PLAINS ALL AMERICAN PIPELINE LP
Form 10-K
February 28, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

Commission file number 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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. (Check one):

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). Yes o No x

The aggregate market value of the Common Units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the Common Units outstanding, for this purpose, as if they may be affiliates of the registrant) was approximately $18.8 billion on June 28, 2013, based on a closing price of $55.81 per Common Unit as reported on the New York Stock Exchange on such date.

As of February 20, 2014, there were 359,904,180 Common Units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

Table of Contents

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

FORM 10-K 2013 ANNUAL REPORT

Table of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

All statements included in this report, other than statements of historical fact, are forward-looking statements, including but not limited to statements incorporating the words anticipate, believe, estimate, expect, plan, intend and forecast, as well as similar expressions and st regarding our business strategy, plans and objectives for future operations. The absence of such words, expressions or statements, however, does not mean that the statements are not forward-looking. Any such forward-looking statements reflect our current views with respect to future events, based on what we believe to be reasonable assumptions. Certain factors could cause actual results or outcomes to differ materially from the results or outcomes anticipated in the forward-looking statements. The most important of these factors include, but are not limited to:

- failure to implement or capitalize, or delays in implementing or capitalizing, on planned internal growth projects;
- unanticipated changes in crude oil market structure, grade differentials and volatility (or lack thereof);
- environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;
- fluctuations in refinery capacity in areas supplied by our mainlines and other factors affecting demand for various grades of crude oil, refined products and natural gas and resulting changes in pricing conditions or transportation throughput requirements;
- the occurrence of a natural disaster, catastrophe, terrorist attack or other event, including attacks on our electronic and computer systems;
- tightened capital markets or other factors that increase our cost of capital or limit our access to capital;
- maintenance of our credit rating and ability to receive open credit from our suppliers and trade counterparties;
- continued creditworthiness of, and performance by, our counterparties, including financial institutions and trading companies with which we do business;
- the currency exchange rate of the Canadian dollar;

- the availability of, and our ability to consummate, acquisition or combination opportunities;

- the successful integration and future performance of acquired assets or businesses and the risks associated with operating in lines of business that are distinct and separate from our historical operations;

- the effectiveness of our risk management activities;

- declines in the volume of crude oil, refined product and NGL shipped, processed, purchased, stored, fractionated and/or gathered at or through the use of our facilities, whether due to declines in production from existing oil and gas reserves, failure to develop or slowdown in the development of additional oil and gas reserves or other factors;

- shortages or cost increases of supplies, materials or labor;

- our ability to obtain debt or equity financing on satisfactory terms to fund additional acquisitions, expansion projects, working capital requirements and the repayment or refinancing of indebtedness;

- the impact of current and future laws, rulings, governmental regulations, accounting standards and statements, and related interpretations;

- non-utilization of our assets and facilities;

- the effects of competition;

- increased costs or lack of availability of insurance;

- fluctuations in the debt and equity markets, including the price of our units at the time of vesting under our long-term incentive plans;

Table of Contents

- weather interference with business operations or project construction;

- risks related to the development and operation of our facilities, including our ability to satisfy our contractual obligations to our customers at our facilities;

- factors affecting demand for natural gas and natural gas storage services and rates;

- general economic, market or business conditions and the amplification of other risks caused by volatile financial markets, capital constraints and pervasive liquidity concerns; and

- other factors and uncertainties inherent in the transportation, storage, terminalling and marketing of crude oil and refined products, as well as in the storage of natural gas and the processing, transportation, fractionation, storage and marketing of natural gas liquids.

Other factors described herein, as well as factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read Item 1A Risk Factors. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

PART I

Items 1 and 2. ***Business and Properties***

General

Plains All American Pipeline, L.P. is a Delaware limited partnership formed in 1998. As used in this Form 10-K and unless the context indicates otherwise, the terms Partnership, Plains, PAA, we, us, our, ours and similar terms refer to Plains All American Pipeline, L.P. and its su

We own and operate midstream energy infrastructure and provide logistics services for crude oil, natural gas liquids (NGL), natural gas and refined products. The term NGL includes ethane and natural gasoline products as well as products commonly referred to as liquefied petroleum gas (LPG) such as propane and butane. When used in this Form 10-K, NGL refers to all NGL products including LPG. 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.

