SUNOCO LOGISTICS PARTNERS L.P.
Form 10-Q
May 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark one)

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

For the quarterly period ended March 31, 2014
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 1-31219
SUNOCO LOGISTICS PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-3096839 (I.R.S. Employer Identification No.)
1818 Market Street, Suite 1500, Philadelphia, PA (Address of principal executive offices)	19103 (Zip Code)

Registrant's telephone number, including area code: (866) 248-4344
Former name, former address and former fiscal year, if changed since last report: Not Applicable

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 ý 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 ý 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 definition of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	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 ý
At March 31, 2014, the number of the registrant's Common Units outstanding were 103,974,752.

SUNOCO LOGISTICS PARTNERS L.P.
INDEX

		Page Number
	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013 (unaudited)	2
	Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013 (unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013 (unaudited)	4
	Condensed Consolidated Statements of Equity for the Three Months Ended March 31, 2014 and 2013 (unaudited)	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	32
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	33
Item 6.	Exhibits	34
SIGNATURE		35

PART I.
FINANCIAL INFORMATION
Item 1. Financial Statements
SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in millions, except per unit amounts)

	Three Months Ended March 31,	
	2014	2013
Revenues		
Sales and other operating revenue:		
Unaffiliated customers	$4,171	$3,098
Affiliates (Note 4)	306	414
Total Revenues	4,477	3,512
Costs and Expenses		
Cost of products sold	4,210	3,224
Operating expenses	34	26
Selling, general and administrative expenses	37	33
Depreciation and amortization expense	69	64
Total Costs and Expenses	4,350	3,347
Operating Income	127	165
Interest cost and debt expense, net	(26)	(24)
Capitalized interest	10	5
Other income	4	2
Income Before Provision for Income Taxes	115	148
Provision for income taxes (Note 8)	(5)	(6)
Net Income	110	142
Less: Net income attributable to noncontrolling interests	(3)	(2)
Net Income Attributable to Sunoco Logistics Partners L.P.	107	140
Less: General Partner's interest	(38)	(27)
Limited Partners' interest	$69	$113
Net Income Attributable to Sunoco Logistics Partners L.P. per Limited Partner unit (Note 5):		
Basic	$0.66	$1.09
Diluted	$0.66	$1.09
Weighted average Limited Partners' units outstanding (Note 5):		
Basic	104.0	103.8
Diluted	104.5	104.1
Comprehensive Income	$110	$142
Less: Comprehensive income attributable to noncontrolling interests	(3)	(2)
Comprehensive Income Attributable to Sunoco Logistics Partners L.P.	$107	$140

(See Accompanying Notes)

SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in millions)

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$140	$39
Advances to affiliated companies (Note 4)	14	239
Accounts receivable, affiliated companies (Note 4)	1	11
Accounts receivable, net	2,824	2,184
Inventories (Note 6)	670	600
Total Current Assets	3,649	3,073
Properties, plants and equipment	7,267	6,785
Less accumulated depreciation and amortization	(322)	(266)
Properties, plants and equipment, net	6,945	6,519
Investment in affiliates	168	125
Goodwill	1,346	1,346
Intangible assets, net (Note 7)	781	794
Other assets	44	40
Total Assets	$12,933	$11,897
Liabilities and Equity		
Accounts payable	$2,915	$2,451
Accounts payable, affiliated companies (Note 4)	22	17
Accrued liabilities	200	197
Accrued taxes payable (Note 8)	63	71
Total Current Liabilities	3,200	2,736
Long-term debt (Note 9)	3,073	2,503
Other deferred credits and liabilities	79	80
Deferred income taxes (Note 8)	252	253
Total Liabilities	6,604	5,572
Commitments and contingent liabilities (Note 10)		
Total Equity (Note 11)	6,329	6,325
Total Liabilities and Equity	$12,933	$11,897

(See Accompanying Notes)

SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in millions)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net Income	$110	$142
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	69	64
Deferred income tax benefit	(1)	—
Amortization of bond premium	(4)	(6)
Amortization of financing fees and bond discount	(1)	—
LTIP expense	5	4
Changes in working capital pertaining to operating activities:		
Accounts receivable, affiliated companies	10	(16)
Accounts receivable, net	(640)	(359)
Inventories	(70)	(231)
Accounts payable, affiliated companies	5	(11)
Accounts payable and accrued liabilities	407	412
Accrued taxes payable	(8)	(1)
Other	(7)	(2)
Net cash used in operating activities	(125)	(4)
Cash Flows from Investing Activities:		
Capital expenditures	(423)	(140)
Investment in joint venture interests	(42)	—
Net cash used in investing activities	(465)	(140)
Cash Flows from Financing Activities:		
Distributions paid to limited and general partners	(104)	(80)
Distributions paid to noncontrolling interests	(2)	(2)
Payments of statutory withholding on net issuance of limited partner units under LTIP	(6)	(1)
Repayments under credit facilities	—	(119)
Borrowings under credit facilities	750	13
Net proceeds from issuance of long-term debt	—	691
Repayments of senior notes	(175)	—
Advances to affiliated companies, net	225	(359)
Contributions attributable to acquisition from affiliate	3	—
Net cash provided by financing activities	691	143
Net change in cash and cash equivalents	101	(1)
Cash and cash equivalents at beginning of period	39	3
Cash and cash equivalents at end of period	$140	$2

(See Accompanying Notes)

SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)
(in millions)

	Limited Partners	General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at January 1, 2013	$5,175	$897	$—	$123	$6,195
Net Income	113	27	—	2	142
Total comprehensive income	113	27	—	2	142
Equity compensation accrual under LTIP	4	—	—	—	4
Payments of statutory withholding on net issuance of limited partner units under LTIP	(1)	—	—	—	(1)
Distributions	(57)	(23)	—	(2)	(82)
Other	—	—	—	1	1
Balance at March 31, 2013	$5,234	$901	$—	$124	$6,259
Balance at January 1, 2014	$5,292	$912	$—	$121	$6,325
Net Income	69	38	—	3	110
Total comprehensive income	69	38	—	3	110
Equity compensation accrual under LTIP	5	—	—	—	5
Distribution equivalent rights	(2)	—	—	—	(2)
Payments of statutory withholding on net issuance of limited partner units under LTIP	(6)	—	—	—	(6)
Distributions	(69)	(35)	—	(2)	(106)
Contributions attributable to acquisition from affiliate	3	—	—	—	3
Balance at March 31, 2014	$5,292	$915	$—	$122	$6,329

(See Accompanying Notes)

SUNOCO LOGISTICS PARTNERS L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Basis of Presentation

Sunoco Logistics Partners L.P. (the "Partnership") is a publicly traded Delaware limited partnership that owns and operates a logistics business, consisting of crude oil, refined products and natural gas liquids ("NGL") pipelines, terminalling and storage assets, and crude oil, refined products and NGL acquisition and marketing assets. The Partnership conducts its business activities in more than 30 states located throughout the United States.

The condensed consolidated financial statements reflect the results of the Partnership and its wholly owned subsidiaries, including Sunoco Logistics Partners Operations L.P. (the "Operating Partnership"), the proportionate shares of the Partnership's undivided interests in assets, and the accounts of entities in which the Partnership has a controlling financial interest. A controlling financial interest is evidenced by either a voting interest greater than 50 percent or a risk and rewards model that identifies the Partnership or one of its subsidiaries as the primary beneficiary of a variable-interest entity. The Partnership holds a controlling financial interest in Inland Corporation ("Inland"), Mid-Valley Pipeline Company ("Mid-Valley") and West Texas Gulf Pipe Line Company ("West Texas Gulf"), and as such, these entities are reflected as consolidated subsidiaries of the Partnership. All significant intercompany accounts and transactions are eliminated in consolidation and noncontrolling interests in net income and equity are shown separately in the condensed consolidated statements of comprehensive income and balance sheets. Equity ownership interests in corporate joint ventures in which the Partnership does not have a controlling financial interest, but over which the Partnership can exercise significant influence, are accounted for under the equity method of accounting.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim financial reporting. They do not include all disclosures normally made in annual financial statements contained in Form 10-K. The accompanying condensed consolidated balance sheet at December 31, 2013 has been derived from the Partnership's audited financial statements for the year ended December 31, 2013. In management's opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. The Partnership expects the interim increase in the quantity of crude oil inventory to decline by year end and therefore has adjusted its interim LIFO calculation to produce a reasonable matching of the most recently incurred costs with current revenues. Results for the three months ended March 31, 2014 are not necessarily indicative of results for the full year 2014.

