PLAINS ALL AMERICAN PIPELINE LP
Form 10-Q
November 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

Commission File Number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.

(Exact name of registrant as specified in its charter)

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. Yes No

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

Indicate by check mark 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of October 30, 2015, there were 397,727,624 Common Units outstanding.

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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

(in millions, except unit data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22	$ 403
Trade accounts receivable and other receivables, net	1,844	2,615
Inventory	837	891
Other current assets	255	270
Total current assets	2,958	4,179
PROPERTY AND EQUIPMENT	15,451	14,178
Accumulated depreciation	(2,101)	(1,906)
Property and equipment, net	13,350	12,272
OTHER ASSETS		
Goodwill	2,417	2,465
Investments in unconsolidated entities	1,954	1,735
Linefill and base gas	910	930
Long-term inventory	166	186
Other long-term assets, net	462	489
Total assets	$ 22,217	$ 22,256
LIABILITIES AND PARTNERS’ CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,363	$ 2,986

Short-term debt	681	1,287
Other current liabilities	434	482
Total current liabilities	3,478	4,755
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discount of $18 and $18, respectively	9,757	8,757
Other long-term debt	213	5
Other long-term liabilities and deferred credits	553	548
Total long-term liabilities	10,523	9,310
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
PARTNERS’ CAPITAL		
Common unitholders (397,727,624 and 375,107,793 units outstanding, respectively)	7,799	7,793
General partner	359	340
Total partners’ capital excluding noncontrolling interests	8,158	8,133
Noncontrolling interests	58	58
Total partners’ capital	8,216	8,191
Total liabilities and partners’ capital	$ 22,217	$ 22,256

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
REVENUES				
Supply and Logistics segment revenues	$ 5,247	$ 10,788	$ 17,225	$ 32,988
Transportation segment revenues	172	198	538	574
Facilities segment revenues	132	141	393	443
Total revenues	5,551	11,127	18,156	34,005
COSTS AND EXPENSES				
Purchases and related costs	4,701	10,166	15,591	31,116
Field operating costs	348	382	1,111	1,078
General and administrative expenses	60	78	217	257
Depreciation and amortization	109	97	326	293
Total costs and expenses	5,218	10,723	17,245	32,744
OPERATING INCOME	333	404	911	1,261
OTHER INCOME/(EXPENSE)				
Equity earnings in unconsolidated entities	45	29	134	73
Interest expense (net of capitalized interest of $14, $12, $42 and $33, respectively)	(107)	(85)	(313)	(246)
Other expense, net	(4)	(4)	(7)	(2)
INCOME BEFORE TAX	267	344	725	1,086
Current income tax expense	(11)	(10)	(72)	(62)
Deferred income tax (expense)/benefit	(6)	(10)	6	(28)
NET INCOME	250	324	659	996
Net income attributable to noncontrolling interests	(1)	(1)	(2)	(2)
NET INCOME ATTRIBUTABLE TO PAA	$ 249	$ 323	$ 657	$ 994
NET INCOME ATTRIBUTABLE TO PAA:				
LIMITED PARTNERS	$ 99	$ 195	$ 215	$ 630
GENERAL PARTNER	$ 150	$ 128	$ 442	$ 364
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 0.25	$ 0.52	$ 0.54	$ 1.71

DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 0.24	$ 0.52	$ 0.53	$ 1.70
BASIC WEIGHTED AVERAGE LIMITED PARTNER UNITS OUTSTANDING	398	370	393	365
DILUTED WEIGHTED AVERAGE LIMITED PARTNER UNITS OUTSTANDING	399	371	395	367

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 COMPREHENSIVE INCOME/(LOSS)

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Net income	$ 250	$ 324	$ 659	$ 996
Other comprehensive loss	(311)	(167)	(518)	(211)
Comprehensive income/(loss)	(61)	157	141	785
Comprehensive income attributable to noncontrolling interests	(1)	(1)	(2)	(2)
Comprehensive income/(loss) attributable to PAA	$ (62)	$ 156	$ 139	$ 783

