

NuStar Energy L.P.
Form 10-Q
May 07, 2015

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 1-16417

NUSTAR ENERGY L.P.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

74-2956831

(I.R.S. Employer Identification No.)

19003 IH-10 West

San Antonio, Texas

(Address of principal executive offices)

78257

(Zip Code)

Registrant's telephone number, including area code (210) 918-2000

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 (§232.405 of this chapter) 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 ☐

Edgar Filing: NuStar Energy L.P. - Form 10-Q

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

The number of common units outstanding as of April 30, 2015 was 77,886,078.

Table of Contents

NUSTAR ENERGY L.P.
FORM 10-Q
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	<u>Financial Statements:</u>	
	<u>Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>5</u>
	<u>Condensed Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
Item 4.	<u>Controls and Procedures</u>	<u>38</u>

PART II – OTHER INFORMATION

Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
Item 6.	<u>Exhibits</u>	<u>39</u>
	<u>SIGNATURES</u>	<u>40</u>

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars, Except Unit Data)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$78,183	\$87,912
Accounts receivable, net of allowance for doubtful accounts of \$7,785 and \$7,808 as of March 31, 2015 and December 31, 2014, respectively	189,655	208,314
Receivable from related parties	—	164
Inventories	43,693	55,713
Other current assets	24,677	35,944
Assets held for sale	—	1,100
Total current assets	336,208	389,147
Property, plant and equipment, at cost	4,984,442	4,815,396
Accumulated depreciation and amortization	(1,392,156)	(1,354,664)
Property, plant and equipment, net	3,592,286	3,460,732
Intangible assets, net	128,700	58,670
Goodwill	704,488	617,429
Investment in joint venture	—	74,223
Deferred income tax asset	4,330	4,429
Other long-term assets, net	318,135	314,166
Total assets	\$5,084,147	\$4,918,796
Liabilities and Partners' Equity		
Current liabilities:		
Accounts payable	\$114,032	\$162,056
Payable to related party	16,808	15,128
Short-term debt	46,000	77,000
Accrued interest payable	27,397	33,345
Accrued liabilities	39,943	61,025
Taxes other than income tax	12,543	14,121
Income tax payable	3,562	2,517
Total current liabilities	260,285	365,192
Long-term debt	2,987,413	2,749,452
Long-term payable to related party	35,220	33,537
Deferred income tax liability	24,804	27,308
Other long-term liabilities	50,468	27,097
Commitments and contingencies (Note 5)		
Partners' equity:		
Limited partners (77,886,078 common units outstanding as of March 31, 2015 and December 31, 2014)	1,774,277	1,744,810
General partner	39,693	39,312
Accumulated other comprehensive loss	(88,013)	(67,912)

Edgar Filing: NuStar Energy L.P. - Form 10-Q

Total partners' equity	1,725,957	1,716,210
Total liabilities and partners' equity	\$5,084,147	\$4,918,796
See Condensed Notes to Consolidated Financial Statements.		

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Service revenues	\$269,973	\$229,338
Product sales	284,971	619,875
Total revenues	554,944	849,213
Costs and expenses:		
Cost of product sales	262,506	594,959
Operating expenses:		
Third parties	84,360	77,406
Related party	31,287	28,659
Total operating expenses	115,647	106,065
General and administrative expenses:		
Third parties	7,667	6,762
Related party	17,386	14,094
Total general and administrative expenses	25,053	20,856
Depreciation and amortization expense	52,457	46,230
Total costs and expenses	455,663	768,110
Operating income	99,281	81,103
Equity in loss of joint ventures	—	(4,306)
Interest expense, net	(32,037)	(34,417)
Interest income from related party	—	1,055
Other income, net	62,268	3,678
Income from continuing operations before income tax expense	129,512	47,113
Income tax expense	2,387	4,117
Income from continuing operations	127,125	42,996
Income (loss) from discontinued operations, net of tax	774	(3,359)
Net income	127,899	39,637
Less net loss attributable to noncontrolling interest	—	(107)
Net income attributable to NuStar Energy L.P.	\$127,899	\$39,744
Net income (loss) per unit applicable to limited partners:		
Continuing operations	\$1.46	\$0.40
Discontinued operations	0.01	(0.04)
Total (Note 10)	\$1.47	\$0.36
Weighted-average limited partner units outstanding	77,886,078	77,886,078
Comprehensive income	\$107,798	\$37,718
Less comprehensive loss attributable to noncontrolling interest	—	(552)
Comprehensive income attributable to NuStar Energy L.P.	\$107,798	\$38,270
See Condensed Notes to Consolidated Financial Statements.		