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current-year presentation.

2. Changes in Business and Other Matters

In the third quarter 2013, the Partnership entered into an agreement to form SunVit Pipeline LLC ("SunVit"), a joint venture with Vitol, Inc. ("Vitol"), in which each party will maintain a 50 percent ownership interest. SunVit will construct and own a crude oil pipeline, which will originate in Midland, Texas and run to Garden City, Texas. The new pipeline will connect to the Partnership's existing pipelines and along with the Partnership's Permian Express 2 pipeline project, will provide additional takeaway capacity from the Permian Basin. SunVit is expected to commence operations in 2015. Under the terms of the joint venture agreement, each owner will fund construction of the pipeline and operating expenses in proportion with its ownership interest. Per the agreement, during the fourth quarter 2013, the Partnership and Vitol each accrued $3 million of contributions to cover initial construction costs. SunVit is reflected as an equity method investment within the Partnership's Crude Oil Pipelines segment.

3. Acquisitions

In the first quarter 2014, the Partnership exercised its rights to acquire an additional ownership interest in Explorer Pipeline Company ("Explorer") from an affiliate of Chevron for $42 million, increasing the Partnership's ownership interest from 9.4 percent to 13.3 percent. Explorer owns approximately 1,400 miles of refined products pipelines running from the Gulf Coast of the United States to the Chicago, Illinois area. The fair value of the investment was estimated based on the fair value of the consideration transferred. The investment continues to be accounted for as an equity method investment within the Partnership's Refined Products Pipelines segment, with the equity income

recorded based on the Partnership's ownership percentage for each period presented.

4. Related Party Transactions

The Partnership is a consolidated subsidiary of Energy Transfer Partners, L.P. ("ETP"). ETP and one of its affiliates own Sunoco Partners LLC, the Partnership's general partner, and a 32.2 percent limited partner interest in the Partnership. The Partnership has various operating and administrative agreements with ETP and its affiliates, including Sunoco, Inc. ("Sunoco"), which include the agreements described below.

Advances to Affiliated Companies

The Partnership has a treasury services agreement with Sunoco pursuant to which it, among other things, participates in Sunoco's centralized cash management program. Under the program, all of the Partnership's cash receipts and cash disbursements are processed, together with those of Sunoco and its other subsidiaries, through Sunoco's cash accounts with a corresponding credit or charge to an affiliated account. The affiliated balances are settled periodically, but no less frequently than monthly. Amounts due from Sunoco earn interest at a rate equal to the average rate provided by the Partnership's third party money-market investments, while amounts due to Sunoco bear interest at a rate equal to the interest rate on the Partnership's $1.50 billion credit facility (Note 9). In the fourth quarter 2013, the Partnership established separate cash accounts to process its own cash receipts and disbursements. Upon completion of the transition for the Partnership's customers and vendors in 2014, the Partnership will cease participation in Sunoco's cash management program.

Administrative Services

The Partnership has no employees. The operations of the Partnership are carried out by employees of the general partner and its affiliates. The Partnership reimburses the general partner and its affiliates for certain costs and direct expenses incurred on the Partnership's behalf. These costs may increase if the acquisition or construction of new businesses or assets requires an increase in the level of general and administrative services performed for the Partnership.

The Partnership pays ETP and its affiliates an annual administrative fee for expenses incurred by ETP and its affiliates to perform certain centralized corporate functions, such as legal, accounting, treasury, engineering, information technology, insurance, and other corporate services, including the administration of employee benefit plans. This fee does not include the cost of shared insurance programs (which are allocated to the Partnership based upon its share of the cash premiums incurred), the salaries of pipeline and terminal personnel or other employees of the general partner, or the cost of their employee benefits.

The Partnership's share of allocated ETP employee benefit plan expenses, including noncontributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans and other such benefits are reflected in cost of products sold, operating expenses and selling, general and administrative expenses in the condensed consolidated statements of comprehensive income.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

The Partnership is party to various agreements with ETP and its affiliates (including Sunoco) to supply crude oil and refined products, as well as to provide pipeline and terminalling services. Affiliated revenues in the condensed consolidated statements of comprehensive income consist of revenues from ETP and its affiliated entities related to sales of crude oil and refined products and services including pipeline transportation, terminalling, storage and blending.