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	Total
	(unaudited)		
Balance at December 31, 2014	$ (159)	$ (308)	$ (467)
Reclassification adjustments	(21)	—	(21)
Deferred loss on cash flow hedges, net of tax	(28)	—	(28)
Currency translation adjustments	—	(469)	(469)
Total period activity	(49)	(469)	(518)

Balance at September 30, 2015	$ (208)	$ (777)	$ (985)

	Derivative Instruments	Translation Adjustments	Total
	(unaudited)		
Balance at December 31, 2013	$ (77)	$ (20)	$ (97)
Reclassification adjustments	16	—	16
Deferred loss on cash flow hedges, net of tax	(57)	—	(57)
Currency translation adjustments	—	(170)	(170)
Total period activity	(41)	(170)	(211)
Balance at September 30, 2014	$ (118)	$ (190)	$ (308)

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 CASH FLOWS

(in millions)

	Nine Months Ended September 30,	
	2015	2014
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 659	$ 996
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	326	293
Equity-indexed compensation expense	27	90
Inventory valuation adjustments	25	37
Deferred income tax expense/(benefit)	(6)	28
Gain on sales of linefill and base gas	—	(8)
(Gain)/loss on foreign currency revaluation	(20)	10
Settlement of terminated interest rate hedging instruments	(48)	(7)
Equity earnings in unconsolidated entities	(134)	(73)
Distributions from unconsolidated entities	159	74
Other	(12)	10
Changes in assets and liabilities, net of acquisitions	246	(172)
Net cash provided by operating activities	1,222	1,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions, net of cash acquired	(104)	(10)
Additions to property, equipment and other	(1,617)	(1,424)
Investment in unconsolidated entities	(213)	(98)
Cash received for sales of linefill and base gas	—	24
Cash paid for purchases of linefill and base gas	(131)	(159)
Proceeds from sales of assets	4	2
Other investing activities	(8)	1
Net cash used in investing activities	(2,069)	(1,664)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings/(repayments) under commercial paper program (Note 6)	151	(683)
Proceeds from the issuance of senior notes (Note 6)	998	1,447
Repayments of senior notes (Note 6)	(549)	—
Net proceeds from the issuance of common units (Note 7)	1,099	655
Contributions from general partner	23	14
Distributions paid to common unitholders (Note 7)	(802)	(688)
Distributions paid to general partner (Note 7)	(436)	(344)

Distributions paid to noncontrolling interests	(2)	(2)
Costs incurred in connection with financing arrangements	(11)	(15)
Other financing activities	(2)	(4)
Net cash provided by financing activities	469	380
Effect of translation adjustment on cash	(3)	(1)
Net decrease in cash and cash equivalents	(381)	(7)
Cash and cash equivalents, beginning of period	403	41
Cash and cash equivalents, end of period	$ 22	$ 34
Cash paid for:		
Interest, net of amounts capitalized	$ 287	$ 237
Income taxes, net of amounts refunded	$ 43	$ 135

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)

	Common Units		General	Partners' Capital Excluding Noncontrolling	Noncontrolling	Total Partners'
	Units	Amount	Partner	Interests	Interests	Capital
	(unaudited)					
Balance at December 31, 2014	375.1	$ 7,793	$ 340	$ 8,133	$ 58	$ 8,191
Net income	—	215	442	657	2	659
Distributions	—	(802)	(436)	(1,238)	(2)	(1,240)
Issuance of common units	22.1	1,099	22	1,121	—	1,121
Issuance of common units under LTIP	0.5	—	1	1	—	1
Settlement of employee income tax withholding obligations under LTIP	—	(13)	—	(13)	—	(13)
Equity-indexed compensation expense	—	19	1	20	—	20
Distribution equivalent right payments	—	(5)	—	(5)	—	(5)
Other comprehensive loss	—	(507)	(11)	(518)	—	(518)
Balance at September 30, 2015	397.7	$ 7,799	$ 359	$ 8,158	$ 58	$ 8,216

