UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

---

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

For the quarterly period ended March 31, 2016

OR

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

Commission File Number: 1-36132

PLAINS GP HOLDINGS, L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**90-1005472** (I.R.S. Employer Identification No.)
333 Clay Street, Suite 1600, Houston, Texas (Address of principal executive offices)	**77002** (Zip Code)

(713) 646-4100

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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). x Yes o No

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

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

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

As of May 2, 2016, there were 266,756,587 Class A Shares outstanding.

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. **UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 40	$ 30
Trade accounts receivable and other receivables, net	1,549	1,785
Inventory	877	916
Other current assets	318	241
Total current assets	2,784	2,972
PROPERTY AND EQUIPMENT	15,916	15,695
Accumulated depreciation	(2,227)	(2,202)
Property and equipment, net	13,689	13,493
OTHER ASSETS		
Goodwill	2,405	2,405
Investments in unconsolidated entities	2,097	2,027
Deferred tax asset	1,907	1,835
Linefill and base gas	899	898
Long-term inventory	112	129
Other long-term assets, net	332	383
Total assets	$ 24,225	$ 24,142
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,980	$ 2,040
Short-term debt	715	999
Other current liabilities	371	370
Total current liabilities	3,066	3,409
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discounts and debt issuance costs	9,126	9,698
Other long-term debt, net of unamortized debt issuance costs	618	1,234
Other long-term liabilities and deferred credits	710	567
Total long-term liabilities	10,454	11,499

COMMITMENTS AND CONTINGENCIES (NOTE 10)				
PARTNERS CAPITAL				
Class A Shareholders (266,756,587 and 229,278,980 shares outstanding, respectively)		1,821		1,762
Class B Shareholders (357,269,537 and 376,771,593 shares outstanding, respectively)				
Noncontrolling interests		8,884		7,472
Total partners capital		10,705		9,234
Total liabilities and partners capital	$	24,225	$	24,142

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

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(unaudited)	(unaudited)
REVENUES		
Supply and Logistics segment revenues	$ 3,819	$ 5,632
Transportation segment revenues	154	185
Facilities segment revenues	138	125
Total revenues	4,111	5,942
COSTS AND EXPENSES		
Purchases and related costs	3,348	5,042
Field operating costs	300	346
General and administrative expenses	68	79
Depreciation and amortization	114	105
Total costs and expenses	3,830	5,572
OPERATING INCOME	281	370
OTHER INCOME/(EXPENSE)		
Equity earnings in unconsolidated entities	47	37
Interest expense (net of capitalized interest of $13 and $14, respectively)	(116)	(107)
Other income/(expense), net	5	(4)
INCOME BEFORE TAX	217	296
Current income tax expense	(31)	(42)
Deferred income tax (expense)/benefit	(9)	8
NET INCOME	177	262
Net income attributable to noncontrolling interests	(141)	(231)
NET INCOME ATTRIBUTABLE TO PAGP	$ 36	$ 31
BASIC AND DILUTED NET INCOME PER CLASS A SHARE	$ 0.14	$ 0.14
BASIC AND DILUTED WEIGHTED AVERAGE CLASS A SHARES OUTSTANDING	253	212

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

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Three Months Ended March 31, 2016	2015
	(unaudited)	
Net income	$ 177	$ 262
Other comprehensive income/(loss)	118	(376)
Comprehensive income/(loss)	295	(114)
Comprehensive (income)/loss attributable to noncontrolling interests	(258)	142
Comprehensive income attributable to PAGP	$ 37	$ 28

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

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

(in millions)

	Derivative Instruments	Translation Adjustments	Total
		(unaudited)	
Balance at December 31, 2015	$ (203)	$ (878)	$ (1,081)
Reclassification adjustments	1		1
Deferred loss on cash flow hedges	(90)		(90)
Currency translation adjustments		207	207
Total period activity	(89)	207	118
Balance at March 31, 2016	$ (292)	$ (671)	$ (963)

	Derivative Instruments	Translation Adjustments	Total
		(unaudited)	
Balance at December 31, 2014	$ (159)	$ (308)	$ (467)
Reclassification adjustments	(6)		(6)
Deferred loss on cash flow hedges	(72)		(72)
Currency translation adjustments		(298)	(298)
Total period activity	(78)	(298)	(376)
Balance at March 31, 2015	$ (237)	$ (606)	$ (843)