Capital Contributions

During the three months ended March 31, 2014, the Partnership issued 0.2 million limited partnership units to participants in the Sunoco Partners LLC Long-Term Incentive Plan ("LTIP") upon completion of award vesting requirements, compared to less than 0.1 million limited partnership units issued during the three months ended March 31, 2013. As a result of these issuances of limited partnership units, the general partner contributed $0.2 million and less than $0.1 million during the three months ended March 31, 2014 and 2013, respectively, to maintain its two percent general partner interest. The Partnership recorded these amounts as capital contributions to Equity within its condensed consolidated balance sheets.

In connection with the acquisition of the Marcus Hook facility in the second quarter 2013, the Partnership and Sunoco entered into an agreement under which Sunoco will reimburse the Partnership $40 million for certain operating expenses of the facility through March 31, 2017. The reimbursement proceeds are reflected as contributions to Equity

within the condensed consolidated balance sheets.

5. Net Income Attributable to Sunoco Logistics Partners L.P. per Limited Partner Unit

The general partner's interest in net income attributable to Sunoco Logistics Partners L.P. ("net income attributable to partners") consists of its two percent general partner interest and "incentive distributions," which are increasing percentages, up to 50 percent of quarterly distributions in excess of $0.1667 per common unit (Note 12). The general partner was allocated net

income attributable to partners of $38 and $27 million (representing 36 and 19 percent of total net income attributable to partners) for the three months ended March 31, 2014 and 2013, respectively. Diluted net income attributable to partners per limited partner unit is calculated by dividing the limited partners' interest in net income attributable to partners by the sum of the weighted average number of common units outstanding, and the dilutive effect of unvested incentive unit awards (Note 13).

The following table reconciles the weighted average number of common units used to compute basic net income attributable to limited partners per unit to those used to compute diluted net income attributable to limited partners per unit for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Weighted average number of units outstanding, basic	104.0	103.8
Add effect of dilutive incentive awards	0.5	0.3
Weighted average number of units, diluted	104.5	104.1

6. Inventories

The components of inventories are as follows:

	March 31, 2014	December 31, 2013
	(in millions)	
Crude oil	$572	$488
Refined products	85	99
Refined products additives	3	3
Materials, supplies and other	10	10
	$670	$600

The increase in crude oil inventory at March 31, 2014 was attributable to the timing of marketing opportunities and is expected to decline by December 31, 2014.

7. Intangible Assets

The components of intangible assets are as follows:

	Weighted Average Amortization Period	March 31, 2014	December 31, 2013
	(in years)	(in millions)	
Gross			
Customer relationships	18	$808	$808
Technology	10	47	47
Total gross		855	855
Accumulated amortization			
Customer relationships		(67)	(56)
Technology		(7)	(5)
Total accumulated amortization		(74)	(61)
Total Net		$781	$794

Amortization expense was $13 million for the three months ended March 31, 2014 and 2013. The Partnership forecasts $49 million of annual amortization expense for each year through the year 2018 for these intangible assets. Intangible assets associated with rights of way are included in properties, plants and equipment in the Partnership's condensed consolidated balance sheets.

8. Income Taxes

The Partnership is not a taxable entity for U.S. federal income tax purposes, or for the majority of states that impose income taxes. Rather, income taxes are generally assessed at the partner level. There are some states in which the Partnership operates where it is subject to state and local income taxes. Substantially all of the income tax amounts reflected in the Partnership's condensed consolidated financial statements are related to the operations of Inland, Mid-Valley and West Texas Gulf, all of which are entities subject to income taxes for federal and state purposes at the corporate level. The effective tax rates for these entities approximate the federal statutory rate of 35 percent.

In taxable jurisdictions, the Partnership records deferred income taxes on all significant temporary differences between the book basis and the tax basis of assets and liabilities. The net deferred tax liabilities reflected in the condensed consolidated balance sheets are derived principally from the differences in the book and tax bases of properties, plants and equipment of Inland, Mid-Valley and West Texas Gulf.