	Common Units		General	Partners' Capital Excluding Noncontrolling	Noncontrolling	Total Partners'
	Units	Amount	Partner	Interests	Interests	Capital
	(unaudited)					
Balance at December 31, 2013	359.1	$ 7,349	$ 295	$ 7,644	$ 59	$ 7,703
Net income	—	630	364	994	2	996
Distributions	—	(688)	(344)	(1,032)	(2)	(1,034)
Issuance of common units	11.8	655	14	669	—	669
Issuance of common units under LTIP	0.6	1	1	2	—	2
Settlement of employee income tax withholding obligations under LTIP	—	(19)	—	(19)	—	(19)
Equity-indexed compensation expense	—	25	5	30	—	30
	—	(5)	—	(5)	—	(5)

Distribution equivalent right payments						
Other comprehensive loss	—	(207)	(4)	(211)	—	(211)
Other	—	(1)	—	(1)	—	(1)
Balance at September 30, 2014	371.5	$ 7,740	$ 331	$ 8,071	$ 59	$ 8,130

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 for crude oil, natural gas liquids (“NGL”), natural gas and refined products. 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: Transportation, Facilities and Supply and Logistics. See Note 11 for further discussion of our operating segments.

Our 2% general partner interest is held by PAA GP LLC, 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 LLC, AAP also owns all of our incentive distribution rights (“IDRs”). 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 member of GP LLC, and at September 30, 2015, owned an approximate 37% limited partner interest in AAP.

GP LLC manages our operations and activities and employs our domestic officers and personnel. Our Canadian officers and personnel are employed by our subsidiary, Plains Midstream Canada ULC (“PMC”). References to our “general partner,” as the context requires, include any or all of PAA GP LLC, AAP and GP LLC.

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
MLP	=	Master limited partnership
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

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Basis of Consolidation and Presentation

The accompanying unaudited condensed consolidated interim financial statements and related notes thereto should be read in conjunction with our 2014 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. 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. These reclassifications do not affect net income attributable to PAA. The condensed consolidated balance sheet data as of December 31, 2014 was derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the three and nine months ended September 30, 2015 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

In September 2015, the FASB issued guidance to simplify the accounting for measurement-period adjustments for provisional amounts recognized in a business combination by eliminating the requirement for an acquirer to retrospectively account for measurement-period adjustments. Under the updated guidance, the acquirer must recognize adjustments in the reporting period in which the adjustment amounts are determined and the effect on earnings as a result of the change to the provisional amounts must be calculated as if the accounting had been completed at the acquisition date. This guidance will become effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted, and must be applied prospectively. We expect to adopt this guidance on January 1, 2016, and our adoption is not expected to have a material impact on our financial position, results of operations or cash flows.

In July 2015, the FASB issued guidance to simplify the measurement of inventory. This updated guidance requires entities to measure inventory at the lower of cost and net realizable value; however, inventory measured using last-in, first-out and the retail inventory method is unchanged by this update. This guidance will become effective for interim and annual periods beginning after December 15, 2016, with prospective application required. Early adoption is permitted, including adoption in an interim period. We expect to adopt this guidance on January 1, 2017, and we are currently evaluating the impact that adopting this guidance will have on our financial position, results of operations and cash flows.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs in entities' financial statements. This updated guidance requires entities to present such costs as a direct deduction from the related debt liability, consistent with debt discounts. Additionally, amortization of the debt issuance costs will be required to be reported as interest expense. This guidance will become effective for interim and annual periods beginning after December 15, 2015, with retrospective application required for all prior periods presented. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt this guidance during the fourth quarter of 2015. We do not believe our adoption will have a material impact on our financial position, results of operations or 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 will become effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We will adopt this guidance on January 1,

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2016. We do not believe our adoption will have a material impact on our financial position, results of operations or cash flows.

In January 2015, as part of its initiative to reduce complexity in accounting standards, the FASB issued guidance to eliminate the concept of extraordinary items from GAAP. This guidance will become effective for interim and annual periods beginning after December 15, 2015. We will adopt this guidance on January 1, 2016. We do not believe our adoption will have a material impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers 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 those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and the related cash flows. This guidance can be adopted either with a full retrospective approach or a modified retrospective approach with a cumulative-effect adjustment as of the date of adoption. In August 2015, the FASB issued guidance deferring the effective date to interim and annual periods beginning after December 15, 2017. Therefore, we expect to adopt this guidance on January 1, 2018, and we are currently evaluating which transition approach to apply and the impact that adopting this guidance will have on our financial position, results of operations and cash flows.