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

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 177	$ 262
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	114	105
Equity-indexed compensation expense	4	19
Inventory valuation adjustments	3	24
Deferred income tax expense/(benefit)	9	(8)
Gain on foreign currency revaluation	(3)	(27)
Equity earnings in unconsolidated entities	(47)	(37)
Distributions from unconsolidated entities	52	54
Other	4	(9)
Changes in assets and liabilities, net of acquisitions	318	346
Net cash provided by operating activities	631	729
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions	(85)	(64)
Investments in unconsolidated entities	(75)	(65)
Additions to property, equipment and other	(372)	(441)
Cash paid for purchases of linefill and base gas		(96)
Proceeds from sales of assets	246	1
Other investing activities	(1)	(1)
Net cash used in investing activities	(287)	(666)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments under PAA commercial paper program (Note 6)	(1,211)	(734)
Net repayments under PAA senior secured hedged inventory facility (Note 6)	(300)	
Net borrowings under AAP senior secured revolving credit facility (Note 6)	34	23
Net proceeds from the sale of Series A preferred units by a subsidiary and associated embedded derivative (Note 7)	1,570	
Net proceeds from the sale of common units by a subsidiary		1,099
Distributions paid to Class A shareholders (Note 7)	(55)	(42)
Distributions paid to noncontrolling interests (Note 7)	(375)	(346)
Other financing activities	(1)	(2)
Net cash used in financing activities	(338)	(2)
Effect of translation adjustment on cash	4	(5)
Net increase in cash and cash equivalents	10	56
Cash and cash equivalents, beginning of period	30	404
Cash and cash equivalents, end of period	$ 40	$ 460
Cash paid for:		
Interest, net of amounts capitalized	$ 88	$ 77
Income taxes, net of amounts refunded	$ 16	$ 11

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

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS CAPITAL

(in millions)

	Partners Capital (Excluding Noncontrolling Interests) Class A	Class B	Noncontrolling Interests	Total Partners Capital
	(unaudited)			
Balance at December 31, 2015	$ 1,762	$	$ 7,472	$ 9,234
Net income	36		141	177
Distributions	(55)		(375)	(430)
Deferred tax asset	94			94
Change in ownership interest in connection with Exchange Right exercises (Note 7)	(17)		17	
Sale of Series A preferred units by a subsidiary			1,509	1,509
Other comprehensive income	1		117	118
Other			3	3
Balance at March 31, 2016	$ 1,821	$	$ 8,884	$ 10,705

	Partners Capital (Excluding Noncontrolling Interests) Class A	Class B	Noncontrolling Interests	Total Partners Capital
	(unaudited)			
Balance at December 31, 2014	$ 1,657	$	$ 7,724	$ 9,381
Net income	31		231	262
Distributions	(42)		(346)	(388)
Deferred tax asset	163			163
Change in ownership interest in connection with Exchange Right exercises (Note 7)	(2)		2	
Sale of common units by a subsidiary			1,099	1,099
Other comprehensive loss	(3)		(373)	(376)
Other			7	7
Balance at March 31, 2015	$ 1,804	$	$ 8,344	$ 10,148

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

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Organization and Basis of Consolidation and Presentation

Organization

Plains GP Holdings, L.P. (PAGP) is a Delaware limited partnership formed on July 17, 2013 to own an interest in the general partner and incentive distribution rights (IDRs) of Plains All American Pipeline, L.P. (PAA), a publicly traded Delaware limited partnership. PAGP has elected to be treated as a corporation for U.S. federal income tax purposes. As used in this Form 10-Q and unless the context indicates otherwise (taking into account the fact that PAGP has no operating activities apart from those conducted by PAA and its subsidiaries), the terms Partnership, we, us, our, ours and similar terms refer to PAGP and its consolidated subsidiaries.

As of March 31, 2016, our sole assets consisted of (i) a 100% managing member interest in Plains All American GP LLC (GP LLC) and (ii) an approximate 43% limited partner interest in Plains AAP, L.P. (AAP) through our ownership of 266,756,587 Class A units of AAP (AAP units). GP LLC is a Delaware limited liability company that holds the general partner interest in AAP. AAP is a Delaware limited partnership that directly owns all of PAA s IDRs and indirectly owns the 2% general partner interest in PAA. AAP is the sole member of PAA GP LLC (PAA GP), a Delaware limited liability company that directly holds the 2% general partner interest in PAA. PAA GP Holdings LLC, a Delaware limited liability company, is our general partner.

GP LLC manages the business and affairs of PAA and AAP. Except for certain matters relating to PAA that require the approval of the limited partners of PAA, and certain matters relating to AAP that require the approval of the limited partners of AAP or of us as the sole member of GP LLC, either pursuant to the governing documents of PAA, AAP or GP LLC, or as may be required by non-waivable provisions of applicable law, GP LLC has full and complete authority, power and discretion to manage and control the business, affairs and property of PAA and AAP, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of PAA and AAP s business, including the execution of contracts and management of litigation. GP LLC employs all domestic officers and personnel involved in the operation and management of PAA and AAP. PAA s Canadian officers and personnel are employed by Plains Midstream Canada ULC (PMC).

PAA is a publicly traded master limited partnership that owns and operates midstream energy infrastructure and provides logistics services for crude oil, natural gas liquids (NGL), natural gas and refined products. PAA owns 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: Transportation, Facilities and Supply and Logistics. See Note 11 for further discussion of our operating segments.

