PLAINS ALL AMERICAN PIPELINE LP
Form 10-Q
May 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

Commission File Number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.
(Exact name of registrant as specified in its charter)

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

(713) 646-4100
(Registrant's telephone number, including area code)

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

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

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)   Emerging growth company o

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. o

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

As of May 1, 2018, there were 725,582,739 Common Units outstanding.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
Item 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except unit data)

	March 31, 2018	December 31, 2017
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$23	$37
Trade accounts receivable and other receivables, net	3,023	3,029
Inventory	620	713
Other current assets	296	221
Total current assets	3,962	4,000
PROPERTY AND EQUIPMENT	16,937	16,862
Accumulated depreciation	(2,823)	(2,773)
Property and equipment, net	14,114	14,089
OTHER ASSETS		
Goodwill	2,543	2,566
Investments in unconsolidated entities	2,882	2,756
Linefill and base gas	870	872
Long-term inventory	159	164
Other long-term assets, net	893	904
Total assets	$25,423	$25,351
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$3,571	$3,457
Short-term debt	774	737
Other current liabilities	256	337
Total current liabilities	4,601	4,531
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discounts and debt issuance costs	8,935	8,933
Other long-term debt	115	250
Other long-term liabilities and deferred credits	736	679
Total long-term liabilities	9,786	9,862
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
PARTNERS' CAPITAL		
Series A preferred unitholders (71,090,468 and 69,696,542 units outstanding, respectively)	1,505	1,505
Series B preferred unitholders (800,000 and 800,000 units outstanding, respectively)	787	788

Common unitholders (725,206,904 and 725,189,138 units outstanding, respectively)	8,744	8,665
Total partners' capital	11,036	10,958
Total liabilities and partners' capital	$25,423	$25,351

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per unit data)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
REVENUES		
Supply and Logistics segment revenues	$8,111	$6,395
Transportation segment revenues	146	138
Facilities segment revenues	141	134
Total revenues	8,398	6,667
COSTS AND EXPENSES		
Purchases and related costs	7,519	5,593
Field operating costs	292	288
General and administrative expenses	79	74
Depreciation and amortization	127	121
Total costs and expenses	8,017	6,076
OPERATING INCOME	381	591
OTHER INCOME/(EXPENSE)		
Equity earnings in unconsolidated entities	75	53
Interest expense (net of capitalized interest of $6 and $6, respectively)	(106)	(129)
Other expense, net	(1)	(5)
INCOME BEFORE TAX	349	510
Current income tax expense	(13)	(10)
Deferred income tax expense	(48)	(56)
NET INCOME	$288	$444
NET INCOME PER COMMON UNIT (NOTE 4):		
Net income allocated to common unitholders — Basic	$237	$406
Basic weighted average common units outstanding	725	691
Basic net income per common unit	$0.33	$0.59
Net income allocated to common unitholders — Diluted	$237	$443
Diluted weighted average common units outstanding	727	758
Diluted net income per common unit	$0.33	$0.58

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(unaudited)	
Net income	$288	$444
Other comprehensive income/(loss)	(65)	36
Comprehensive income	$223	$480

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)
(in millions)

	Derivative Instruments	Translation Adjustments	Other	Total
	(unaudited)			
Balance at December 31, 2017	$(223)	$ (548)	$ 1	$(770)
Reclassification adjustments	2	—	—	2
Deferred gain on cash flow hedges	31	—	—	31
Currency translation adjustments	—	(98)	—	(98)
Total period activity	33	(98)	—	(65)
Balance at March 31, 2018	$(190)	$ (646)	$ 1	$(835)

	Derivative Instruments	Translation Adjustments	Other	Total
	(unaudited)			
Balance at December 31, 2016	$(228)	$ (782)	$ 1	$(1,009)
Reclassification adjustments	2	—	—	2
Deferred gain on cash flow hedges	7	—	—	7
Currency translation adjustments	—	27	—	27
Total period activity	9	27	—	36
Balance at March 31, 2017	$(219)	$ (755)	$ 1	$(973)