In April 2014, the FASB issued guidance that modifies the criteria under which assets to be disposed of are evaluated to determine if such assets qualify as a discontinued operation and requires new disclosures for both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2014. We adopted this guidance on January 1, 2015. Our adoption did not have a material impact on our financial position, results of operations or cash flows.

Note 3—Net Income Per Limited Partner Unit

Basic and diluted net income per limited partner unit is determined pursuant to the two-class method for MLPs as prescribed in FASB guidance. The two-class method is an earnings allocation formula that is used to determine earnings to our general partner, common unitholders and participating securities according to distributions pertaining to the current period’s net income and participation rights in undistributed earnings. Under this method, all earnings are allocated to our general partner, common unitholders and participating securities based on their respective rights to receive distributions, regardless of whether those earnings would actually be distributed during a particular period from an economic or practical perspective.

We calculate basic and diluted net income per limited partner unit by dividing net income attributable to PAA (after deducting the amount allocated to the general partner’s interest, IDRs and participating securities) by the basic and

diluted weighted-average number of limited partner units outstanding during the period. Participating securities include LTIP awards that have vested DERs, which entitle the grantee to a cash payment equal to the cash distribution paid on our outstanding common units.

Diluted net income per limited partner unit is computed based on the weighted-average number of limited partner units plus the effect of dilutive potential limited partner units outstanding during the period using the two-class method. Our LTIP awards that contemplate the issuance of common units are considered dilutive unless (i) vesting occurs only upon the satisfaction of a performance condition and (ii) that performance condition has yet to be satisfied. LTIP awards that are deemed to be dilutive are reduced by a hypothetical limited partner unit repurchase based on the remaining unamortized fair value, as prescribed by the treasury stock method in guidance issued by the FASB. See Note 16 to our Consolidated Financial Statements included in Part IV of our 2014 Annual Report on Form 10-K for a complete discussion of our LTIP awards including specific discussion regarding DERs.

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The following table sets forth the computation of basic and diluted net income per limited partner unit for the periods indicated (in millions, except per unit data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic Net Income per Limited Partner Unit				
Net income attributable to PAA	$ 249	$ 323	$ 657	$ 994
Less: General partner's incentive distribution (1)	(148)	(124)	(437)	(351)
Less: General partner 2% ownership (1)	(2)	(4)	(5)	(13)
Net income attributable to limited partners	99	195	215	630
Less: Undistributed earnings allocated and distributions to participating securities (1)	(1)	(1)	(4)	(5)
Net income attributable to limited partners in accordance with application of the two-class method for MLPs	$ 98	$ 194	$ 211	$ 625
Basic weighted average limited partner units outstanding	398	370	393	365
Basic net income per limited partner unit	$ 0.25	$ 0.52	$ 0.54	$ 1.71
Diluted Net Income per Limited Partner Unit				
Net income attributable to PAA	$ 249	$ 323	$ 657	$ 994
Less: General partner's incentive distribution (1)	(148)	(124)	(437)	(351)
Less: General partner 2% ownership (1)	(2)	(4)	(5)	(13)
Net income attributable to limited partners	99	195	215	630
Less: Undistributed earnings allocated and distributions to participating securities (1)	(1)	(1)	(4)	(5)
Net income attributable to limited partners in accordance with application of the two-class method for MLPs	$ 98	$ 194	$ 211	$ 625
Basic weighted average limited partner units outstanding	398	370	393	365
Effect of dilutive securities: Weighted average LTIP units	1	1	2	2
Diluted weighted average limited partner units outstanding	399	371	395	367
Diluted net income per limited partner unit	$ 0.24	$ 0.52	$ 0.53	$ 1.70

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[1] We calculate net income attributable to limited partners based on the distributions pertaining to the current period's net income. After adjusting for the appropriate period's distributions, the remaining undistributed earnings or excess distributions over earnings, if any, are allocated to the general partner, limited partners and participating securities in accordance with the contractual terms of our partnership agreement and as further prescribed under the two-class method.