9. Debt

The components of the Partnership's debt balances are as follows:

	March 31, 2014	December 31, 2013
	(in millions)	
Credit Facilities		
$1.50 billion Credit Facility, due November 2018	$950	$200
$35 million Credit Facility, due April 2015	35	35
Senior Notes		
Senior Notes - 8.75%, due February 2014 [1]	—	175
Senior Notes - 6.125%, due May 2016	175	175
Senior Notes - 5.50%, due February 2020	250	250
Senior Notes - 4.65%, due February 2022	300	300
Senior Notes - 3.45%, due January 2023	350	350
Senior Notes - 6.85%, due February 2040	250	250
Senior Notes - 6.10%, due February 2042	300	300
Senior Notes - 4.95%, due January 2043	350	350
Unamortized fair value adjustments	116	120
Total debt	3,076	2,505
Less:		
Unamortized bond discount	(3)	(2)
Long-term debt	$3,073	$2,503

[1] The 8.75 percent Senior Notes were classified as long-term debt at December 31, 2013 as the Partnership repaid these notes in February 2014 with borrowings under its $1.50 billion Credit Facility due in 2018.

Credit Facilities

The Operating Partnership maintains a $1.50 billion unsecured credit facility (the "$1.50 billion Credit Facility"), which matures in November 2018, to fund the Partnership's working capital requirements, to finance acquisitions and capital projects, to pay distributions and for general partnership purposes. The $1.50 billion Credit Facility contains an "accordion" feature, under which the total aggregate commitment may be extended to $2.25 billion under certain conditions. The facility bears interest at LIBOR or the Base Rate (as defined in the facility), each plus an applicable margin. The credit facility may be repaid at any time. Outstanding borrowings under this credit facility were $950 and $200 million at March 31, 2014 and December 31, 2013, respectively.

The $1.50 billion Credit Facility contains various covenants, including limitations on the creation of indebtedness and liens, and other covenants related to the operation and conduct of the business of the Partnership and its subsidiaries. The credit facility also limits the Partnership, on a rolling four quarter basis, to a maximum total consolidated debt to consolidated Adjusted EBITDA ratio, as defined in the underlying credit agreement, of 5.0 to 1, which can generally be increased to 5.5 to 1 during an acquisition period. The Partnership's ratio of total consolidated debt, excluding net unamortized fair value

adjustments, to consolidated Adjusted EBITDA was 3.0 to 1 at March 31, 2014, as calculated in accordance with the credit agreement.
West Texas Gulf maintains a $35 million revolving credit facility (the "$35 million Credit Facility") which expires in April 2015. The facility is available to fund West Texas Gulf's general corporate purposes including working capital and capital expenditures. The $35 million Credit Facility contains various covenants limiting West Texas Gulf's ability to grant certain liens; make certain loans, acquisitions and investments; make any material changes to the nature of its business; or enter into a merger or sale of assets. The credit facility also limits West Texas Gulf, on a rolling four quarter basis, to a minimum fixed charge coverage ratio of 1.00 to 1, as defined in the underlying credit agreement. In addition, the credit facility limits West Texas Gulf to a maximum leverage ratio of 2.00 to 1. At March 31, 2014, West Texas Gulf's fixed charge coverage ratio and leverage ratio were 1.11 to 1 and 0.84 to 1, respectively. Outstanding borrowings under this credit facility were $35 million at March 31, 2014 and December 31, 2013.

Senior Notes

The Operating Partnership had $175 million of 8.75 percent senior notes which matured and were repaid in February 2014, using borrowings under the $1.50 billion Credit Facility.
In April 2014, the Operating Partnership issued $300 million of 4.25 percent Senior Notes and $700 million of 5.30 percent Senior Notes (the "2024 and 2044 Senior Notes"), due April 2024 and April 2044 respectively. The terms and conditions of the 2024 and 2044 Senior Notes are comparable to those of the Operating Partnership's other outstanding senior notes. The net proceeds from these offerings were used to repay outstanding borrowings under the $1.50 billion Credit Facility and for general partnership purposes.