Definitions

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

AOCI	=	Accumulated other comprehensive income/(loss)
Bcf	=	Billion cubic feet
Btu	=	British thermal unit
CAD	=	Canadian dollar
DERs	=	Distribution equivalent rights
EPA	=	United States Environmental Protection Agency
FASB	=	Financial Accounting Standards Board
GAAP	=	Generally accepted accounting principles in the United States
ICE	=	Intercontinental Exchange
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
VIE	=	Variable Interest Entity
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 2015 Annual Report on Form 10-K. On January 1, 2016 we adopted FASB guidance regarding the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Among other things, the guidance modified the evaluation of whether limited partnerships are variable interest entities (VIE) and eliminates the presumption that a general partner should consolidate a limited partnership. The adoption of this standard did not impact our consolidation conclusions, but did result in a change in our analysis and an increase in disclosures regarding our analysis.

The accompanying condensed consolidated financial statements include the accounts of PAGP 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. Management judgment is required to evaluate whether PAGP controls an entity. Key areas of that evaluation include (i) determining whether an entity is a variable interest entity (VIE); (ii) determining whether PAGP is the primary beneficiary of a VIE, including evaluating which activities of the VIE most significantly impact its economic performance and the degree of power that PAGP and its related parties have over those activities through variable interests; and (iii) identifying events that require reconsideration of whether an entity is a VIE and continuously evaluating whether PAGP is a VIE s primary beneficiary. An entity is referred to as a VIE pursuant to accounting guidance for consolidation if it possesses one of the following criteria: (i) it is thinly capitalized, (ii) the residual equity holders do not control the entity, (iii) the equity holders are shielded from the economic losses, (iv) the equity holders do not participate fully in the entity s residual economics, or (v) the entity was established with non-substantive voting interests. We consolidate a VIE when we have both the power to direct the activities that most significantly impact the activities of the VIE and the right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. We continually monitor both consolidated and unconsolidated VIEs to determine if any events have occurred that could cause the primary beneficiary to change.

We have determined that PAA and AAP are VIEs and should be consolidated by PAGP along with GP LLC. PAA is a VIE due to its allocation of income, but not losses, to the holder(s) of IDRs. AAP is a VIE because GP LLC controls AAP through its general partnership interest, but does not have an economic interest in AAP. AAP is the primary beneficiary of PAA because it has the power to direct the activities that most significantly impact PAA s performance. PAGP is the primary beneficiary of AAP because it has the power, through its control of GP LLC, to direct the activities that most significantly impact AAP s performance.

With the exception of a deferred tax asset of $1,907 million and $1,835 million as of March 31, 2016 and December 31, 2015, respectively, substantially all assets and liabilities presented on PAGP s consolidated balance sheet are those of the consolidated VIEs above. Only the assets of each respective VIE can be used to settle the obligations of that individual VIE, and the creditors of each/either of those VIEs do not have recourse against the general credit of PAGP. PAGP did not provide any financial support to PAA or AAP during the three months ended March 31, 2016 or during the year ended December 31, 2015. Amounts associated with the interests in these entities not owned by us are reflected in our results of operations as net income attributable to noncontrolling interests and on our balance sheet in the partners capital section as noncontrolling 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. Such reclassifications include $3 million reclassified from Depreciation and amortization to Interest expense, net in our accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 due to the retrospective application of revised debt issuance costs guidance issued by the FASB, which we adopted during the fourth quarter of 2015. These reclassifications do not affect net income attributable to PAGP. The condensed consolidated balance sheet data as of December 31, 2015 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, 2016 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.

Note 2 Recent Accounting Pronouncements

Except as discussed below and in our 2015 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, 2016 that are of significance or potential significance to us.

In February 2016, the FASB issued guidance 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, 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 we are currently evaluating the effect that adopting this guidance will have on our financial position, results of operations and cash flows.

Table of Contents

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification of certain related payments on the statement of cash flows. This guidance will become effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We expect to adopt this guidance on January 1, 2017, and we are currently evaluating the effect that adopting this guidance will have on our financial position, results of operations and cash flows.

In February 2015, the FASB issued guidance that revises the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Among other things, this guidance (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) affects the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships. This guidance became effective for interim and annual periods beginning after December 15, 2015. We adopted this guidance on January 1, 2016. See Note 1 for additional disclosure. Our adoption did not have a material impact on our financial position, results of operations or cash flows.

Note 3 Net Income Per Class A Share

Basic net income per Class A share is determined by dividing net income attributable to PAGP by the weighted-average number of Class A shares outstanding during the period. Class B shares do not share in the earnings of the Partnership. Accordingly, basic and diluted net income per Class B share has not been presented.