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Three Months Ended March 31, 2018	2017
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$288	$444
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	127	121
Equity-indexed compensation expense	17	12
Deferred income tax expense	48	56
(Gain)/loss on foreign currency revaluation	8	(3)
Equity earnings in unconsolidated entities	(75)	(53)
Distributions on earnings from unconsolidated entities	101	52
Other	11	10
Changes in assets and liabilities, net of acquisitions	(4)	177
Net cash provided by operating activities	521	816
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions, net of cash acquired	—	(1,254)
Investments in unconsolidated entities	(40)	(123)
Additions to property, equipment and other	(266)	(275)
Proceeds from sales of assets	83	161
Other investing activities	2	—
Net cash used in investing activities	(221)	(1,491)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings/(repayments) under commercial paper program (Note 8)	(8)	149
Net borrowings under senior unsecured revolving credit facility (Note 8)	350	—
Net repayments under senior secured hedged inventory facility (Note 8)	(498)	(501)
Repayments of senior notes	—	(400)
Net proceeds from sales of common units	—	1,664
Distributions paid to common unitholders (Note 9)	(218)	(371)
Other financing activities	63	125
Net cash provided by/(used in) financing activities	(311)	666
Effect of translation adjustment on cash	(3)	—
Net decrease in cash and cash equivalents	(14)	(9)
Cash and cash equivalents, beginning of period	37	47
Cash and cash equivalents, end of period	$23	$38
Cash paid for:		
Interest, net of amounts capitalized	$76	$92

Income taxes, net of amounts refunded	$9	$27

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL
(in millions)

	Limited Partners Preferred Unitholders Series A	Limited Partners Preferred Unitholders Series B	Common Unitholders	Total Partners' Capital
	(unaudited)			
Balance at December 31, 2017	$1,505	$788	$ 8,665	$10,958
Impact of adoption of ASU 2017-05 (Note 2)	—	—	113	113
Net income	37	12	239	288
Distributions (Note 9)	(37)	(12)	(218)	(267)
Other comprehensive loss	—	—	(65)	(65)
Other	—	(1)	10	9
Balance at March 31, 2018	$1,505	$787	$ 8,744	$11,036

	Limited Partners Series A Preferred Unitholders	Limited Partners Common Unitholders	Partners' Capital Excluding Noncontrolling Interests	Noncontrolling Interests	Total Partners' Capital
	(unaudited)				
Balance at December 31, 2016	$1,508	$ 7,251	$ 8,759	$ 57	$8,816
Net income	—	444	444	—	444
Distributions	—	(371)	(371)	(1)	(372)
Sales of common units	—	1,664	1,664	—	1,664
Other comprehensive income	—	36	36	—	36
Other	(1)	3	2	—	2
Balance at March 31, 2017	$1,507	$ 9,027	$ 10,534	$ 56	$10,590

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1—Organization and Basis of Consolidation and Presentation

Organization

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

We own and operate midstream energy infrastructure and provide logistics services primarily for crude oil, natural gas liquids ("NGL") and natural gas. We own an extensive network of pipeline transportation, terminalling, storage and gathering assets in key crude oil and NGL producing basins and transportation corridors and at major market hubs in the United States and Canada. Our business activities are conducted through three operating segments: Supply and Logistics, Transportation and Facilities. See Note 13 for further discussion of our operating segments.

Our non-economic general partner interest is held by PAA GP LLC ("PAA GP"), a Delaware limited liability company, whose sole member is Plains AAP, L.P. ("AAP"), a Delaware limited partnership. In addition to its ownership of PAA GP, as of March 31, 2018, AAP also owned a limited partner interest in us through its ownership of approximately 283.9 million of our common units (approximately 36% of our total outstanding common units and Series A preferred units combined). Plains All American GP LLC ("GP LLC"), a Delaware limited liability company, is AAP's general partner. Plains GP Holdings, L.P. ("PAGP") is the sole and managing member of GP LLC, and, at March 31, 2018, owned an approximate 55% limited partner interest in AAP. PAA GP Holdings LLC ("PAGP GP") is the general partner of PAGP.