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, Thousands of Dollars)

	Three Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 127,899	\$ 39,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	52,457	46,230
Amortization of debt related items	2,237	2,424
Gain from sale or disposition of assets	(75	) (24
Gain associated with the Linden Acquisition	(56,277) —
Asset impairment loss	—	2,067
Deferred income tax (benefit) expense	(535	) 3,054
Equity in loss of joint ventures	—	4,306
Distributions of equity in earnings of joint ventures	2,500	2,366
Changes in current assets and current liabilities (Note 11)	(7,774	) (38,795
Other, net	2,150	2,060
Net cash provided by operating activities	122,582	63,325
Cash Flows from Investing Activities:		
Capital expenditures	(72,880	) (54,486
Change in accounts payable related to capital expenditures	(13,464	) (8,560
Acquisitions	(142,500) —
Investment in other long-term assets	(2,177) —
Proceeds from sale or disposition of assets	1,185	66
Increase in note receivable from Axion	—	(13,328
Other, net	—	(23
Net cash used in investing activities	(229,836	) (76,331
Cash Flows from Financing Activities:		
Proceeds from long-term debt borrowings	330,532	245,213
Proceeds from short-term debt borrowings	163,000	—
Long-term debt repayments	(83,166	) (189,280
Short-term debt repayments	(194,000) —
Distributions to unitholders and general partner	(98,051	) (98,051
Decrease in cash book overdrafts	(14,294	) (215
Other, net	(10	) (369
Net cash provided by (used in) financing activities	104,011	(42,702
Effect of foreign exchange rate changes on cash	(6,486	) (2,437
Net decrease in cash and cash equivalents	(9,729	) (58,145
Cash and cash equivalents as of the beginning of the period	87,912	100,743
Cash and cash equivalents as of the end of the period	\$ 78,183	\$ 42,598
See Condensed Notes to Consolidated Financial Statements.		

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization and Operations

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is a publicly held Delaware limited partnership engaged in the transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. Unless otherwise indicated, the terms “NuStar Energy,” “the Partnership,” “we,” “our” and “us” are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 14.9% total interest in us as of March 31, 2015.

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). We have three business segments: pipeline, storage and fuels marketing.

Basis of Presentation

These unaudited condensed consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Noncontrolling interests are separately disclosed on the financial statements. Inter-partnership balances and transactions have been eliminated in consolidation. We account for investments in joint ventures using the equity method of accounting.

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and all disclosures are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three months ended March 31, 2015 and 2014 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited condensed consolidated financial statements. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The consolidated balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements as of that date. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued amended guidance for the presentation of debt issuance costs. Under the amended guidance, debt issuance costs will be presented on the balance sheet as a deduction from the carrying value of the associated debt liability. The changes are effective for annual and interim periods beginning after December 15, 2015, and retrospective application is required. Early adoption is permitted. We will adopt these provisions January 1, 2016, and we do not expect the amended guidance to have a material impact on our financial position, results of operations or disclosures.

In February 2015, the FASB issued new consolidation guidance that modifies the criterion involved in a reporting organization's evaluation of whether certain legal entities are subject to consolidation under the standard. The standard is effective for public companies for annual and interim reporting periods beginning after December 15, 2015, using

one of two retrospective transition methods. Early adoption is permitted. We are currently assessing the impact of this new guidance on our financial statements and disclosures, and we have not yet selected a transition method.

In May 2014, the FASB and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016, using one of two retrospective transition methods. Early adoption is not permitted for public entities. We are currently assessing the impact of this new guidance on our financial statements and disclosures, and we have not yet selected a transition method.

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Linden Acquisition. On January 2, 2015, we acquired full ownership of ST Linden Terminal, LLC (Linden), which owns a refined products terminal in Linden, NJ with 4.3 million barrels of storage capacity (the Linden Acquisition). Linden is located on a 44-acre facility that provides deep-water terminalling capabilities in the New York Harbor and primarily stores petroleum products, including gasoline, jet fuel and fuel oils. Prior to the Linden Acquisition, Linden operated as a joint venture between us and Linden Holding Corp, with each party owning 50 percent.