Diluted net income per Class A share is determined by dividing net income attributable to PAGP by the diluted weighted-average number of Class A shares outstanding during the period. For purposes of calculating diluted net income per Class A share, both the net income attributable to PAGP and the diluted weighted-average number of Class A shares outstanding consider the impact of possible future exchanges of (i) AAP units and the associated Class B shares into our Class A shares and (ii) certain Class B units of AAP (referred to herein as AAP Management Units) into our Class A shares. In addition, the calculation of the diluted weighted-average number of Class A shares outstanding considers the effect of potentially dilutive awards under the Plains GP Holdings, L.P. Long-Term Incentive Plan (the PAGP LTIP).

All AAP Management Units that have satisfied the applicable performance conditions are considered potentially dilutive. Exchanges of potentially dilutive AAP units and AAP Management Units are assumed to have occurred at the beginning of the period and the incremental income attributable to PAGP resulting from the assumed exchanges is representative of the incremental income that would have been attributable to PAGP if the assumed exchanges occurred on that date. See Note 7 for information regarding exchanges of AAP units and AAP Management Units. PAGP LTIP awards that are deemed to be dilutive are reduced by a hypothetical share repurchase based on the remaining unamortized fair value, as prescribed by the treasury stock method in guidance issued by the FASB.

For the three months ended March 31, 2016 and 2015, the possible exchange of any AAP units and certain AAP Management Units would not have a dilutive effect on basic net income per Class A share. For the same periods, our PAGP LTIP awards were dilutive; however, there were less than 0.1 million dilutive LTIP awards for each period, which did not change the presentation of weighted average Class A shares outstanding or net income per Class A share. The following table illustrates the calculation of basic and diluted net income per Class A share (in millions, except per share data):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Basic and Diluted Net Income per Class A Share		
Net income attributable to PAGP	$ 36	$ 31
Basic and diluted weighted average Class A shares outstanding	253	212
Basic and diluted net income per Class A share	$ 0.14	$ 0.14

Note 4 Accounts Receivable, Net

Our accounts receivable are primarily from purchasers and shippers of crude oil and, to a lesser extent, purchasers of NGL and natural gas. To mitigate credit risk related to our accounts receivable, we utilize a rigorous credit review process. We closely monitor market conditions to make a determination with respect to the amount, if any, of open credit to be extended to any given customer and the form and amount of financial performance assurances we require. Such financial assurances are commonly provided to us in the form of advance cash payments, standby letters of credit or parental guarantees. As of March 31, 2016 and December 31, 2015, we had received $52 million and $88 million, respectively, of advance cash payments from third parties to mitigate credit risk. We also received $26 million and $36 million as of March 31, 2016 and December 31, 2015, respectively, of standby letters of credit to support obligations due from third parties, a portion of which applies to future business. Additionally, in an effort to mitigate credit risk, a significant portion of our transactions with counterparties are settled on a net-cash basis. Furthermore, we also enter into netting agreements (contractual agreements that allow us to offset receivables and payables with those counterparties against each other on our balance sheet) for a majority of such arrangements.

Table of Contents

We review all outstanding accounts receivable balances on a monthly basis and record a reserve for amounts that we expect will not be fully recovered. We do not apply actual balances against the reserve until we have exhausted substantially all collection efforts. At March 31, 2016 and December 31, 2015, substantially all of our trade accounts receivable (net of allowance for doubtful accounts) were less than 30 days past their scheduled invoice date. Our allowance for doubtful accounts receivable totaled $4 million at both March 31, 2016 and December 31, 2015. Although we consider our allowance for doubtful accounts receivable to be adequate, actual amounts could vary significantly from estimated amounts.

Note 5 Inventory, Linefill and Base Gas and Long-term Inventory

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

	March 31, 2016				December 31, 2015			
	Volumes	Unit of Measure	Carrying Value	Price/ Unit (1)	Volumes	Unit of Measure	Carrying Value	Price/ Unit (1)
Inventory								
Crude oil	21,073	barrels	$ 711	$ 33.74	16,345	barrels	$ 608	$ 37.20
NGL	6,512	barrels	102	$ 15.66	13,907	barrels	218	$ 15.68
Natural gas	17,150	Mcf	34	$ 1.98	22,080	Mcf	53	$ 2.40
Other	N/A		30	N/A	N/A		37	N/A
Inventory subtotal			877				916	
Linefill and base gas								
Crude oil	12,060	barrels	711	$ 58.96	12,298	barrels	713	$ 57.98
NGL	1,348	barrels	47	$ 34.87	1,348	barrels	44	$ 32.64
Natural gas	30,812	Mcf	141	$ 4.58	30,812	Mcf	141	$ 4.58
Linefill and base gas subtotal			899				898	
Long-term inventory								
Crude oil	3,333	barrels	92	$ 27.60	3,417	barrels	106	$ 31.02
NGL	1,652	barrels	20	$ 12.11	1,652	barrels	23	$ 13.92
Long-term inventory subtotal			112				129	
Total			$ 1,888				$ 1,943	

(1) Price per unit of measure is comprised of a weighted average associated with various grades, qualities and locations. Accordingly, these prices may not coincide with any published benchmarks for such products.