10. Commitments and Contingent Liabilities

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or otherwise relate to the protection of the environment. These laws and regulations can result in liabilities and loss contingencies for remediation at the Partnership's facilities and at third party or formerly owned sites. At March 31, 2014 and December 31, 2013, there were accrued liabilities for environmental remediation in the condensed consolidated balance sheets of $11 and $5 million, respectively. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, since there are no unasserted claims that are probable of settlement or reasonably estimable, nor have any recoveries from insurance been assumed. Charges against income for environmental remediation totaled $5 and $4 million for the three months ended March 31, 2014 and 2013, respectively. The Partnership maintains insurance programs that cover certain of its existing or potential environmental liabilities. Claims for recovery of environmental liabilities and previous expenditures that are probable of realization were not material in relation to the Partnership's consolidated financial position at March 31, 2014.
Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites; the determination of the extent of the contamination at each site; the timing and nature of required remedial actions; the technology available and needed to meet the various existing legal requirements; the nature and extent of future environmental laws, inflation rates and the determination of the Partnership's liability at multi-party sites, if any, in light of uncertainties with respect to joint and several liability; and the number, participation levels and financial viability of other parties. Management believes it is reasonably possible that additional environmental remediation losses will be incurred. At March 31, 2014, the aggregate of the estimated maximum additional reasonably possible losses, which relate to numerous individual sites, totaled $9 million.
The Partnership is a party to certain pending and threatened claims. Although the ultimate outcome of these claims cannot be ascertained at this time, nor can a range of reasonable possible losses be determined, it is reasonably possible that some portion of them could be resolved unfavorably to the Partnership. Management does not believe that any liabilities which may arise from such claims or the environmental matters discussed above would be material in relation to the Partnership's results of operations, financial position or cash flows at March 31, 2014. Furthermore, management does not believe that the overall costs for such matters will have a material impact, over an extended period of time, on the Partnership's financial position, results or operations or cash flows.
Sunoco has indemnified the Partnership for 30 years for environmental and toxic tort liabilities related to the assets contributed to the Partnership, that arose from the operation of such assets prior to the closing of the February 2002 initial public offering ("IPO"). Sunoco has also indemnified the Partnership for 100 percent of all losses asserted

within the first 21 years after the closing of the IPO. Sunoco's share of the liability for claims asserted thereafter will decrease by 10 percent per year. For example, for a claim asserted during the twenty-third year after the closing of the IPO, Sunoco would be required to indemnify the Partnership for 80 percent of its loss. There is no monetary cap on the amount of indemnity coverage provided by Sunoco. The Partnership has agreed to indemnify Sunoco for events and conditions associated with the operation of the

Partnership's assets that occur on or after the closing of the IPO and for environmental and toxic tort liabilities to the extent that Sunoco is not required to indemnify the Partnership.

Management of the Partnership does not believe that any liabilities which may arise from claims indemnified by Sunoco would be material in relation to the Partnership's financial position, results of operations or cash flows at March 31, 2014. There are certain other pending legal proceedings related to matters arising after the IPO that are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material in relation to the Partnership's financial position, results of operations or cash flows at March 31, 2014.

11. Equity

The changes in the number of units outstanding from January 1, 2013 through March 31, 2014 are as follows:

	Common Units (in millions)
Balance at January 1, 2013	103.8
Units issued under incentive plans	—
Balance at December 31, 2013	103.8
Units issued under incentive plans	0.2
Balance at March 31, 2014	104.0

In the first quarter 2014, the Partnership filed a registration statement and established an at-the-market equity offering program. The program allows the Partnership to issue up to $250 million of common units directly to the public and raise capital in a timely and efficient manner to finance its growth capital program, while supporting the Partnership's investment grade credit ratings. The Partnership has not yet issued equity under the program.

On May 5, 2014, the Partnership’s Board of Directors declared a two-for-one split of the Partnership’s common units. Effective June 12, 2014, the unit split will result in the issuance of one additional common unit for every one unit owned as of the close of business on June 5, 2014, which is the record date. All unit and per unit information included in this report are presented on a pre-split basis.

12. Cash Distributions

The distributions paid by the Partnership for the periods presented were as follows:

Cash Distribution Payment Date	Cash Distribution per Limited Partner Unit	Total Cash Distribution to the Limited Partners (in millions)	Total Cash Distribution to the General Partner (in millions)
February 14, 2014	$0.6625	$69	$35
November 14, 2013	$0.6300	$65	$32
August 14, 2013	$0.6000	$62	$29
May 15, 2013	$0.5725	$59	$26
February 14, 2013	$0.5450	$57	$23

On April 23, 2014, the Partnership's general partner announced a cash distribution of $0.695 per common unit ($2.78 annualized), representing the distribution for the first quarter 2014. The $111 million distribution, including $39 million to the general partner for its two percent interest and incentive distribution rights, will be paid on May 15, 2014 to unitholders of record on May 9, 2014.