Organizational History

We were formed as a master limited partnership to acquire and operate the midstream crude oil businesses and assets of a predecessor entity and completed our initial public offering in 1998. Our 2% general partner interest is held by PAA GP LLC, a Delaware limited liability company, whose sole member is Plains AAP, L.P., a Delaware limited partnership. In October 2013, Plains GP Holdings, L.P. (NYSE: PAGP), a Delaware limited partnership that has elected to be treated as a corporation for U.S. federal income tax purposes, completed its initial public offering, and at December 31, 2013, PAGP owned a 22.1% limited partner interest in Plains AAP, L.P. (a 20.6% economic interest). The remaining limited partner interests in Plains AAP, L.P. continue to be held by the owners of our general partner entities immediately prior to PAGP s initial public offering. In addition to its ownership of PAA GP LLC, Plains AAP, L.P. also owns all of our incentive distribution rights. Plains All American GP LLC, a Delaware limited liability company, is Plains AAP, L.P. s general partner. PAGP is the sole member of Plains All American GP LLC, and PAA GP Holdings LLC is the general partner of PAGP. References to our general partner, as the context requires, include any or all of PAA GP LLC, Plains AAP, L.P. and Plains All American GP LLC.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. Plains All American GP LLC has responsibility for conducting our business and managing our operations; however, PAGP effectively controls our business and affairs through the exercise of its rights as the sole and managing member of our General Partner, including its right to appoint certain members to the board of directors of our General Partner. See Item 10. Directors and Executive Officers of our General Partner and Corporate Governance. Our general partner does not receive a management fee or other compensation in connection with its management of our business, but it is reimbursed for substantially all direct and indirect expenses incurred on our behalf (other than expenses related to the Class B units of Plains AAP, L.P., which are referred to herein as the AAP Management Units).

Table of Contents

The two charts below show the structure and ownership of PAA and certain subsidiaries as of December 31, 2013 in both an abridged and more detailed format. The first chart depicts PAA s legal structure in summary format, while the second chart depicts a more comprehensive view of PAA s legal structure, including ownership and economic interests and shares and units outstanding.

Table of Contents

(1) Incentive Distribution Rights (IDRs). See Item 5. Market for Registrant s Common Units, Related Unitholder Matters and Issuer Purchases of Equity Securities for discussion of our general partner s incentive distribution rights.

Table of Contents

(2) The Partnership holds direct and indirect ownership interests in consolidated operating subsidiaries including, but not limited to, Plains Marketing, L.P., Plains Pipeline, L.P. and Plains Midstream Canada ULC (PMC).

(3) The Partnership holds indirect equity interests in unconsolidated entities including Settoon Towing, LLC (Settoon Towing), White Cliffs Pipeline, LLC (White Cliffs), Butte Pipe Line Company (Butte), Frontier Pipeline Company (Frontier) and Eagle Ford Pipeline LLC (Eagle Ford Pipeline).

(4) Represents the number of Class A units of Plains AAP, L.P. (AAP units) for which the AAP Management Units would be exchangeable, assuming a conversion rate of approximately 0.90 AAP units for each AAP Management Unit as of December 31, 2013. The AAP Management Units are entitled to certain proportionate distributions paid by AAP.

(5) As of December 31, 2013, PAGP owned 22.1% of the membership interests in its general partner, which percentage corresponds to its ownership percentage of AAP units (22.1%, representing a 20.6% economic interest in AAP, including the dilutive effect of the AAP Management Units).