At the end of each reporting period, we assess the carrying value of our inventory and make any adjustments necessary to reduce the carrying value to the applicable net realizable value. Any resulting adjustments are a component of Purchases and related costs on our accompanying Condensed Consolidated Statements of Operations. We recorded a charge of $24 million during the three months ended March 31, 2015 primarily related to the writedown of our NGL inventory due to declines in prices. The loss was substantially offset by a portion of the derivative mark-to-market gain that was recognized in the fourth quarter of 2014. See Note 8 for discussion of our derivative and risk management activities.

Table of Contents

Note 6 Debt

Debt consisted of the following (in millions):

		March 31, 2016		December 31, 2015
SHORT-TERM DEBT				
PAA commercial paper notes, bearing a weighted-average interest rate of 0.9% and 1.1%, respectively (1)	$	137	$	696
PAA senior secured hedged inventory facility, bearing a weighted-average interest rate of 1.4% (1)				300
PAA senior notes:				
5.88% senior notes due August 2016		175		
6.13% senior notes due January 2017		400		
Other		3		3
Total short-term debt		715		999
LONG-TERM DEBT				
PAA senior notes, net of unamortized discounts and debt issuance costs of $74 and $77, respectively		9,126		9,698
Other long-term debt:				
PAA commercial paper notes, bearing a weighted-average interest rate of 0.9% and 1.1%, respectively		23		672
AAP term loan, bearing a weighted-average interest rate of 2.1% and 2.0%, respectively		550		550
AAP senior secured revolving credit facility, bearing a weighted-average interest rate of 2.0% and 2.0%, respectively		43		9
Unamortized debt issuance costs		(2)		(2)
Other		4		5
Total long-term debt		9,744		10,932
Total debt (2)	$	10,459	$	11,931

(1) We classified these PAA commercial paper notes and credit facility borrowings as short-term as of March 31, 2016 and December 31, 2015, as these notes and borrowings were primarily designated as working capital borrowings, were required to be repaid within one year and were primarily for hedged NGL and crude oil inventory and NYMEX and ICE margin deposits.

(2) PAA s fixed-rate senior notes (including current maturities) had a face value of approximately $9.8 billion as of both March 31, 2016 and December 31, 2015. We estimated the aggregate fair value of these notes as of March 31, 2016 and December 31, 2015 to be approximately $9.0 billion and $8.6 billion, respectively. PAA s fixed-rate senior notes are traded among institutions, and these trades are routinely published by a reporting service. Our determination of fair value is based on reported trading activity near the end of the reporting period. We estimate that the carrying value of outstanding borrowings under the credit agreements and the PAA commercial paper program approximates fair value as interest rates reflect current market rates. The fair value estimates for the PAA senior notes, the credit agreements and the PAA commercial paper program are based upon observable market data and are classified in Level 2 of the fair value hierarchy.

Borrowings and Repayments

Total borrowings under the credit agreements and the PAA commercial paper program for the three months ended March 31, 2016 and 2015 were approximately $10.8 billion and $7.0 billion, respectively. Total repayments under the credit agreements and the PAA commercial paper program were approximately $12.3 billion and $7.7 billion for the three months ended March 31, 2016 and 2015, respectively. The variance in total gross borrowings and repayments is impacted by various business and financial factors including, but not limited to, the timing, average term and method of general partnership borrowing activities.

Letters of Credit

In connection with our supply and logistics activities, we provide certain suppliers with irrevocable standby letters of credit to secure our obligation for the purchase of crude oil, NGL and natural gas. Additionally, we issue letters of credit to support insurance programs, derivative transactions and construction activities. At March 31, 2016 and December 31, 2015, we had outstanding letters of credit of $45 million and $46 million, respectively.

Table of Contents

Note 7 Partners Capital and Distributions

Exchange Rights

Holders of AAP units and their permitted transferees each have the right to exchange all or a portion of their AAP units for Class A shares at an exchange ratio of one Class A share for each AAP unit exchanged (referred to herein as the Exchange Right). This Exchange Right may be exercised only if, simultaneously therewith, an equal number of Class B shares and general partner units are transferred by the exercising party to us. Additionally, a holder of vested AAP Management Units is entitled to convert his or her AAP Management Units into AAP units and a like number of our Class B shares based on a conversion ratio calculated in accordance with the AAP limited partnership agreement (which conversion ratio will not be more than one-to-one and was approximately 0.940 AAP units for each AAP Management Unit as of March 31, 2016). Following any such conversion, the holder will have the Exchange Right for our Class A shares. Holders of AAP Management Units who convert such units into AAP units and our Class B shares will not receive general partner units and thus will not need to include any general partner units in a transfer or the exercise of their Exchange Right. See Note 15 to our Consolidated Financial Statements included in Part IV of our 2015 Annual Report on Form 10-K for more information regarding AAP Management Units.