Pursuant to the terms of our partnership agreement, the general partner's incentive distribution is limited to a percentage of available cash, which, as defined in our partnership agreement, is net of reserves deemed appropriate. As such, IDRs are not allocated undistributed earnings or distributions in excess of earnings in the calculation of net income per limited partner unit. If, however, undistributed earnings were allocated to our IDRs beyond amounts distributed to them under the terms of our partnership agreement, basic and diluted net income per limited partner unit as reflected in the table above would not have been impacted, as we did not have undistributed earnings for any of the periods presented.

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Note 4—Accounts Receivable

Our accounts receivable are primarily from purchasers and shippers of crude oil and, to a lesser extent, purchasers of NGL and natural gas. These purchasers include, but are not limited to, refiners, producers, marketing and trading companies and financial institutions that are active in the physical and financial commodity markets. The majority of our accounts receivable relate to our crude oil supply and logistics activities that can generally be described as high volume and low margin activities, in many cases involving exchanges of crude oil volumes.

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 September 30, 2015 and December 31, 2014, we had received $110 million and $180 million, respectively, of advance cash payments from third parties to mitigate credit risk. We also received $46 million and $198 million, as of September 30, 2015 and December 31, 2014, respectively, of standby letters of credit to support obligations due from third parties, a portion of which applies to future business. The decrease in standby letters of credit and advance cash payments from third parties as of September 30, 2015 compared to December 31, 2014 is largely due to a decrease in exposure to various customers requiring letters of credit. 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.

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 September 30, 2015 and December 31, 2014, 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 as of both September 30, 2015 and December 31, 2014. Although we consider our allowance for doubtful accounts receivable to be adequate, actual amounts could vary significantly from estimated amounts.

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

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

	September 30, 2015				December 31, 2014			
	Volumes	Unit of Measure	Carrying Value	Price/ Unit (1)	Volumes	Unit of Measure	Carrying Value	Price/ Unit (1)
Inventory								
Crude oil	11,796	barrels	$ 475	$ 40.27	6,465	barrels	$ 304	$ 47.02
NGL	18,461	barrels	272	$ 14.73	13,553	barrels	454	$ 33.50
Natural gas	17,923	Mcf	48	$ 2.68	32,317	Mcf	102	$ 3.16
Other	N/A		42	N/A	N/A		31	N/A
Inventory subtotal			837				891	
Linefill and base gas								
Crude oil	12,327	barrels	724	$ 58.73	11,810	barrels	744	$ 63.00
NGL	1,348	barrels	45	$ 33.38	1,212	barrels	52	$ 42.90
Natural gas	30,812	Mcf	141	$ 4.58	28,612	Mcf	134	$ 4.68
Linefill and base gas subtotal			910				930	
Long-term inventory								
Crude oil	3,434	barrels	143	$ 41.64	2,582	barrels	136	$ 52.67
NGL	1,652	barrels	23	$ 13.92	1,681	barrels	50	$ 29.74
Long-term inventory subtotal			166				186	
Total			$ 1,913				$ 2,007	

(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 $25 million during the nine months ended September 30, 2015, which primarily related to the writedown of our NGL inventory due to declines in prices during the first quarter of 2015. 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. During the nine months ended September 30, 2014, we recorded a charge of $37 million related to the writedown of our natural gas inventory that was purchased in conjunction with managing natural gas storage deliverability requirements during the extended period of severe cold weather in the first quarter of 2014.

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Note 6—Debt

Debt consisted of the following as of the dates indicated (in millions):

	September 30, 2015	December 31, 2014
SHORT-TERM DEBT		
Commercial paper notes, bearing a weighted-average interest rate of 0.43% and 0.46%, respectively (1)	$ 678	$ 734
Senior notes:		
5.25% senior notes due June 2015	—	150
3.95% senior notes due September 2015	—	400
Other	3	3
Total short-term debt	681	1,287
LONG-TERM DEBT		
Senior notes, net of unamortized discount of $18 and $18, respectively (2)	9,757	8,757
Commercial paper notes, bearing a weighted-average interest rate of 0.43% (2)	208	—
Other	5	5
Total long-term debt	9,970	8,762
Total debt (3)	$ 10,651	$ 10,049

(1) We classified these commercial paper notes as short-term at September 30, 2015 and December 31, 2014 as these notes 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) As of September 30, 2015, we have classified our $175 million, 5.88% senior notes due August 2016 and a portion of our commercial paper notes as long-term based on our ability and intent to refinance such amounts on a long-term basis.