Business Strategy

Our principal business strategy is to provide competitive and efficient midstream transportation, terminalling, storage, processing, fractionation and supply and logistics services to producers, refiners and other customers. Toward this end, we endeavor to address regional supply and demand imbalances for crude oil and NGL in the United States and Canada by combining the strategic location and capabilities of our transportation, terminalling, storage, processing and fractionation assets with our extensive supply, logistics and distribution expertise. To a lesser extent, we also engage in similar activities for natural gas and refined products. We believe successful execution of this strategy will enable us to generate sustainable earnings and cash flow. We intend to manage and grow our business by:

- commercially optimizing our existing assets and realizing cost efficiencies through operational improvements;

- using our transportation (including pipeline, rail, barge and truck), terminalling, storage, processing and fractionation assets in conjunction with our supply and logistics activities to capitalize on inefficient energy markets and to address physical market imbalances, mitigate inherent risks and increase margin;

- developing and implementing internal growth projects that (i) address evolving crude oil and NGL needs in the midstream transportation and infrastructure sector and (ii) are well positioned to benefit from long-term industry trends and opportunities;

- selectively pursuing strategic and accretive acquisitions that complement our existing asset base and distribution capabilities; and

- capitalizing on anticipated intermediate to long-term opportunities for natural gas storage services in North America by owning and operating high-quality natural gas storage facilities and providing our current and future customers reliable, competitive and flexible natural gas storage and related services.

Competitive Strengths

We believe that the following competitive strengths position us to successfully execute our principal business strategy:

- *Many of our transportation segment and facilities segment assets are strategically located and operationally flexible.* The majority of our primary transportation segment assets are in crude oil service, are located in well-established oil producing regions and other transportation corridors and are connected, directly or indirectly, with our facilities segment assets located at major trading locations and premium markets that serve as gateways to major North American refinery and distribution markets where we have strong business relationships. Our assets include pipeline, rail, barge and truck assets, which provide our customers and us with significant flexibility and optionality to satisfy demand and balance markets, particularly during a dynamic period of changing product flows.

- *We possess specialized crude oil market knowledge.* We believe our business relationships with participants in various phases of the crude oil distribution chain, from crude oil producers to refiners, as well as our own industry expertise, provide us with an extensive understanding of the North American physical crude oil markets.

Table of Contents

• *Our supply and logistics activities typically generate a base level of margin with the opportunity to realize incremental margins.* We believe the variety of activities executed within our supply and logistics segment in combination with our risk management strategies provides us with a balance that generally affords us the flexibility to maintain a base level of margin in a variety of market conditions (subject to the effects of seasonality). In certain circumstances, we are able to realize incremental margins during volatile market conditions.

• *We have the evaluation, integration and engineering skill sets and the financial flexibility to continue to pursue acquisition and expansion opportunities.* Over the past sixteen years, we have completed and integrated over 80 acquisitions with an aggregate purchase price of approximately $10.5 billion, which figures include over 30 acquisitions totaling approximately $5.2 billion in aggregate purchase price over the last six years. We have also implemented internal expansion capital projects totaling over $5.8 billion. In addition, we believe we have resources to finance future strategic expansion and acquisition opportunities. As of December 31, 2013, we had over $1.8 billion available under our committed credit facilities, subject to continued covenant compliance.

• *We have an experienced management team whose interests are aligned with those of our unitholders.* Our executive management team has an average of 29 years industry experience, and an average of 17 years with us or our predecessors and affiliates. In addition, through their ownership of common units, indirect interests in our general partner, grants of phantom units and AAP Management Units, our management team has a vested interest in our continued success.

Financial Strategy

Targeted Credit Profile

We believe that a major factor in our continued success is our ability to maintain a competitive cost of capital and access to the capital markets. In that regard, we intend to maintain a credit profile that we believe is consistent with investment grade credit ratings. We have targeted a general credit profile with the following attributes:

• an average long-term debt-to-total capitalization ratio of approximately 45% to 50%;

• a long-term debt-to-adjusted EBITDA multiple averaging between 3.5x and 4.0x (Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, equity-indexed compensation plan charges, gains and losses from derivative activities and other selected items that impact comparability. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Non-GAAP Financial Measures for a discussion of our selected items that impact comparability and our non-GAAP measures.);

• an average total debt-to-total capitalization ratio of approximately 60%; and

- an average adjusted EBITDA-to-interest coverage multiple of approximately 3.3x or better.

