage, tug assistance, line handling, launch service, emergency response services and other ship services (all of which are considered optional services).

**Linden, New Jersey.** Our Linden terminal facility includes two terminals that provide deep-water terminalling capabilities in the New York Harbor and primarily stores petroleum products, including gasoline, jet fuel and fuel oils. The two terminals have a total storage capacity of 5.1 million barrels and can receive and deliver products via ship, barge and pipeline. The terminal facility also has two docks.

**Corpus Christi North Beach.** We own and operate a 3.3 million barrel crude oil storage and terminalling facility located at the Port of Corpus Christi in Texas. The facility supports our South Texas Crude System and is also connected to a third-party pipeline system, providing our customers with the flexibility to segregate and deliver crude oil and processed condensate. This facility has access to four docks, including two private docks, and can load crude oil onto ships simultaneously on all four docks. This includes exclusive-use access to the Port of Corpus Christi's newest crude oil dock, which was completed in September 2018 and is able to accommodate Aframax-class vessels.

## Storage Operations

We generate storage segment revenues through fees for tank storage agreements, whereby a customer agrees to pay for a certain amount of storage in a tank over a period of time (storage terminal revenues), and throughput agreements, whereby a customer pays a fee per barrel for volumes moving through our terminals (throughput terminal revenues). Our terminals also provide blending, additive injections, handling and filtering services for which we charge additional fees. We lease our Refinery Storage Tanks to Valero Energy in exchange for a fixed fee. Certain of our facilities charge fees to provide marine services, such as pilotage, tug assistance, line handling, launch service, emergency response services and other ship services.

Demand for Refined Products and Crude Oil

The operations of our refined product terminals depend in large part on the level of demand for products stored in our terminals in the markets served by those assets. The majority of products stored in our terminals are refined products. Demand for our terminalling services will generally increase or decrease with demand for refined products, and demand for refined products tends to increase or decrease with the relative strength of the economy. In addition, the forward pricing curve can have an impact on demand. For example, in a contango market (when the price of a commodity is expected to exceed current prices), demand for storage services will generally increase.

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Crude oil delivered to our St. James and Corpus Christi North Beach terminals will generally increase or decrease with crude oil production rates in the Bakken, Permian and Eagle Ford shale plays. In addition, the market price relationship between various grades of crude oil impacts the demand for our unit train facilities at our St. James terminal.

### Customers

We provide storage and terminalling services for crude oil and refined products to many of the world's largest producers of crude oil, integrated oil companies, chemical companies, oil traders and refiners. In addition, our blending capabilities in our storage assets have attracted customers who have leased capacity primarily for blending purposes. Valero Energy, the largest customer of our storage segment, accounted for approximately 20% of the total revenues of the segment for the year ended December 31, 2018. No other customer accounted for more than 10% of the total revenues of the storage segment for the year ended December 31, 2018.

### Competition and Other Business Considerations

Many major energy and chemical companies own extensive terminal storage facilities. Although such terminals often have the same capabilities as terminals owned by independent operators, they generally do not provide terminalling services to third parties. In many instances, major energy and chemical companies that own storage and terminalling facilities are also significant customers of independent terminal operators. Such companies typically have strong demand for terminals owned by independent operators when independent terminals have more cost-effective locations near key transportation links, such as deep-water ports. Major energy and chemical companies also need independent terminal storage when their owned storage facilities are inadequate, either because of size constraints, the nature of the stored material or specialized handling requirements.

Independent terminal owners generally compete on the basis of the location and versatility of terminals, service and price. A favorably located terminal will have access to various cost-effective transportation modes both to and from the terminal. Transportation modes typically include waterways, railroads, roadways and pipelines.

Terminal versatility is a function of the operator's ability to offer complex handling requirements for diverse products. The services typically provided by the terminal include, among other things, the safe storage of the product at specified temperature, moisture and other conditions, as well as receipt at and delivery from the terminal, all of which must comply with applicable environmental regulations. A terminal operator's ability to obtain attractive pricing is often dependent on the quality, versatility and reputation of the facilities owned by the operator. Although many products require modest terminal modification, operators with versatile storage capabilities typically require less modification prior to usage, ultimately making the storage cost to the customer more attractive.