In connection with the Linden Acquisition, we ceased applying the equity method of accounting and consolidated Linden, which is included in our storage segment. The condensed consolidated statements of comprehensive income include the results of operations for Linden commencing on January 2, 2015. On the acquisition date, we remeasured our existing 50% equity investment in Linden to its fair value of \$128.0 million and we recognized a gain of \$56.3 million in “Other income, net” in the condensed consolidated statements of comprehensive income for the three months ended March 31, 2015. We estimated the fair value using a market approach, which estimates the enterprise value based on an earnings multiple. We funded the acquisition with borrowings under our revolving credit agreement. The acquisition complements our existing storage operations, and having sole ownership of Linden strengthens our presence in the New York Harbor and the East Coast market.

We accounted for the Linden Acquisition using the acquisition method. The purchase price has been preliminarily allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of the acquisition pending completion of an independent evaluation. The preliminary purchase price allocation was as follows (in thousands of dollars):

Cash paid for the Linden Acquisition	\$ 142,500
Fair value of liabilities assumed	22,865
Consideration	165,365
Acquisition date fair value of previously held equity interest	128,000
Total	\$293,365

Current assets	\$ 1,746
Property, plant and equipment	129,400
Goodwill	87,059
Intangible assets	75,050
Other long-term assets	110
Purchase price allocation	\$293,365

The intangible assets primarily consist of customer contracts and relationships and are being amortized over 10 years.

Dispositions

Discontinued Operations. In January 2015, we sold our terminal in Alamogordo, NM with storage capacity of 0.1 million barrels for proceeds of \$1.1 million. We classified the associated property, plant and equipment as “Assets held for sale” on the consolidated balance sheet as of December 31, 2014. In 2014, we divested our terminals in Mobile, AL, Wilmington, NC and Dumfries, VA and our 75% interest in our facility in Mersin, Turkey. We presented the results of operations for those facilities as discontinued operations. We allocated interest expense of \$0.4 million for the three months ended March 31, 2014 to discontinued operations based on the ratio of net assets discontinued to consolidated net assets. The following table summarizes the results from discontinued operations:

	Three Months Ended March 31,
	2015 2014

Edgar Filing: NuStar Energy L.P. - Form 10-Q

	(Thousands of Dollars)	
Revenues	\$208	\$1,821
Income (loss) before income tax expense	\$774	\$(3,359)

7

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2014 Asphalt Sale. On February 26, 2014, we sold our remaining 50% ownership interest in NuStar Asphalt LLC to Lindsay Goldberg LLC (Lindsay Goldberg), a private investment firm (the 2014 Asphalt Sale). Effective February 27, 2014, NuStar Asphalt LLC changed its name to Axeon Specialty Products LLC (Axeon). Lindsay Goldberg now owns 100% of Axeon. As a result of the 2014 Asphalt Sale, we ceased applying the equity method of accounting.

3. INVENTORIES

Inventories consisted of the following:

	March 31, 2015	December 31, 2014
	(Thousands of Dollars)	
Crude oil	\$539	\$3,527
Finished products	34,246	43,206
Materials and supplies	8,908	8,980
Total	\$43,693	\$55,713

4. DEBT

Revolving Credit Agreement

During the three months ended March 31, 2015, the balance under our \$1.5 billion five-year revolving credit agreement (the Revolving Credit Agreement) increased by \$239.1 million, which we used for general partnership purposes and to fund the Linden Acquisition. The Revolving Credit Agreement bears interest, at our option, based on an alternative base rate, a LIBOR-based rate or a EURIBOR-based rate. The interest rate on the Revolving Credit Agreement is subject to adjustment if our debt rating is downgraded (or upgraded) by certain credit rating agencies. As of March 31, 2015, our weighted-average interest rate was 1.9% and we had \$840.6 million outstanding.

The Revolving Credit Agreement contains customary restrictive covenants, such as limitations on indebtedness, liens, mergers, asset transfers and certain investing activities. In addition, the Revolving Credit Agreement requires us to maintain, as of the end of each rolling period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated debt to consolidated EBITDA, each as defined in the Revolving Credit Agreement) not to exceed 5.00-to-1.00. However, if we consummate one or more acquisitions for an aggregate net consideration of at least \$50.0 million, the maximum consolidated debt coverage ratio will increase to 5.50-to-1.00 for two rolling periods. As of March 31, 2015, our consolidated debt coverage ratio could not exceed 5.50-to-1.00, as a result of the Linden Acquisition in January 2015. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of March 31, 2015, our consolidated debt coverage ratio was 4.1x, and we had \$602.5 million available for borrowing.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, tax-exempt revenue bonds (the GoZone Bonds) associated with our St. James, Louisiana terminal expansions. The GoZone Bonds bear interest based on a weekly tax-exempt bond market interest rate, and interest is paid monthly. The interest rate was 0.1% as of March 31, 2015. Following the issuance, the proceeds were deposited with a trustee and are disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansion. We include the amount remaining in trust in "Other long-term assets, net," and we include the amount of bonds issued in "Long-term debt" on the consolidated balance sheets. For the three months ended March 31, 2015, we received \$0.5 million from the trustee. As of March 31, 2015, the amount remaining in trust totaled \$71.0 million.