The first two of these four metrics include long-term debt as a critical measure. We also incur short-term debt in connection with our supply and logistics activities that involve the simultaneous purchase and forward sale of crude oil, NGL and natural gas. The crude oil, NGL and natural gas purchased in these transactions are hedged. We do not consider the working capital borrowings associated with these activities to be part of our long-term capital structure. These borrowings are self-liquidating as they are repaid with sales proceeds. We also incur short-term debt to fund New York Mercantile Exchange (NYMEX) and IntercontinentalExchange (ICE) margin requirements. In certain market conditions, these routine short-term debt levels may increase significantly above baseline levels.

In order for us to maintain our targeted credit profile and achieve growth through internal growth projects and acquisitions, we intend to fund approximately 55% of the capital requirements associated with these activities with equity and cash flow in excess of distributions. From time to time, we may be outside the parameters of our targeted credit profile as, in certain cases, these capital expenditures and acquisitions may be financed initially using debt or there may be delays in realizing anticipated synergies from acquisitions or contributions from capital expansion projects to adjusted EBITDA.

Table of Contents

Acquisitions

The acquisition of midstream assets and businesses that are strategic and complementary to our existing operations constitutes an integral component of our business strategy and growth objectives. Such assets and businesses include crude oil, refined products and NGL logistics assets, natural gas storage assets and other energy assets that have characteristics and provide opportunities similar to such business lines and enable us to leverage our assets, knowledge and skill sets.

The following table summarizes acquisitions greater than $200 million that we have completed over the past five years (in millions). See Note 3 to our Consolidated Financial Statements for a full discussion regarding our acquisition activities.

Acquisition (1)	Date	Description	Approximate Purchase Price (2)	
US Development Group Crude Oil Rail Terminals (USD)	Dec-2012	Four operating crude oil rail terminals and one terminal under development	$	503
BP Canada Energy Company (BP NGL)	Apr-2012	NGL assets located in Canada and the upper-Midwest United States	$	1,683(3)
Western Refining, Inc. Pipeline and Storage Assets (Western)	Dec-2011	Multi-product storage facility in Virginia and a crude oil pipeline in southeastern New Mexico	$	220(4)
Velocity South Texas Gathering, LLC (Velocity)	Nov-2011	Crude oil and condensate gathering and transportation assets in South Texas (Gardendale Gathering System)	$	349
SG Resources Mississippi, LLC (SG Resources)	Feb-2011	Southern Pines Energy Center (Southern Pines) natural gas storage facility	$	765(5)
Nexen Holdings U.S.A. Inc. Gathering and Transportation Assets (Nexen)	Dec-2010	Crude oil gathering business and transportation assets in North Dakota and Montana	$	229(6)
PAA Natural Gas Storage, LLC (PNGS)	Sep-2009	Remaining 50% interest in PNGS	$	215(7)

(1) Excludes our acquisition of all of the outstanding publicly-traded common units of PAA Natural Gas Storage, L.P. (PNG) on December 31, 2013 (referred to herein as the PNG Merger), as we historically consolidated PNG into our financial statements for financial reporting purposes in accordance with generally accepted accounting principles in the United States (GAAP). As consideration for the PNG Merger, we issued approximately 14.7 million PAA common units with a value of approximately $760 million. See Note 10 to our Consolidated Financial Statements for further discussion of the PNG Merger.

(2) As applicable, the approximate purchase price includes total cash paid and debt assumed, including amounts for working capital and inventory.

(3) Purchase price includes approximately $17 million of imputed interest. A prepayment of $50 million was made during 2011. Approximate purchase price of $1.192 billion, net of working capital, linefill and long-term inventory acquired.

(4) Includes two transactions with Western.

(5) Approximate purchase price of $750 million, net of cash and other working capital acquired.