As the sole member of GP LLC, PAGP has responsibility for conducting our business and managing our operations; however, the board of directors of PAGP GP has ultimate responsibility for managing the business and affairs of PAGP, AAP and us. GP LLC employs our domestic officers and personnel; our Canadian officers and personnel are employed by our subsidiary, Plains Midstream Canada ULC.

References to our "general partner," as the context requires, include any or all of PAGP GP, PAGP, GP LLC, AAP and PAA GP.

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Definitions

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

AOCI	=	Accumulated other comprehensive income/(loss)
ASC	=	Accounting Standards Codification
ASU	=	Accounting Standards Update
Bcf	=	Billion cubic feet
Btu	=	British thermal unit
CAD	=	Canadian dollar
CODM	=	Chief Operating Decision Maker
DERs	=	Distribution equivalent rights
EBITDA	=	Earnings before interest, taxes, depreciation and amortization
EPA	=	United States Environmental Protection Agency
FASB	=	Financial Accounting Standards Board
GAAP	=	Generally accepted accounting principles in the United States
ICE	=	Intercontinental Exchange
ISDA	=	International Swaps and Derivatives Association
LIBOR	=	London Interbank Offered Rate
LTIP	=	Long-term incentive plan
Mcf	=	Thousand cubic feet
NGL	=	Natural gas liquids, including ethane, propane and butane
NYMEX	=	New York Mercantile Exchange
Oxy	=	Occidental Petroleum Corporation or its subsidiaries
PLA	=	Pipeline loss allowance
SEC	=	United States Securities and Exchange Commission
USD	=	United States dollar
WTI	=	West Texas Intermediate

Basis of Consolidation and Presentation

The accompanying unaudited condensed consolidated interim financial statements and related notes thereto should be read in conjunction with our 2017 Annual Report on Form 10-K. The accompanying condensed consolidated financial statements include the accounts of PAA and all of its wholly owned subsidiaries and those entities that it controls. Investments in entities over which we have significant influence but not control are accounted for by the equity method. We apply proportionate consolidation for pipelines and other assets in which we own undivided joint interests. The financial statements have been prepared in accordance with the instructions for interim reporting as set forth by the SEC. All adjustments (consisting only of normal recurring adjustments) that in the opinion of management were necessary for a fair statement of the results for the interim periods have been reflected. All significant intercompany transactions have been eliminated in consolidation, and certain reclassifications have been made to information from previous years to conform to the current presentation. The condensed consolidated balance sheet data as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the three months ended March 31, 2018 should not be taken as indicative of results to be expected for the entire year.

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

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Note 2—Recent Accounting Pronouncements

Except as discussed below and in our 2017 Annual Report on Form 10-K, there have been no new accounting pronouncements that have become effective or have been issued during the three months ended March 31, 2018 that are of significance or potential significance to us.

Accounting Standards Updates Adopted During the Period

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies what type of transactions involving nonfinancial assets are covered by the scope of the standard and provides guidance on how to account for those transactions, including partial sales of real estate. Within this guidance, all sales and partial sales of businesses, which may have previously been accounted for using the in-substance real estate guidance, should follow the consolidation guidance. This guidance is effective for interim and annual periods beginning after December 15, 2017, and must be adopted at the same time as Topic 606. We adopted this ASU on January 1, 2018, using the modified retrospective approach. The cumulative effect of our adoption resulted in increases in both the carrying value of investments in unconsolidated entities and retained earnings of $113 million related to the retained noncontrolling interest in those entities from partial sales of businesses accounted for under in-substance real estate guidance during 2016 and 2017.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), requiring that a statement of cash flows explain the change in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents during the period. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 31, 2017. We adopted this ASU on January 1, 2018. Our adoption did not have an impact on our statement of cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, followed by a series of related accounting standard updates (collectively referred to as “Topic 606”) with the underlying principle that an entity will recognize revenue to reflect amounts expected to be received in exchange for the provision of goods and services to customers upon the transfer of control of those goods or services. We adopted Topic 606 on January 1, 2018, and applied the modified retrospective approach. See Note 3 for additional information.