(3) Our fixed-rate senior notes (including current maturities) had a face value of approximately $9.8 billion and $9.3 billion as of September 30, 2015 and December 31, 2014, respectively. We estimated the aggregate fair value of these notes as of September 30, 2015 and December 31, 2014 to be approximately $9.7 billion and $9.9 billion, respectively. Our 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 our credit facilities and commercial paper program approximates fair value as interest rates reflect current market rates. The fair value estimates for our senior notes, credit facilities and commercial paper program are based upon observable market data and are classified in Level 2 of the fair value hierarchy.

Credit Facilities

In January 2015, we entered into an agreement for a 364-day senior unsecured revolving credit facility with a borrowing capacity of $1.0 billion. Borrowings accrue interest based, at our election, on either the Eurocurrency Rate or the Base Rate, as defined in the agreement, in each case plus a margin based on our credit rating at the applicable time. In August 2015, we amended this agreement to extend the maturity date to August 2016.

In August 2015, we also extended the maturity dates of our senior secured hedged inventory facility and our senior unsecured revolving credit facility to August 2018 and August 2020, respectively.

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Borrowings and Repayments

Total borrowings under our credit agreements and commercial paper program for the nine months ended September 30, 2015 and 2014 were approximately $37.1 billion and $55.6 billion, respectively. Total repayments under our credit agreements and commercial paper program were approximately $36.9 billion and $56.3 billion for the nine months ended September 30, 2015 and 2014, 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 September 30, 2015 and December 31, 2014, we had outstanding letters of credit of $44 million and $87 million, respectively.

Senior Notes Issuances

In August 2015, we completed the issuance of $1.0 billion, 4.65% senior notes due 2025 at a public offering price of 99.846%. Interest payments are due on April 15 and October 15 of each year, commencing on April 15, 2016.

Senior Notes Repayments

Our $150 million, 5.25% senior notes and $400 million, 3.95% senior notes were repaid in June 2015 and September 2015, respectively. We utilized cash on hand and available capacity under our commercial paper program to repay these notes.

Note 7—Partners’ Capital and Distributions

Distributions

The following table details the distributions paid during or pertaining to the first nine months of 2015, net of reductions to the general partner's incentive distributions (in millions, except per unit data):

		Distributions Paid				Distributions
		Limited	General Partner			per limited
Date Declared	Distribution Date	Partners	2%	Incentive	Total	partner unit
October 7, 2015	November 13, 2015 (1)	$ 279	$ 6	$ 148	$ 433	$ 0.7000
July 7, 2015	August 14, 2015	$ 276	$ 6	$ 146	$ 428	$ 0.6950
April 7, 2015	May 15, 2015	$ 272	$ 6	$ 142	$ 420	$ 0.6850
January 8, 2015	February 13, 2015	$ 254	$ 5	$ 131	$ 390	$ 0.6750

(1) Payable to unitholders of record at the close of business on October 30, 2015 for the period July 1, 2015 through September 30, 2015.

PAA Equity Offerings

Continuous Offering Program. During the nine months ended September 30, 2015, we issued an aggregate of approximately 1.1 million common units under our continuous offering program, generating proceeds of $59 million, including our general partner's proportionate capital contribution of $1 million, net of $1 million of commissions to our sales agents.

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Underwritten Offering. In March 2015, we completed an underwritten public offering of 21.0 million common units, generating proceeds of approximately $1.1 billion, including our general partner's proportionate capital contribution of $21 million, net of costs associated with the offering.

Noncontrolling Interests in Subsidiaries

As of September 30, 2015, noncontrolling interests in our subsidiaries consisted of a 25% interest 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 on an ongoing basis, we assess whether the derivatives used in a transaction are highly effective in offsetting changes in cash flows or the fair value of hedged items.

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 September 30, 2015, net derivative positions related to these activities included:

· An average of 159,000 barrels per day net long position (total of 4.9 million barrels) associated with our crude oil purchases, which was unwound ratably during October 2015 to match monthly average pricing.