Our St. Eustatius and Point Tupper terminals have historically functioned as "break bulk" facilities, which handled imports of light crude from foreign sources into the U.S. to satisfy U.S. East Coast and Gulf Coast refinery demand for light crude. Light crude suppliers brought the crude from the Middle East and other foreign regions on very large ships, which are efficient for long routes. These large ships, due to draft constraints, are unable to navigate far enough inland to deliver directly to most U.S. ports, which necessitates unloading these ships to storage and subsequent loading onto smaller ships that can bring the crude to the refiners, a process referred to as "break bulk." Both terminals are well-located to provide this service.

As the supply of light crude from various U.S. shale formations has increased, U.S. demand for foreign light crude oil, particularly on the U.S. Gulf Coast, has dropped. This reduced demand for imported light crude has, in turn, changed oil trade flow patterns around the world, thereby depressing the demand for break-bulk services. Our St. Eustatius terminal's location is well-suited to consolidate heavy oil cargos from the small ships used to move heavy crude, from Latin America and other origins, off shore to a large vessel for more efficient transport for long routes, a process referred to as "build bulk," primarily to Asia. However, recently, the combination of oversupply of storage capacity, decreased demand from backwardated markets, reduced North American crude imports and lower than expected growth in production in Latin America has depressed storage rates in the region.

We may face increased competition from new and/or expanding terminals near our locations, if those facilities offer either break-bulk or build-bulk services, as demanded by the applicable oil trade flows, now and in the future.

Our crude oil refinery storage tanks are physically integrated with and serve refineries owned by Valero Energy. Additionally, we have entered into various agreements with Valero Energy governing the usage of these tanks. As a

result, we believe that we will not face significant competition for our services provided to those refineries.

**FUELS MARKETING**

The fuels marketing segment includes our bunkering operations at our St. Eustatius and Texas City terminals, as well as certain of our blending operations. The results of operations for the fuels marketing segment depend largely on the margin between our

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cost and the sales prices of the products we market. Therefore, the results of operations for this segment are more sensitive to changes in commodity prices compared to the operations of the pipeline and storage segments.

Customers for our bunker fuel sales are mainly ship owners, including cruise line companies. In the sale of bunker fuel, we compete with ports offering bunker fuels that are along the route of travel of the vessel. No customer accounted for a significant portion of the total revenues of the fuels marketing segment for the year ended December 31, 2018.

## EMPLOYEES

As of December 31, 2018, we had 1,517 employees.

## RATE REGULATION

Several of our pipelines are interstate common carrier pipelines, which are subject to regulation by the FERC under the Interstate Commerce Act (ICA) and the Energy Policy Act of 1992 (the EP Act). The ICA and its implementing regulations give the FERC authority to regulate the rates charged for service on interstate common carrier pipelines and generally require the rates and practices of interstate liquids pipelines to be just, reasonable, not unduly discriminatory and not unduly preferential. The ICA also requires tariffs that set forth the rates a common carrier pipeline charges for providing transportation services on its interstate common carrier liquids pipelines, as well as the rules and regulations governing these services, to be maintained on file with the FERC and posted publicly. The EP Act deemed certain rates in effect prior to its passage to be just and reasonable and limited the circumstances under which a complaint can be made against such “grandfathered” rates. The EP Act and its implementing regulations also allow interstate common carrier liquids pipelines to annually index their rates up to a prescribed ceiling level and require that such pipelines index their rates down to the prescribed ceiling level if the index is negative. In addition, the FERC retains cost-of-service ratemaking, market-based rates and settlement rates as alternatives to the indexing approach.

The Ammonia Pipeline is subject to regulation by the STB pursuant to the Interstate Commerce Act applicable to such pipelines (which differs from the ICA applicable to interstate liquids pipelines). Under that regulation, the Ammonia Pipeline’s rates, classifications, rules and practices related to the interstate transportation of anhydrous ammonia must be reasonable and, in providing interstate transportation, the Ammonia Pipeline may not subject a person, place, port or type of traffic to unreasonable discrimination.