Short-term Lines of Credit

As of March 31, 2015, we had two short-term line of credit agreements with an aggregate uncommitted borrowing capacity of up to \$80.0 million. These agreements allow us to better manage the fluctuations in our daily cash requirements and minimize our excess cash balances. The interest rate and maturity vary and are determined at the time of the borrowing. We had \$46.0 million outstanding under these short-term lines of credit as of March 31, 2015.

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

5. COMMITMENTS AND CONTINGENCIES

Contingencies

We have contingent liabilities resulting from various litigation, claims and commitments. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of March 31, 2015, we have accrued \$4.4 million for contingent losses. The amount that will ultimately be paid may differ from the recorded accruals, and the timing of such payments is uncertain. In addition, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

6. FAIR VALUE MEASUREMENTS

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices for identical assets or liabilities in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active; and Level 3, defined as unobservable inputs in which little or no market data exists. We consider counterparty credit risk and our own credit risk in the determination of all estimated fair values.

Recurring Fair Value Measurements

The following assets and liabilities are measured at fair value on a recurring basis:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	\$1,375	\$—	\$—	\$1,375
Commodity derivatives	2,872	3,258	—	6,130
Other long-term assets, net:				
Interest rate swaps	—	397	—	397
Total	\$4,247	\$3,655	\$—	\$7,902
Liabilities:				
Accrued liabilities:				
Product imbalances	\$(2,499)	) \$—	\$—	\$(2,499)
Commodity derivatives	—	(2,217)	) —	(2,217)
Other long-term liabilities:				
Guarantee liability	—	—	(595)	) (595)
Interest rate swaps	—	(2,432)	) —	(2,432)
Total	\$(2,499)	) \$(4,649)	) \$(595)	) \$(7,743)

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	\$ 117	\$—	\$—	\$ 117
Commodity derivatives	11,009	5,353	—	16,362
Total	\$ 11,126	\$ 5,353	\$—	\$ 16,479
Liabilities:				
Accrued liabilities:				
Product imbalances	\$(1,388)	) \$—	\$—	\$(1,388)
Commodity derivatives	—	(4,623)	) —	(4,623)
Other long-term liabilities:				
Guarantee liability	—	—	(580)	) (580)
Total	\$(1,388)	) \$(4,623)	) \$(580)	) \$(6,591)

Product Imbalances. We value our assets and liabilities related to product imbalances using quoted market prices in active markets as of the reporting date. Therefore, we include these product imbalances in Level 1 of the fair value hierarchy.

Interest Rate Swaps. We estimate the fair value of our forward-starting interest rate swaps using discounted cash flows, which use observable inputs such as time to maturity and market interest rates. Therefore, we include these interest rate swaps in Level 2 of the fair value hierarchy.

Commodity Derivatives. We base the fair value of certain of our commodity derivative instruments on quoted prices on an exchange; accordingly, we include these items in Level 1 of the fair value hierarchy. We also have derivative instruments for which we determine fair value using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments. Therefore, we include these derivative instruments in Level 2 of the fair value hierarchy. See Note 7 for a discussion of our derivative instruments.

Guarantees. We provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to \$150.0 million to Axeon. As of March 31, 2015 and December 31, 2014, we provided guarantees mainly for commodity purchases, lease obligations and certain utilities for Axeon with an aggregate maximum potential exposure of \$25.9 million and \$25.3 million, respectively, and two guarantees that do not specify a maximum amount. A majority of these guarantees have no expiration date. We estimated the fair value of guarantees we have issued on behalf of Axeon considering the probability of default by Axeon and an estimate of the amount we would be obligated to pay under the guarantees at the time of default based on the guarantees outstanding as of March 31, 2015 and December 31, 2014. Our estimate of the fair value is based on significant inputs not observable in the market and thus falls within Level 3 of the fair value hierarchy.