During the three months ended March 31, 2016, certain holders of AAP units and their permitted transferees exercised their Exchange Right, which resulted in the exchange of AAP units, general partner units and our Class B shares for our Class A shares. Additionally, during the three months ended March 31, 2016, certain holders of AAP Management Units converted an aggregate of 19,137,234 AAP Management Units into AAP units and our Class B shares based on the conversion ratio in effect at the time of each conversion. Certain of those unitholders subsequently exercised their Exchange Right for our Class A shares. The impact on our Class A shares and Class B shares outstanding of the AAP Management Unit conversions and Exchange Right exercises that occurred during the three months ended March 31, 2016 is reflected in the table below.

Shares Outstanding

The following tables present the activity for our Class A shares and Class B shares:

	Class B Shares	Class A Shares
Outstanding at December 31, 2015	376,771,593	229,278,980
Shares issued in connection with conversion of AAP Management Units	17,954,751	
Shares (exchanged)/issued in connection with Exchange Right exercises	(37,456,807)	37,456,807
Shares issued in connection with PAGP LTIP award vestings		20,800
Outstanding at March 31, 2016	357,269,537	266,756,587

	Class B Shares	Class A Shares
Outstanding at December 31, 2014	399,096,499	206,933,274
Shares (exchanged)/issued in connection with Exchange Right exercises	(15,819,735)	15,819,735
Shares issued in connection with PAGP LTIP award vestings		20,800
Outstanding at March 31, 2015	383,276,764	222,773,809

Distributions

The following table details the distributions paid to our Class A shareholders during or pertaining to the first three months of 2016 (in millions, except per share data):

Date Declared	Distribution Date	Distributions to Class A Shareholders	Distributions per Class A Share
April 7, 2016	May 13, 2016 (1)	$ 62	$ 0.231
January 12, 2016	February 12, 2016	$ 55	$ 0.231

(1) Payable to shareholders of record at the close of business on April 29, 2016 for the period January 1, 2016 through March 31, 2016.

Table of Contents

Consolidated Subsidiaries

Noncontrolling Interests in Subsidiaries

As of March 31, 2016, noncontrolling interests in our subsidiaries consisted of (i) a 98% limited partner interest in PAA, (ii) an approximate 57% limited partner interest in AAP that consists of Class A units and AAP Management Units (a profits interest) and (iii) a 25% interest in SLC Pipeline LLC.

Subsidiary Equity Offerings

PAA Preferred Unit Offering. In January 2016, PAA completed the private placement of approximately 61.0 million Series A preferred units representing limited partner interests in PAA, for a cash purchase price of $26.25 per unit (the Issue Price). The PAA Series A preferred units are a new class of equity security in PAA that ranks senior to all classes or series of equity securities in PAA with respect to distribution rights and rights upon liquidation.

The holders of the PAA Series A preferred units will receive cumulative quarterly distributions, subject to customary antidilution adjustments, equal to an annual rate of 8% of the Issue Price ($2.10 per unit annualized). With respect to any quarter ending on or prior to December 31, 2017 (the Initial Distribution Period), PAA may elect to pay distributions on the PAA Series A preferred units in additional preferred units, in cash or a combination of both. With respect to any quarter ending after the Initial Distribution Period, PAA must pay distributions on the PAA Series A preferred units in cash. AAP will be entitled to participate in cash distributions on the PAA Series A preferred units equal to its 2% general partner interest in PAA.

After two years, the preferred units are convertible at the purchasers option into common units on a one-for-one basis, subject to certain conditions, and are convertible at PAA s option in certain circumstances after three years.

For a period of 30 days following (a) the fifth anniversary of the issuance date of the PAA Series A preferred units and (b) each subsequent anniversary of the issuance date, the holders of the PAA Series A preferred units, acting by majority vote, may make a one-time election to reset the distribution rate to equal the then applicable rate of the ten-year U.S. Treasury plus 5.85% (the Preferred Distribution Rate Reset Option). The Preferred Distribution Rate Reset Option is accounted for as an embedded derivative. See Note 8 for additional information.

Subsidiary Distributions

PAA Cash Distributions. The following table details the distributions to PAA s partners paid in cash during or pertaining to the first three months of 2016, net of reductions in AAP s incentive distributions (in millions, except per unit data):

Date Declared	Distribution Date	Common Unitholders	Distributions Paid AAP	Total	Distributions per common unit
April 7, 2016	May 13, 2016 (1)	$ 278	$ 155	$ 433	$ 0.70
January 12, 2016	February 12, 2016	$ 278	$ 155	$ 433	$ 0.70

(1) Payable to unitholders of record at the close of business on April 29, 2016 for the period January 1, 2016 through March 31, 2016.