In addition to federal regulatory body oversight, various states, including Colorado, Kansas, Louisiana, North Dakota and Texas, maintain commissions focused on the rates and practices of common carrier pipelines offering services within their borders. Although the applicable state statutes and regulations vary, they generally require that intrastate pipelines publish tariffs setting forth all rates, rules and regulations applying to intrastate service, and generally require that pipeline rates and practices be just, reasonable and nondiscriminatory.

Shippers may challenge tariff rates, rules and regulations on our pipelines. In most instances, state commissions have not initiated investigations of the rates or practices of pipelines in the absence of shipper complaints. There are no pending challenges or complaints regarding our tariffs.

## ENVIRONMENTAL, HEALTH, SAFETY AND SECURITY REGULATION

Our operations are subject to extensive international, federal, state and local environmental laws and regulations, in the U.S. and in the other countries in which we operate, including those relating to the discharge of materials into the environment, waste management, remediation, the characteristics and composition of fuels, climate change and

greenhouse gases. Our operations are also subject to extensive health, safety and security laws and regulations, including those relating to worker and pipeline safety, pipeline and storage tank integrity and operations security. The principal environmental, health, safety and security risks associated with our operations relate to unauthorized emissions into the air, releases into soil, surface water or groundwater, personal injury and property damage. We have adopted policies, practices, systems and procedures to comply with the laws and regulations, mitigate these risks, limit the liability that could result from such events, prevent material environmental or other damage, ensure the safety of our employees and the public and secure our pipelines, terminals and operations. Compliance with environmental, health, safety and security laws, regulations and related permits increases our capital expenditures and operating expenses, and violation of these laws, regulations or permits could result in significant civil and criminal liabilities, injunctions or other penalties.

In 2018, our capital expenditures attributable to compliance with environmental regulations were \$12.2 million, and we currently project spending to be approximately \$14.1 million in this regard in 2019. However, future governmental actions

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could result in these laws and regulations becoming more restrictive, necessitating additional capital expenditures and operating expenses. At this time, we are unable to estimate the effect on our financial condition or results of operations, or the amount and timing of such possible future expenditures or expenses. In addition, while we believe that we are in substantial compliance with the environmental, health, safety and security laws and regulations applicable to our operations, risks of additional compliance expenditures, expenses and liabilities are inherent within the industry. As a result, there can be no assurances that significant expenditures, expenses and liabilities will not be incurred in the future. However, while compliance may affect our capital expenditures and operating expenses, we believe that the cost of such compliance will not have a material impact on our competitive position, financial condition or results of operations. Further, we do not believe that our cost of compliance is proportionately greater than the cost to other companies operating in our industry.

Discussed below are the primary U.S. environmental, health, safety and security laws applicable to our operations. Compliance with or violations of any of these laws and related regulations could result in significant expenditures, expenses and liabilities.

### OCCUPATIONAL SAFETY AND HEALTH

We are subject to the Occupational Safety and Health Act, as amended, and analogous or more stringent international, state and local laws and regulations for the protection of worker safety and health. In addition, we have operations subject to the Occupational Safety and Health Administration's Process Safety Management regulations. These regulations apply to processes which involve certain chemicals at or above specified thresholds.

### FUEL STANDARDS AND RENEWABLE ENERGY

International, federal, state and local laws and regulations regulate the fuels we transport and store for our customers. Changes in these laws or regulations could affect our earnings, including by reducing our throughput volumes, or require capital expenditures and expenses to segregate and separately store fuels. In addition, several federal and state programs require, subsidize or encourage the purchase and use of renewable energy, electric battery-powered motor vehicle engines and alternative fuels, such as biodiesel. These programs may over time offset projected increases or reduce the demand for refined products, particularly gasoline, in certain markets. However, the increased production and use of biofuels may also create opportunities for pipeline transportation and fuel blending. Other legislative changes in the future may similarly alter the expected demand and supply projections for refined products in ways that cannot be predicted.

### HAZARDOUS SUBSTANCES & HAZARDOUS WASTE

The Federal Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA or "Superfund," and analogous or more stringent international, state and local laws and regulations, impose restrictions and liability related to the release, threatened release, disposal and remediation of hazardous substances. This liability can

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