The following table summarizes the activity in our Level 3 liabilities:

Three Months
Ended March 31,
2015
(Thousands of
Dollars)

Beginning balance	\$580
Adjustments to guarantee liability	15
Ending balance	\$595

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Fair Value of Financial Instruments

We recognize cash equivalents, receivables, note receivables, payables and debt in our consolidated balance sheets at their carrying amounts. The fair values of these financial instruments, except for the \$190.0 million term loan to Axeon (the Axeon Term Loan) and long-term debt, approximate their carrying amounts. The estimated fair value and carrying amounts of the long-term debt and the Axeon Term Loan were as follows:

	March 31, 2015		December 31, 2014	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(Thousands of Dollars)			
Long-term debt	\$3,026,670	\$2,987,413	\$2,764,242	\$2,749,452
Axeon Term Loan	\$165,562	\$169,250	\$164,386	\$169,235

We estimated the fair value of our publicly-traded senior notes based upon quoted prices in active markets; therefore, we determined that the fair value of our publicly-traded senior notes falls in Level 1 of the fair value hierarchy. For our other debt, for which a quoted market price is not available, we estimated the fair value using a discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements and determined that the fair value falls in Level 2 of the fair value hierarchy.

We estimated the fair value of the Axeon Term Loan using discounted cash flows, which use observable inputs such as time to maturity and market interest rates, and determined the fair value falls in Level 2 of the fair value hierarchy. As of March 31, 2015, the carrying amount of the receivable for the Axeon Term Loan is \$169.3 million, consisting of the following: (i) the outstanding principal amount from the Axeon Term Loan of \$190.0 million; (ii) plus the fair value of guarantees of \$0.6 million as of March 31, 2015; and (iii) less equity losses from our investment in Axeon of \$21.3 million incurred prior to the 2014 Asphalt Sale and after the carrying value of our equity investment in Axeon was reduced to zero. The carrying value of the Axeon Term Loan is included in “Other long-term assets, net” on the consolidated balance sheets. We review the financial information of Axeon monthly for possible non-payment indicators.

7. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to manage our exposure to interest rate risk and commodity price risk. Our risk management policies and procedures are designed to monitor interest rates, futures and swap positions and over-the-counter positions, as well as physical volumes, grades, locations and delivery schedules, to help ensure that our hedging activities address our market risks. Our risk management committee oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

Interest Rate Risk

We are a party to certain interest rate swap agreements to manage our exposure to change in interest rates. During the three months ended March 31, 2015, we entered into forward-starting interest rate swap agreements with an aggregate notional amount of \$450.0 million. Under the terms of the swaps, we pay a fixed rate and receive a rate based on three month USD LIBOR. We entered into these swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. These swaps qualified, and we designated them, as cash flow hedges of future interest payments associated with forecasted debt issuances in 2018 and 2020. We record the effective portion of mark-to-market adjustments as a component of “Accumulated other comprehensive income” (AOCI), and the amount in AOCI will be recognized in “Interest expense, net” as the forecasted interest payments occur or if the interest payments are probable not to occur. We had no forward-starting interest rate swap agreements as of December 31, 2014.

Commodity Price Risk

We are exposed to market risks related to the volatility of crude oil and refined product prices. In order to reduce the risk of commodity price fluctuations with respect to our crude oil and finished product inventories and related firm commitments to purchase and/or sell such inventories, we utilize commodity futures and swap contracts, which qualify and we designate as fair value hedges. Derivatives that are intended to hedge our commodity price risk, but fail to qualify as fair value or cash flow hedges, are considered economic hedges, and we record associated gains and losses in net income.

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The volume of commodity contracts is based on open derivative positions and represents the combined volume of our long and short open positions on an absolute basis, which totaled 4.5 million barrels and 4.7 million barrels as of March 31, 2015 and December 31, 2014, respectively.

As of March 31, 2015, we had \$0.2 million of margin deposits related to our derivative instruments and none as of December 31, 2014.

The fair values of our derivative instruments included in our consolidated balance sheets were as follows:

	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		March 31, 2015 (Thousands of Dollars)	December 31, 2014	March 31, 2015	December 31, 2014
Derivatives Designated as Hedging Instruments:					
Commodity contracts	Other current assets	\$2,799	\$5,609	\$(18)	\$—
Interest rate swaps - cash flow hedges	Other long-term assets, net	397	—	—	—
Interest rate swaps - cash flow hedges	Other long-term liabilities	—	—	(2,432)	—
Total		3,196	5,609	(2,450)	—
Derivatives Not Designated as Hedging Instruments:					
Commodity contracts	Other current assets	19,013	38,704	(15,664)	(27,951)
Commodity contracts	Accrued liabilities	11,261	13,081	(13,478)	(17,704)
Total		30,274	51,785	(29,142)	(45,655)
Total Derivatives		\$33,470	\$57,394	\$(31,592)	\$(45,655)