(6) Approximate purchase price of $170 million, net of cash, inventory and other working capital acquired.

(7) In connection with the PNGS acquisition we consolidated and subsequently refinanced approximately $450 million of previously non-recourse joint venture debt.

Ongoing Acquisition Activities

Consistent with our business strategy, we are continuously engaged in discussions with potential sellers regarding the possible purchase of assets and operations that are strategic and complementary to our existing operations. In addition, we have in the past evaluated and pursued, and intend in the future to evaluate and pursue, other energy-related assets that have characteristics and provide opportunities similar to our existing business lines and enable us to leverage our assets, knowledge and skill sets. Such acquisition efforts may involve participation by us in processes that have been made public and involve a number of potential buyers, commonly referred to as auction processes, as well as situations in which we believe we are the only party or one of a limited number of potential buyers in negotiations with the potential seller. These acquisition efforts often involve assets which, if acquired, could have a material effect on our financial condition and results of operations.

We typically do not announce a transaction until after we have executed a definitive acquisition agreement. However, in certain cases in order to protect our business interests or for other reasons, we may defer public announcement of an acquisition until closing or a later date. Past experience has demonstrated that discussions and negotiations regarding a potential acquisition can advance or terminate in a short period of time. Moreover, the closing of any transaction for which we have entered into a definitive acquisition agreement will be subject to customary and other closing conditions, which may not ultimately be satisfied or waived. Accordingly, we can give no assurance that our current or future acquisition efforts will be successful. Although we expect the acquisitions we make to be accretive in the long term, we can provide no assurance that our expectations will ultimately be realized. See Item 1A.

Table of Contents

Risk Factors Risks Related to Our Business If we do not make acquisitions or if we make acquisitions that fail to perform as anticipated, our future growth may be limited and Our acquisition strategy involves risks that may adversely affect our business.

Organic Growth Projects

Our extensive asset base and our relationships with customers provide us with opportunities for organic growth through the construction of additional assets that are complementary to, and expand or extend, our existing asset base. We believe that the diversity and balance of our organic project portfolio (i.e., relatively large number of projects that are small to medium sized and spread across multiple geographic regions) reduces our overall exposure to cost overruns, timing delays and other adverse market developments with respect to a particular project or region. Our 2014 capital plan is representative of the diversity and the balance of our overall organic project portfolio. The following expansion projects are included in our 2014 capital plan as of February 2014:

Basin/Region	Project		2014 Plan Amount (1) ($ in millions)	Description
Permian	Permian Basin Area Projects	$	430	Multiple projects to increase and expand pipeline infrastructure in the Permian Basin, including the construction of three new trunklines and related assets
	Cactus Pipeline		310	310 miles of new pipeline; 250,000 Bbls/d capacity pipeline from the Permian Basin to the Eagle Ford JV Pipeline
Eagle Ford	PAA/Enterprise Products Partners Eagle Ford Joint Venture Project		60	Expansion of Eagle Ford JV pipeline capacity to 470,000 barrels per day; construction of additional 2.3 million barrels of storage capacity
	Gardendale Fractionator and Stabilizer		35	New NGL fractionator, expansion of existing condensate stabilization facility and related infrastructure enhancements in the Eagle Ford area of South Texas
Mid-Continent	Western Oklahoma Extension		50	95 miles of new pipeline; 75,000 Bbls/d of capacity from Reydon, OK to Orion Station in Major County, OK
	Mississippian Lime Pipeline		45	45 miles of new crude oil pipeline to complement our existing Mississippian Lime pipelines
Rockies/Williston	White Cliffs Pipeline Expansion		40	35.7% interest in 80,000 Bbls/d expansion of capacity through the construction of a new 12-inch diameter pipeline looping the existing pipeline
West Coast	Line 63 Reactivation		35	Reactivation of 71 miles of idled pipeline and supporting assets
Canada	Fort Saskatchewan Facility Projects / NGL Pipeline		180	Development of two new NGL storage caverns and conversion of service of two existing caverns
Various	Rail Terminal Projects		185	Includes new rail facilities and expansion projects located at or near Bakersfield, CA; Carr,

			Co Van Hook, ND; and Western Canada
Natural Gas Storage		25	Multiple projects
Other Projects		305	
	$	1,700	

(1) Represents the portion of the total project cost expected to be incurred during the year.