· A net short time spread position averaging 12,900 barrels per day (total of 5.9 million barrels), which hedges a portion of our anticipated crude oil lease gathering purchases through December 2016.

· An average of 8,200 barrels per day (total of 2.2 million barrels) of crude oil grade spread positions through June 2016. These derivatives allow us to lock in grade basis differentials.

· A net short position of 15.8 Bcf through May 2016 related to anticipated sales of natural gas inventory and base gas requirements.

· A net short position of 22.7 million barrels through June 2017 related to anticipated net sales of our crude oil and NGL inventory.

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Storage Capacity Utilization — We own a significant amount of crude oil, NGL and refined products storage capacity other than that used in our transportation operations. This storage may be leased to third parties or utilized in our own supply and logistics activities, including for the storage of inventory in a contango market. For capacity allocated to our supply and logistics operations, we have utilization risk in a backwardated market structure. As of September 30, 2015, we used derivatives to manage the risk of potentially not utilizing an average of approximately 2.0 million barrels per month of storage capacity through January 2018. These positions involve no outright price exposure, but instead enable us to profit in the event it is not economic to store oil.

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 allowance oil that is to be collected under our tariffs. As of September 30, 2015, our PLA hedges included a net short position consisting of crude oil futures and swaps for an average of approximately 400 barrels per day (total of 0.2 million barrels) and a long call option position of approximately 1.7 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 September 30, 2015, we had a long natural gas position of 9.7 Bcf through December 2016, a short propane position of 2.2 million barrels through December 2016, a short butane position of 0.6 million barrels through December 2016 and a short WTI position of 0.2 million barrels through December 2016. In addition, we had a long power position of 0.5 million megawatt hours, which hedges a portion of our power supply requirements at our Canadian natural gas processing and fractionation plants through December 2018.

To the extent they qualify and we decide to make the election, all of our commodity derivatives for which we elect hedge accounting are designated as cash flow hedges. 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 purchase and sale agreements 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 September 30, 2015, AOCI includes deferred losses of

$192 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.

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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 September 30, 2015 (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

In June 2015, we made a cash payment of approximately $31 million in connection with the termination of ten forward starting swaps that had an aggregate notional amount of $250 million and an average fixed rate of 3.60%. In August 2015, we made a cash payment of approximately $21 million in connection with the termination of seven forward starting swaps that had an aggregate notional amount of $250 million and an average fixed rate of 3.03%. In conjunction with these terminations, we recognized a loss of $4 million in interest expense attributable to an anticipated hedged transaction that is no longer probable of occurring.

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 September 30, 2015, our outstanding foreign currency derivatives include derivatives we use to (i) hedge currency exchange risk associated with USD-denominated commodity purchases and sales in Canada and (ii) hedge currency exchange risk 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 September 30, 2015 (in millions):

		USD	CAD	Average Exchange Rate USD to CAD		
Forward exchange contracts that exchange CAD for USD:						
	2015	$ 152	$ 202	$ 1.00	-	$ 1.33
	2016	57	76	$ 1.00	-	$ 1.33
		$ 209	$ 278			
Forward exchange contracts that exchange USD for CAD:						
	2015	$ 173	$ 222	$ 1.00	-	$ 1.28
	2016	57	73	$ 1.00	-	$ 1.28
		$ 230	$ 295			

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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 for the periods indicated is as follows (in millions):

	Three Months Ended September 30, 2015			
	Derivatives in Hedging Relationships			
Location of Gain/(Loss)	Gain/(Loss) Reclassified from AOCI into Income (1) (2)	Other Gain/(Loss) Recognized in Income (3)	Derivatives Not Designated as a Hedge	Total
Commodity Derivatives				
Supply and Logistics segment revenues	$ 42	$ —	$ 14	$ 56
Transportation segment revenues	—	—	2	2
Field operating costs	—	—	(9)	(9)
Interest Rate Derivatives				
Interest expense	(2)	(2)	—	(4)
Foreign Currency Derivatives				

Supply and Logistics segment revenues	—	—	(9)	(9)
Total Gain/(Loss) on Derivatives Recognized in Net Income	$ 40	$ (2)	$ (2)	$ 36