Certain of our derivative instruments are eligible for offset in the consolidated balance sheets and subject to master netting arrangements. Under our master netting arrangements, there is a legally enforceable right to offset amounts, and we intend to settle such amounts on a net basis. The following are the net amounts presented on the consolidated balance sheets:

Commodity Contracts	March 31, 2015	December 31, 2014
(Thousands of Dollars)		
Net amounts of assets presented in the consolidated balance sheets	\$6,130	\$16,362
Net amounts of liabilities presented in the consolidated balance sheets	\$(2,217)	\$(4,623)

The earnings impact of our derivative activity was as follows:

Derivatives Designated as Fair Value Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
		(Thousands of Dollars)		

Three months ended March 31, 2015:

Edgar Filing: NuStar Energy L.P. - Form 10-Q

Commodity contracts	Cost of product sales	\$2,164	\$(1,676)	\$ 488
---------------------	-----------------------	---------	----------	---	--------

Three months ended March 31, 2014:

Commodity contracts	Cost of product sales	\$1,213	\$(2,097)	\$ (884)
---------------------	-----------------------	---------	----------	---	---------	---

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) (a) (Thousands of Dollars)	Amount of Gain (Loss) Reclassified from AOCI into Interest expense, net (Effective Portion) (a)
Three months ended March 31, 2015:		
Interest rate swaps	\$(2,035) \$—
Unwound interest rate swaps	\$—	\$(2,538)
Three months ended March 31, 2014:		
Unwound interest rate swaps	\$—	\$(2,766)

- (a) As of March 31, 2015, we expect to reclassify a loss of \$9.5 million to “Interest expense, net” within the next twelve months associated with unwound forward-starting interest rate swaps.

Derivatives Not Designated as Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income (Thousands of Dollars)
Three months ended March 31, 2015:		
Commodity contracts	Cost of product sales	\$330
Three months ended March 31, 2014:		
Commodity contracts	Cost of product sales	\$32

8. RELATED PARTY TRANSACTIONS

The following table summarizes information pertaining to related party transactions:

	Three Months Ended March 31,	
	2015	2014
	(Thousands of Dollars)	
Revenues	\$—	\$929
Operating expenses	\$31,287	\$28,659
General and administrative expenses	\$17,386	\$14,094
Interest income	\$—	\$1,055
Revenues included in discontinued operations, net of tax	\$—	\$405
Expenses included in discontinued operations, net of tax	\$2	\$805

NuStar GP, LLC

Our operations are managed by NuStar GP, LLC, the general partner of our general partner. Under a services agreement between NuStar Energy and NuStar GP, LLC, employees of NuStar GP, LLC perform services for our U.S. operations. Certain of our wholly owned subsidiaries employ persons who perform services for our international operations. Employees of NuStar GP, LLC provide services to both NuStar Energy and NuStar GP Holdings;

therefore, we reimburse NuStar GP, LLC for all employee costs, other than the expenses allocated to NuStar GP Holdings.

We had a payable to NuStar GP, LLC of \$16.8 million and \$15.1 million as of March 31, 2015 and December 31, 2014, respectively, with both amounts representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of March 31, 2015 and December 31, 2014 of \$35.2 million and \$33.5 million, respectively, for amounts payable for retiree medical benefits and other post-employment benefits.

Axeon

As a result of the 2014 Asphalt Sale, we ceased reporting transactions between us and Axeon as related party transactions in our consolidated financial statements on February 26, 2014.

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

9. PARTNERS' EQUITY

Partners' Equity Activity

The following table summarizes changes in the carrying amount of equity attributable to NuStar Energy L.P. partners and noncontrolling interest:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	NuStar Energy L.P. Partners' Equity (Thousands of Dollars)	Noncontrolling Interest (a)	Total Partners' Equity	NuStar Energy L.P. Partners' Equity	Noncontrolling Interest (a)	Total Partners' Equity
Beginning balance	\$1,716,210	\$—	\$1,716,210	\$1,902,136	\$1,658	\$1,903,794
Net income (loss)	127,899	—	127,899	39,744	(107)	39,637
Other comprehensive income (loss):						
Foreign currency translation adjustment	(20,604)	) —	(20,604)	(4,240)	) (445)	(4,685)
Net unrealized loss on cash flow hedges	(2,035)	) —	(2,035)	—	—	—
Net loss on cash flow hedges reclassified into interest expense, net	2,538	—	2,538	2,766	—	2,766
Total other comprehensive loss	(20,101)	) —	(20,101)	(1,474)	) (445)	(1,919)
Cash distributions to partners	(98,051)	) —	(98,051)	(98,051)	) —	(98,051)
Other	—	—	—	23	—	23
Ending balance	\$1,725,957	\$—	\$1,725,957	\$1,842,378	\$1,106	\$1,843,484

(a) In September 2014, we sold our 75% interest in our facility in Mersin, Turkey.