13. Management Incentive Plan

The general partner has adopted the LTIP for employees and directors of the general partner who perform services for the Partnership. The LTIP is administered by the independent directors of the Compensation Committee of the general partner's board of directors with respect to employee awards, and by the general partner's board of directors with respect to awards granted to the independent directors. The LTIP currently permits the grant of restricted units and unit options covering an additional 0.4 million common units.

During the three months ended March 31, 2014, the Partnership issued 0.2 million common units under the LTIP, compared to less than 0.1 million common units during the three months ended March 31, 2013. The Partnership recognized

11

share based compensation expense of $5 and $4 million for the three months ended March 31, 2014 and 2013, respectively. Each of the outstanding restricted unit grants have tandem distribution equivalent rights ("DERs") which are recognized as a reduction to equity when earned.

14. Derivatives and Risk Management

The Partnership is exposed to various risks, including volatility in the prices of the products that the Partnership markets, counterparty credit risk and changes in interest rates. In order to manage such exposure, the Partnership's policy is to (i) only purchase crude oil, refined products and NGLs for which sales contracts have been executed or for which ready markets exist, (ii) to structure sales contracts so that price fluctuations do not materially impact the margins earned, and (iii) not to acquire and hold physical inventory, futures contracts or other derivative instruments for the purpose of speculating on commodity price changes. Although the Partnership seeks to maintain a balanced inventory position within its commodity inventories, net unbalances may occur for short periods of time due to production, transportation and delivery variances. When physical inventory builds or draws do occur, the Partnership continuously manages the variances to a balanced position over a period of time. Pursuant to the Partnership's approved risk management policy, derivative contracts may be used to hedge or reduce exposure to price risk associated with acquired inventory or forecasted physical transactions.

Price Risk Management

The Partnership is exposed to risks associated with changes in the market price of crude oil, refined products and NGLs. These risks are primarily associated with price volatility related to pre-existing or anticipated purchases, sales and storage. Price changes are often caused by shifts in the supply and demand for these commodities, as well as their locations. The physical contracts related to the Partnership's crude oil, refined products and NGL businesses that qualify as derivatives have been designated as normal purchases and sales and are accounted for using accrual accounting under United States generally accepted accounting principles. The Partnership accounts for derivatives that do not qualify as normal purchases and sales at fair value. The Partnership currently does not utilize derivative instruments to manage its exposure to prices related to crude oil purchase and sale activities.

The Partnership utilizes derivatives such as swaps, futures and other derivative instruments to mitigate the risk associated with market movements in the price of refined products and NGLs. These derivative contracts act as a hedging mechanism against the volatility of prices by allowing the Partnership to transfer this price risk to counterparties who are able and willing to bear it. Since the first quarter 2013, the Partnership has not designated any of its derivative contracts as hedges for accounting purposes. Therefore, all realized and unrealized gains and losses from these derivative contracts are recognized in the condensed consolidated statement of comprehensive income as they occur. For refined products derivative contracts that were designated and qualified as cash flow hedges during the first quarter 2013, the portion of the gain or loss on the derivative contract that was effective in offsetting the variable cash flows associated with the hedged forecasted transaction was reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affected earnings. The remaining gain or loss on the derivative contract in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), was recognized immediately in earnings. The amount of hedge ineffectiveness on derivative contracts was not material during the first quarter 2013. All realized gains and losses associated with refined products derivative contracts are recorded in earnings in the same line item associated with the forecasted transaction (either in sales and other operating revenue or cost of products sold).

The Partnership had open derivative positions on approximately 1.9 and 1.6 million barrels of refined products and NGLs at March 31, 2014 and December 31, 2013, respectively. The derivatives outstanding as of March 31, 2014 vary in duration but do not extend beyond one year. The Partnership records its derivatives at fair value based on observable market prices (levels 1 and 2). As of March 31, 2014, the fair value of the Partnership's derivative assets and liabilities were $1 and $2 million, respectively, compared to $1 and $3 million, respectively, at December 31, 2013.