Table of Contents

Global Petroleum Market Overview

The United States comprises less than 5% of the world s population, generates approximately 14% of the world s petroleum production, and consumes approximately 21% of the world s petroleum production. The following table sets forth projected world supply and demand for petroleum products (including crude oil and NGL) and is derived from the Energy Information Administration s (EIA) Annual Energy Outlook 2014 Early Release (see EIA website at *www.eia.doe.gov*):

			Projected (2)		
	2013 (1) (2)	**2014**	**2015**	**2016**	**2020**
			(In millions of barrels per day)		
Supply					
OECD (3)					
U.S.	12.3	13.1	13.7	14.2	14.2
Other	11.5	11.8	12.1	11.6	11.2
Total OECD	23.8	24.9	25.7	25.8	25.4
Organization of the Petroleum Exporting Countries	35.8	35.7	36.0	36.7	39.6
Other	30.4	30.7	30.7	31.4	33.0
Total World Production (4)	89.9	91.3	92.5	93.8	98.0

			Projected (2)		
	2013 (1) (2)	**2014**	**2015**	**2016**	**2020**
			(In millions of barrels per day)		
Demand					
OECD					
U.S	18.8	18.8	19.2	19.4	19.5
Other	27.2	26.9	26.8	26.9	27.3
Total OECD	46.1	45.6	46.1	46.3	46.8
Other	44.3	45.6	46.4	47.5	51.2
Total World Consumption (4)	90.4	91.3	92.5	93.8	98.0
U.S. Production as % of World Production	14%	14%	15%	15%	14%
U.S. Consumption as % of World Consumption	21%	21%	21%	21%	20%
Net U.S. (Consumption)	(6.5)	(5.7)	(5.5)	(5.2)	(5.3)

(1) The 2013 amounts are derived from the EIA s Short-Term Energy Outlook.

(2) Amounts may not recalculate due to rounding.

(3) Organization for Economic Co-operation and Development.

(4) Production and consumption may not equal in every year due to inventory builds or draws.

World economic growth is a driver of the world petroleum market. The challenging global economic climate of the last several years has resulted in continued uncertainty in the petroleum market. To the extent that an event causes weaker world economic growth, energy demand would likely decline and could result in lower energy prices, depending on the production responses of producers.

Crude Oil Market Overview

The definition of a commodity is a mass-produced unspecialized product and implies the attribute of fungibility. Crude oil is typically referred to as a commodity; however, it is neither unspecialized nor fungible. The crude slate available to U.S. and world-wide refineries consists of a substantial number of different grades and varieties of crude oil. Each crude oil grade has distinguishing physical properties. For example, specific gravity (generally referred to as light or heavy), sulfur content (generally referred to as sweet or sour) and metals content, along with other characteristics, collectively result in varying economic attributes. In many cases, these factors result in the need for such grades to be batched or segregated in the transportation and storage processes, blended to precise specifications or adjusted in value.

Table of Contents

The lack of fungibility of the various grades of crude oil creates logistical transportation, terminalling and storage challenges and inefficiencies associated with regional volumetric supply and demand imbalances. These logistical inefficiencies are created as certain qualities of crude oil are indigenous to particular regions or countries. Also, each refinery has a distinct configuration of process units designed to handle particular grades of crude oil. The relative yields and the cost to obtain, transport and process the crude oil drives the refinery s choice of feedstock. In addition, from time to time, natural disasters and geopolitical factors such as hurricanes, earthquakes, tsunamis, inclement weather, labor strikes, refinery disruptions, embargoes and armed conflicts may impact supply, demand and transportation and storage logistics.