Accumulated Other Comprehensive Loss

The balance of and changes in the components included in AOCI were as follows:

	Foreign Currency Translation (Thousands of Dollars)	Cash Flow Hedges	Total
Balance as of January 1, 2015	\$(28,839)	) \$(39,073)	) \$(67,912)
Activity	(20,604)	) 503	(20,101)
Balance as of March 31, 2015	\$(49,443)	) \$(38,570)	) \$(88,013)

Allocations of Net Income

Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders and the general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and the general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be

allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are made after giving effect to priority income allocations, if any, in an amount equal to incentive cash distributions allocated 100% to the general partner.

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table details the calculation of net income applicable to the general partner:

	Three Months Ended March 31,	
	2015	2014
	(Thousands of Dollars)	
Net income attributable to NuStar Energy L.P.	\$127,899	\$39,744
Less general partner incentive distribution	10,805	10,805
Net income after general partner incentive distribution	117,094	28,939
General partner interest	2	% 2
General partner allocation of net income after general partner incentive distribution	2,342	579
General partner incentive distribution	10,805	10,805
Net income applicable to general partner	\$13,147	\$11,384

Cash Distributions

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

	Three Months Ended March 31,	
	2015	2014
	(Thousands of Dollars, Except Per Unit Data)	
General partner interest	\$1,961	\$1,961
General partner incentive distribution	10,805	10,805
Total general partner distribution	12,766	12,766
Limited partners' distribution	85,285	85,285
Total cash distributions	\$98,051	\$98,051
Cash distributions per unit applicable to limited partners	\$1.095	\$1.095

The following table summarizes information related to our quarterly cash distributions:

Quarter Ended	Cash Distributions Per Unit	Total Cash Distributions (Thousands of Dollars)	Record Date	Payment Date
March 31, 2015 (a)	\$1.095	\$98,051	May 8, 2015	May 14, 2015
December 31, 2014	\$1.095	\$98,051	February 9, 2015	February 13, 2015

(a) The distribution was announced on April 22, 2015.

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

10. NET INCOME PER UNIT

We have identified the general partner interest and incentive distribution rights as participating securities and use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common units outstanding during the period. Basic and diluted net income per unit applicable to limited partners are the same because we have no potentially dilutive securities outstanding.

The following table details the calculation of earnings per unit:

	Three Months Ended March 31,	
	2015	2014
	(Thousands of Dollars, Except Unit and Per Unit Data)	
Net income attributable to NuStar Energy L.P.	\$127,899	\$39,744
Less general partner distribution (including incentive distribution rights)	12,766	12,766
Less limited partner distribution	85,285	85,285
Distributions less than (in excess of) earnings	\$29,848	\$(58,307)
General partner earnings:		
Distributions	\$12,766	\$12,766
Allocation of distributions less than (in excess of) earnings (2%)	597	(1,166)
Total	\$13,363	\$11,600
Limited partner earnings:		
Distributions	\$85,285	\$85,285
Allocation of distributions less than (in excess of) earnings (98%)	29,251	(57,141)
Total	\$114,536	\$28,144
Weighted-average limited partner units outstanding	77,886,078	77,886,078
Net income per unit applicable to limited partners	\$1.47	\$0.36

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

	Three Months Ended March 31,	
	2015	2014
	(Thousands of Dollars)	
Decrease (increase) in current assets:		
Accounts receivable	\$ 19,654	\$(22,751)
Receivable from related parties	—	50,872
Inventories	11,997	35,476
Other current assets	10,963	(42)
Increase (decrease) in current liabilities:		
Accounts payable	(21,776)	(93,400)
Payable to related party	1,145	5,286
Accrued interest payable	(5,948)	(5,714)
Accrued liabilities	(23,191)	(9,127)
Taxes other than income tax	(1,738)	(747)
Income tax payable	1,120	1,352
Changes in current assets and current liabilities	\$(7,774)	\$(38,795)

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable consolidated balance sheets due to the change in the amount accrued for capital expenditures and the effect of foreign currency translation.