Other Accounting Standards Updates

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), that revises the current accounting model for leases. The most significant changes are the clarification of the definition of a lease and required lessee recognition on the balance sheet of lease assets and liabilities with lease terms of more than 12 months (with the election of the practical expedient to exclude short-term leases on the balance sheet), including extensive quantitative and qualitative disclosures. This guidance will become effective for interim and annual periods beginning after December 15, 2018, with a modified retrospective application required. Early adoption is permitted, including adoption in an interim period. We expect to adopt this guidance on January 1, 2019 and are assessing the use of optional practical expedients. We are currently evaluating the effect that adopting this guidance will have on our financial position, results of operations and cash flows. Although our evaluation is ongoing, we do expect that the adoption will impact our financial statements as the standard requires the recognition on the balance sheet of a right of use asset and corresponding lease liability. We are currently analyzing our contracts to determine whether they contain a lease under the revised guidance and have not quantified the amount of the asset and liability that will be recognized on our consolidated balance sheet.

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Note 3—Revenues

Revenue Recognition

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605, Revenue Recognition.

There was no material impact to opening retained earnings as of January 1, 2018 due to the adoption of Topic 606. There also was no material impact to revenues, or any other financial statement line items, for the three months ended March 31, 2018 as a result of applying Topic 606.

Under Topic 606, we disaggregate our revenues by segment and type of activity. These categories depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. Our business activities are conducted through three operating segments: Supply and Logistics, Transportation and Facilities. See Note 13 for further discussion of our operating segments.

Supply and Logistics Segment Revenues from Contracts with Customers. The following table presents our Supply and Logistics segment revenues from contracts with customers disaggregated by segment and type of activity (in millions):

	Three Months Ended March 31, 2018
Supply and Logistics revenues from contracts with customers	
Crude oil transactions	$ 7,023
NGL and other transactions	1,151
Total Supply and Logistics revenues from contracts with customers	$ 8,174

Revenues from sales of crude oil, NGL and natural gas are recognized at the time title to the product sold transfers to the purchaser, which occurs upon delivery of the product to the purchaser or its designee. Sales of crude oil and NGL consist of outright sales contracts. The consideration received under these contracts is variable based on commodity prices. Inventory purchases and sales under buy/sell transactions are treated as inventory exchanges which are excluded from Supply and Logistics segment revenues in our Condensed Consolidated Statements of Operations. Revenues recognized by our Supply and Logistics segment primarily represent margin based activities.

Additionally, we may utilize derivatives in connection with the transactions described above. Derivative revenue is not included as a component of revenue from contracts with customers, but is included in other items in revenue. The change in the fair value of derivatives that are not designated or do not qualify for hedge accounting is recognized in revenues each period along with the ineffective portion of the change in fair value of derivatives that are designated as cash flow hedges. For commodity derivatives that are designated as cash flow hedges, derivative gains and losses are deferred in AOCI and recognized in revenues in the periods during which the underlying physical hedged transaction impacts earnings.

Transportation Segment Revenues from Contracts with Customers. The following table presents our Transportation segment revenues from contracts with customers disaggregated by segment and type of activity (in millions):

	Three Months Ended March 31, 2018
Transportation revenues from contracts with customers	
Tariff activities:	
Crude oil pipelines	$ 389
NGL pipelines	27
Total tariff activities	416
Trucking	34
Total Transportation revenues from contracts with customers	$ 450

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Our Transportation segment operations generally consist of fee-based activities associated with transporting crude oil and NGL on pipelines, gathering systems and trucks. Revenues from pipeline tariffs and fees are associated with the transportation of crude oil and NGL at a published tariff. We primarily recognize pipeline tariff and fee revenues over time as services are rendered, based on the volumes transported. As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor. We recognize the allowance volumes collected as part of the transaction price and record this non-cash consideration at fair value, measured as of the contract inception date.

Facilities Segment Revenues from Contracts with Customers. The following table presents our Facilities segment revenues from contracts with customers disaggregated by segment and type of activity (in millions):

	Three Months Ended March 31, 2018
Facilities revenues from contracts with customers	
Crude oil, NGL and other terminalling and storage	$ 166
NGL and natural gas processing and fractionation	100
Rail load / unload	16
Total Facilities revenues from contracts with customers	$