Our assets and our business strategy are designed to serve our producer and refiner customers by addressing regional crude oil supply and demand imbalances that exist in the United States and Canada. The nature and extent of these imbalances change from time to time as a result of a variety of factors, including regional production declines and/or increases; refinery expansions, modifications and shut-downs; available transportation and storage capacity; and government mandates and related regulatory factors.

Over the last five years, one of the most significant developments impacting the crude oil market has been the rapid growth in North American crude oil production. As a result of advances in horizontal drilling and fracturing technology over the last several years and their application to various large scale resource plays, certain historical trends have been reversed as domestic crude oil supplies have increased substantially and are expected to continue to increase over the next five years and potentially beyond. This production is being developed both in mature producing areas such as the Rockies, the Permian Basin in West Texas and the Mid-Continent region, as well as in less mature, but rapidly growing areas such as the Eagle Ford Shale in South Texas and the Bakken Shale in North Dakota. We forecast that by December 2017, crude oil production in the United States and Canada will have increased by an average of approximately 2.9 million barrels per day from fourth-quarter 2013 levels, with the increases coming primarily from Canada, the Eagle Ford Shale in South Texas, the Permian Basin in West Texas and the Bakken Shale in North Dakota. Actual and anticipated production increases in all of these regions combined with actual and anticipated volumes from Canada have strained or are expected to strain existing transportation, terminalling and downstream infrastructure. These changes have resulted in significant alterations to historical patterns of crude oil movements among regions of the U.S. For example, the quantity of crude oil transported from the Gulf Coast area into the Midwest has declined, but the overall change in crude oil flows has resulted in an increased demand for storage and terminalling services at Cushing, Oklahoma and Patoka, Illinois.

In addition to overall production growth, significant shifts in the type and location of crude oil being produced from these regions have resulted in additional strains on existing infrastructure. Notably, the increase in domestic production of light, sweet crude oil is inconsistent with the sizeable, multi-year investments made by a number of U.S. refining companies in order to expand their capabilities to process heavier, sour grades of crude oil. This divergence between readily available supplies of light sweet crude oil and increased refinery demand for heavy sour crude oil has begun to cause differentials between crude oil grades and qualities to change relative to historical levels and become more dynamic and volatile. This increase in light sweet crude oil production has also resulted in a decrease in foreign imports of light sweet crude into the U.S., particularly into the Gulf Coast, which has caused the international producers of such lighter crudes to seek alternative markets in other parts of the world. Thus far it appears that the rest of the world has been able to absorb the previously imported barrels, but that could change over time as worldwide demand fluctuates.

Since reaching a multi-year low in 2009, U.S. net refinery inputs of crude oil have slowly increased to a level of 15.2 million barrels per day for the twelve month period ending November 2013, which approximates the levels achieved during 2005 and 2006. Although domestic demand for petroleum products from end users has declined from peak levels in 2004-2007 and the increased use of ethanol for blending in gasoline has further negatively impacted refinery demand for crude oil, the attractive export market for refined products and access to discounted domestic crude oil has driven the increased refinery demand. Domestic production growth has also led to lower use of imported crude oil by U.S. refineries, a meaningful change in a multi-year trend where foreign imports of crude oil tripled over an approximately 23-year period from 1985-2007. The EIA is currently forecasting a continued gradual decline in foreign crude imports from current levels, which is attributable to increased domestic production and increased supply from other liquid products, including ethanol and biodiesel.

The table below shows the overall domestic petroleum consumption projected out to 2020 and is derived from recent information published by the EIA (see EIA website at *www.eia.doe.gov*). The amounts in the 2013 column are based on the 12 months ended November 2013**.** We believe these trends will be subject to significant variation from time to time due to a number of factors, including the level of domestic production volumes and infrastructure limitations which impact pricing and geopolitical developments.

Table of Contents

	Actual (1)	Projected (1)			
	2013	2014	2015	2016	2020
	(In millions of barrels per day)				
Supply					
Domestic Crude Oil Production	7.4	8.5	9.0	9.5	9.6
Net Imports - Crude Oil from Canada	2.4				