PAA In-Kind Distributions. On May 13, 2016, PAA will issue 858,439 additional Series A preferred units in lieu of a cash distribution of $23 million. Such distribution is prorated for the period beginning on January 28, 2016, the issuance date of the PAA Series A preferred units, through March 31, 2016 and will be issued to PAA Series A preferred unitholders of record as of April 29, 2016.

AAP Distributions. The following table details the distributions paid to AAP s partners during or pertaining to the first three months of 2016 from distributions received from PAA (in millions):

			Distributions to AAP s Partners		
Distribution Date	Distributions Received by AAP from PAA	Cash Reserves	Total	Noncontrolling Interests	PAGP
May 13, 2016 (1)	$ 155	$ (5)	$ 150	$ 89	$ 61
February 12, 2016	$ 155	$ (4)	$ 151	$ 96	$ 55

(1) Payable to unitholders of record at the close of business on April 29, 2016 for the period January 1, 2016 through March 31, 2016.

Table of Contents

Other Distributions. During the three months ended March 31, 2016, distributions of $1 million were paid to noncontrolling interests in SLC Pipeline LLC.

Note 8 Derivatives and Risk Management Activities

We identify the risks that underlie our core business activities and use risk management strategies to mitigate those risks when we determine that there is value in doing so. Our policy is to use derivative instruments for risk management purposes and not for the purpose of speculating on hydrocarbon commodity (referred to herein as commodity) price changes. We use various derivative instruments to (i) manage our exposure to commodity price risk, as well as to optimize our profits, (ii) manage our exposure to interest rate risk and (iii) manage our exposure to currency exchange rate risk. Our commodity risk management policies and procedures are designed to help ensure that our hedging activities address our risks by monitoring our derivative positions, as well as physical volumes, grades, locations, delivery schedules and storage capacity. Our interest rate and currency exchange rate risk management policies and procedures are designed to monitor our derivative positions and ensure that those positions are consistent with our objectives and approved strategies. When we apply hedge accounting, our policy is to formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument s effectiveness will be assessed. Both at the inception of the hedge and throughout the hedging relationship, we assess whether the derivatives employed are highly effective in offsetting changes in cash flows of anticipated hedged transactions.

Commodity Price Risk Hedging

Our core business activities involve certain commodity price-related risks that we manage in various ways, including through the use of derivative instruments. Our policy is to (i) only purchase inventory for which we have a market, (ii) structure our sales contracts so that price fluctuations do not materially affect our operating income and (iii) not acquire and hold physical inventory or derivatives for the purpose of speculating on commodity price changes. The material commodity-related risks inherent in our business activities can be divided into the following general categories:

Commodity Purchases and Sales In the normal course of our operations, we purchase and sell commodities. We use derivatives to manage the associated risks and to optimize profits. As of March 31, 2016, net derivative positions related to these activities included:

- An average of 146,300 barrels per day net long position (total of 4.4 million barrels) associated with our crude oil purchases, which was unwound ratably during April 2016 to match monthly average pricing.

- A net short time spread position averaging 10,000 barrels per day (total of 4.3 million barrels), which hedges a portion of our anticipated crude oil lease gathering purchases through June 2017.

- An average of 2,600 barrels per day (total of 1.2 million barrels) of crude oil grade spread positions through June 2017. These derivatives allow us to lock in grade basis differentials.

- A net short position of 13.9 Bcf through April 2017 related to anticipated sales of natural gas inventory and base gas requirements.

- A net short position of 25.8 million barrels through December 2018 related to anticipated net sales of our crude oil and NGL inventory.

Pipeline Loss Allowance Oil As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor that is intended to, among other things, offset losses due to evaporation, measurement and other losses in transit. We utilize derivative instruments to hedge a portion of the anticipated sales of the loss allowance oil that is to be collected under our tariffs. As of March 31, 2016, our material PLA hedges included a long call option position of 1.4 million barrels through December 2018.

Natural Gas Processing/NGL Fractionation We purchase natural gas for processing and operational needs. Additionally, we purchase NGL mix for fractionation and sell the resulting individual specification products (including ethane, propane, butane and condensate). In conjunction with these activities, we hedge the price risk associated with the purchase of the natural gas and the subsequent sale of the individual specification products. As of March 31, 2016, we had a long natural gas position of 14.0 Bcf through December 2016, a short propane position of 2.7 million barrels through December 2016, a short butane position of 0.8 million barrels through December 2016 and a short WTI position of 0.3 million barrels through December 2016. In addition, we had a long power position of 0.4 million megawatt hours, which hedges a portion of our power supply requirements at our Canadian natural gas processing and fractionation plants through December 2018.

Table of Contents

Physical commodity contracts that meet the definition of a derivative but are ineligible, or not designated, for the normal purchases and normal sales scope exception are recorded on the balance sheet at fair value, with changes in fair value recognized in earnings. We have determined that substantially all of our physical commodity contracts qualify for the normal purchases and normal sales scope exception.