Derivative asset and liability balances are recorded in accounts receivable and accrued liabilities, respectively, in the condensed consolidated balance sheets.

The following tables set forth the impact of derivatives on the Partnership's results of operations for the three months ended March 31, 2014 and 2013:

	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Recognized in Earnings	Location of Gains (Losses) Recognized in Earnings
	(in millions)		
Three Months Ended March 31, 2014			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	$—	$—	Sales and other operating revenue
Commodity contracts	—	—	Cost of products sold
	$—	$—	
Derivatives not designated as hedging instruments:			
Commodity contracts		$—	Sales and other operating revenue
Commodity contracts		1	Cost of products sold
		$1	
Three Months Ended March 31, 2013			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	$—	$(1)	Sales and other operating revenue
Commodity contracts	—	—	Cost of products sold
	$—	$(1)	
Derivatives not designated as hedging instruments:			
Commodity contracts		$(2)	Sales and other operating revenue
Commodity contracts		(3)	Cost of products sold
		$(5)	

Credit Risk Management

The Partnership maintains credit policies with regard to its counterparties that management believes minimize the overall credit risk through credit analysis, credit approvals, credit limits and monitoring procedures. The credit positions of the Partnership's customers are analyzed prior to the extension of credit and periodically after credit has been extended. The Partnership's counterparties consist primarily of financial institutions and major integrated oil companies. This concentration of counterparties may impact the Partnership's overall exposure to credit risk, either positively or negatively, as the counterparties may be similarly affected by changes in economic, regulatory or other conditions. At March 31, 2014 and December 31, 2013, the Partnership did not hold any over-the-counter derivatives.

Interest Rate Risk Management

The Partnership has interest rate risk exposure for changes in interest rates related to its outstanding borrowings. The Partnership manages its exposure to changes in interest rates through the use of a combination of fixed-rate and variable-rate debt. At March 31, 2014, the Partnership had $985 million of consolidated variable-rate borrowings under its revolving credit facilities.

15. Fair Value Measurements

The Partnership applies fair value accounting for all assets and liabilities that are required to be measured at fair value under current accounting rules. The assets and liabilities that are measured at fair value on a recurring basis are comprised primarily of derivatives.

The Partnership determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Partnership utilizes valuation techniques that

maximize the use of observable inputs (levels 1 and 2) and minimize the use of unobservable inputs (level 3) within the fair value hierarchy established by the Financial Accounting Standards Board. The Partnership generally applies a "market approach" to determine fair value. This method uses pricing and other information generated by market transactions for identical or comparable assets and liabilities. Assets and liabilities are classified within the fair value hierarchy based on the lowest level (least observable) input that is significant to the measurement in its entirety.

The estimated fair value of the Partnership's financial instruments has been determined based on management's assessment of available market information and appropriate valuation methodologies. The Partnership's current assets (other than derivatives and inventories) and current liabilities (other than derivatives) are financial instruments and most of these items are recorded at cost in the condensed consolidated balance sheets. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature. The Partnership's derivatives are measured and recorded at fair value based on observable market prices (Note 14). The estimated fair values of the Partnership's senior notes are determined using observable market prices, as these notes are actively traded (level 1). The estimated aggregate fair value of the senior notes at March 31, 2014 was $2.05 billion, compared to the carrying amount of $2.09 billion. The estimated aggregate fair value of the senior notes at December 31, 2013 was $2.17 billion, compared to the carrying amount of $2.27 billion.

For further information regarding the Partnership's fair value measurements, see Note 14.

16. Business Segment Information

The following tables summarize condensed consolidated statement of comprehensive income information for the Partnership's business segments and reconcile total segment Adjusted EBITDA to net income attributable to the Partnership for the three months ended March 31, 2014 and 2013, respectively:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Sales and other operating revenue [1]		
Crude Oil Pipelines	$131	$95
Crude Oil Acquisition and Marketing	4,094	3,259
Terminal Facilities	287	183
Refined Products Pipelines	41	30
Intersegment eliminations	(76)	(55)
Total sales and other operating revenue	$4,477	$3,512
Depreciation and amortization		
Crude Oil Pipelines	$24	$22
Crude Oil Acquisition and Marketing	12	12
Terminal Facilities	26	24
Refined Products Pipelines	7	6
Total depreciation and amortization		