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	Three Months Ended September 30, 2014			
	Derivatives in Hedging Relationships			
Location of Gain/(Loss)	Gain/(Loss) Reclassified from AOCI into Income (1) (2)	Other Gain/(Loss) Recognized in Income (3)	Derivatives Not Designated as a Hedge	Total
Commodity Derivatives				
Supply and Logistics segment revenues	$ (4)	$ —	$ (17)	$ (21)
Field operating costs	—	—	(2)	(2)
Interest Rate Derivatives				
Interest expense	(1)	—	—	(1)
Foreign Currency Derivatives				
Supply and Logistics segment revenues	—	—	(17)	(17)
Total Gain/(Loss) on Derivatives Recognized in Net Income	$ (5)	$ —	$ (36)	$ (41)

	Nine Months Ended September 30, 2015			
	Derivatives in Hedging Relationships			
Location of Gain/(Loss)	Gain/(Loss) Reclassified from AOCI into Income (1) (2)	Other Gain/(Loss) Recognized in Income (3)	Derivatives Not Designated as a Hedge	Total

Commodity Derivatives				
Supply and Logistics segment revenues	$ 30	$ —	$ 24	$ 54
Transportation segment revenues	—	—	6	6
Field operating costs	—	—	(11)	(11)
Interest Rate Derivatives				
Interest expense	(9)	—	—	(9)
Foreign Currency Derivatives				
Supply and Logistics segment revenues	—	—	(26)	(26)
Total Gain/(Loss) on Derivatives Recognized in Net Income	$ 21	$ —	$ (7)	$ 14

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	Nine Months Ended September 30, 2014			
	Derivatives in Hedging Relationships			
Location of Gain/(Loss)	Gain/(Loss) Reclassified from AOCI into Income (1) (2)	Other Gain/(Loss) Recognized in Income (3)	Derivatives Not Designated as a Hedge	Total
Commodity Derivatives				
Supply and Logistics segment revenues	$ (12)	$ —	$ (17)	$ (29)
Field operating costs	—	—	(3)	(3)
Interest Rate Derivatives				
Interest expense	(4)	—	—	(4)
Foreign Currency Derivatives				
Supply and Logistics segment revenues	—	—	(17)	(17)
Total Gain/(Loss) on Derivatives Recognized in Net Income	$ (16)	$ —	$ (37)	$ (53)

[1] Represents gains/(losses) on cash flow hedges reclassified from AOCI to income during the period.

[2] During the nine months ended September 30, 2015 we reclassified a loss of approximately $4 million from AOCI to Interest expense as a result of an anticipated hedged transaction that is no longer probable of occurring. All of our anticipated hedged transactions were deemed probable of occurring during the three months ended September 30, 2015 and the three and nine months ended September 30, 2014.

[3] Amounts represent ineffective portion of cash flow hedges.

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The following table summarizes the derivative assets and liabilities on our Condensed Consolidated Balance Sheets on a gross basis as of September 30, 2015 (in millions):

	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity derivatives	Other current assets	$ 7	Other current assets	$ (1)
	Other long-term assets, net	1		
Interest rate derivatives			Other current liabilities	(19)
			Other long-term liabilities and deferred credits	(38)
Total derivatives designated as hedging instruments		$ 8		$ (58)
Derivatives not designated as hedging instruments:				
Commodity derivatives	Other current assets	$ 220	Other current assets	$ (33)
	Other long-term assets, net	16	Other long-term assets, net	(5)
			Other current liabilities	(19)
			Other long-term liabilities and deferred credits	(3)
Foreign currency derivatives			Other current liabilities	(9)
Total derivatives not designated as hedging instruments		$ 236		$ (69)
Total derivatives		$ 244		$ (127)

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The following table summarizes the derivative assets and liabilities on our Condensed Consolidated Balance Sheets on a gross basis as of December 31, 2014 (in millions):

	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity derivatives	Other current assets	$ 23	Other current assets	$ (12)
	Other long-term assets, net	8	Other long-term assets, net	(1)
Interest rate derivatives			Other current liabilities	(44)
			Other long-term liabilities and deferred credits	