Interest Rate Risk Hedging

We use interest rate derivatives to hedge interest rate risk associated with anticipated and outstanding interest payments occurring as a result of debt issuances. The derivative instruments we use to manage this risk consist of forward starting interest rate swaps and treasury locks. As of March 31, 2016, AOCI includes deferred losses of $270 million that relate to open and terminated interest rate derivatives that were designated as cash flow hedges. The terminated interest rate derivatives were cash-settled in connection with the issuance or refinancing of debt agreements. The deferred loss related to these instruments is being amortized to interest expense over the terms of the hedged debt instruments.

We have entered into forward starting interest rate swaps to hedge the underlying benchmark interest rate related to forecasted interest payments through 2049. The following table summarizes the terms of our forward starting interest rate swaps as of March 31, 2016 (notional amounts in millions):

Hedged Transaction	Number and Types of Derivatives Employed	Notional Amount		Expected Termination Date	Average Rate Locked	Accounting Treatment
Anticipated interest payments	8 forward starting swaps (30-year)	$	200	6/15/2016	3.06%	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$	200	6/15/2017	3.14%	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$	200	6/15/2018	3.20%	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$	200	6/14/2019	2.83%	Cash flow hedge

Currency Exchange Rate Risk Hedging

Because a significant portion of our Canadian business is conducted in CAD and, at times, a portion of our debt is denominated in CAD, we use foreign currency derivatives to minimize the risk of unfavorable changes in exchange rates. These instruments include foreign currency exchange contracts and forwards.

As of March 31, 2016, our outstanding foreign currency derivatives include derivatives we use to hedge currency exchange risk (i) associated with USD-denominated commodity purchases and sales in Canada and (ii) created by the use of USD-denominated commodity derivatives to hedge commodity price risk associated with CAD-denominated commodity purchases and sales.

The following table summarizes our open forward exchange contracts as of March 31, 2016 (in millions):

		USD	CAD	Average Exchange Rate USD to CAD
Forward exchange contracts that exchange CAD for USD:				
	2016	$ 147	$ 191	$1.00 - $1.30
Forward exchange contracts that exchange USD for CAD:				
	2016	$ 228	$ 302	$1.00 - $1.33

Preferred Distribution Rate Reset Option

A derivative feature embedded in a contract that does not meet the definition of a derivative in its entirety must be bifurcated and accounted for separately if the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract. The Preferred Distribution Rate Reset Option of the PAA Series A preferred units is an embedded derivative that must be bifurcated from the related host contract, the PAA partnership agreement, and recorded at fair value on our Condensed Consolidated Balance Sheets. Corresponding changes in fair value are recognized in Other income/(expense), net in our Condensed Consolidated Statement of Operations. At March 31, 2016, the fair value of this embedded derivative was a liability of approximately $60 million. See Note 7 for additional information regarding the PAA Series A preferred units and the Preferred Distribution Rate Reset Option.

Table of Contents

Summary of Financial Impact

We record all open derivatives on the balance sheet as either assets or liabilities measured at fair value. Changes in the fair value of derivatives are recognized currently in earnings unless specific hedge accounting criteria are met. For derivatives that qualify as cash flow hedges, changes in fair value of the effective portion of the hedges are deferred in AOCI and recognized in earnings in the periods during which the underlying physical transactions are recognized in earnings. Derivatives that do not qualify for hedge accounting and the portion of cash flow hedges that are not highly effective in offsetting changes in cash flows of the hedged items are recognized in earnings each period. Cash settlements associated with our derivative activities are classified within the same category as the related hedged item in our Condensed Consolidated Statements of Cash Flows.

A summary of the impact of our derivative activities recognized in earnings is as follows (in millions):

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
Location of Gain/(Loss)	**Derivatives in Hedging Relationships**	**Derivatives Not Designated as a Hedge**	**Total**	**Derivatives in Hedging Relationships**	**Derivatives Not Designated as a Hedge**	**Total**
Commodity Derivatives						
Supply and Logistics segment revenues	$ 1	$ 31	$ 32	$ 7	$ (34)	$ (27)
Transportation segment revenues		2	2		2	2
Field operating costs		(2)	(2)		(4)	(4)
Interest Rate Derivatives						
Interest expense, net	(2)		(2)	(1)		(1)
Foreign Currency Derivatives						
Supply and Logistics segment revenues		6	6		(17)	(17)
Total Gain/(Loss) on Derivatives Recognized in Net Income	$ (1)	$ 37	$ 36	$ 6	$ (53)	$ (47)

Table of Contents

The following table summarizes the derivative assets and liabilities on our Condensed Consolidated Balance Sheet on a gross basis as of March 31, 2016 (in millions):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity derivatives	Other current assets	$ 3	Other current assets	$ (2)