Cash flows related to interest and income taxes were as follows:

	Three Months Ended March 31,	
	2015	2014
	(Thousands of Dollars)	
Cash paid for interest, net of amount capitalized	\$38,044	\$38,352
Cash paid for income taxes, net of tax refunds received	\$1,738	\$1,998

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. SEGMENT INFORMATION

Our reportable business segments consist of pipeline, storage and fuels marketing. Our segments represent strategic business units that offer different services and products. We evaluate the performance of each segment based on its respective operating income, before general and administrative expenses and certain non-segmental depreciation and amortization expense. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Our principal operations include the transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. Intersegment revenues result from storage agreements with wholly owned subsidiaries of NuStar Energy at lease rates consistent with rates charged to third parties for storage.

Results of operations for the reportable segments were as follows:

	Three Months Ended March 31, 2015 2014 (Thousands of Dollars)	
Revenues:		
Pipeline	\$ 124,425	\$ 102,959
Storage:		
Third parties	144,085	124,354
Intersegment	6,249	7,283
Related party	—	929
Total storage	150,334	132,566
Fuels Marketing	286,434	620,971
Consolidation and intersegment eliminations	(6,249)	) (7,283)
Total revenues	\$ 554,944	\$ 849,213
Operating income:		
Pipeline	\$ 68,640	\$ 52,990
Storage	47,978	42,007
Fuels marketing	9,925	9,558
Consolidation and intersegment eliminations	43	(17)
Total segment operating income	126,586	104,538
General and administrative expenses	25,053	20,856
Other depreciation and amortization expense	2,252	2,579
Total operating income	\$ 99,281	\$ 81,103

Total assets by reportable segment were as follows:

	March 31, 2015	December 31, 2014
	(Thousands of Dollars)	
Pipeline	\$ 1,975,828	\$ 1,962,821
Storage	2,441,519	2,241,573
Fuels marketing	192,379	227,642
Total segment assets	4,609,726	4,432,036
Other partnership assets	474,421	486,760
Total consolidated assets	\$ 5,084,147	\$ 4,918,796

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NuStar Energy has no operations and its assets consist mainly of its investments in NuStar Logistics and NuPOP, both wholly owned subsidiaries. The senior and subordinated notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy and NuPOP. As a result, the following condensed consolidating financial statements are presented as an alternative to providing separate financial statements for NuStar Logistics and NuPOP.

Condensed Consolidating Balance Sheets

March 31, 2015

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Cash and cash equivalents	\$923	\$6	\$—	\$ 77,254	\$—	\$78,183
Receivables, net	—	41,938	9,748	137,969	—	189,655
Inventories	—	2,059	3,362	38,272	—	43,693
Other current assets	121	8,116	1,451	14,989	—	24,677
Intercompany receivable	—	1,565,895	—	—	(1,565,895)	—
Total current assets	1,044	1,618,014	14,561	268,484	(1,565,895)	336,208
Property, plant and equipment, net	—	1,855,422	557,303	1,179,561	—	3,592,286
Intangible assets, net	—	54,091	—	74,609	—	128,700
Goodwill	—	149,453	170,652	384,383	—	704,488
Investment in wholly owned subsidiaries	2,320,011	33,015	992,093	965,584	(4,310,703)	—
Deferred income tax asset	—	—	—	4,880	(550)	4,330
Other long-term assets, net	673	277,774	26,329	13,359	—	318,135
Total assets	\$2,321,728	\$3,987,769	\$1,760,938	\$ 2,890,860	\$(5,877,148)	\$5,084,147
Liabilities and Partners' Equity						
Payables	\$51	\$49,072	\$5,239	\$ 76,478	\$—	\$130,840
Short-term debt	—	46,000	—	—	—	46,000
Accrued interest payable	—	27,393	—	4	—	27,397
Accrued liabilities	727	11,114	8,391	19,711	—	39,943
Taxes other than income tax	—	4,254	4,268	4,021	—	12,543
Income tax payable	—	16	5	3,541	—	3,562
Intercompany payable	506,980	—	769,413	289,502	(1,565,895)	—
Total current liabilities	507,758	137,849	787,316	393,257	(1,565,895)	260,285
Long-term debt	—	2,987,413	—	—	—	2,987,413
Long-term payable to related party	—	29,778	—	5,442	—	35,220
Deferred income tax liability	—	528	22	24,804	(550)	24,804
Other long-term liabilities	—	16,686	7,927	25,855	—	50,468
Total partners' equity	1,813,970	815,515	965,673	2,441,502	(4,310,703)	1,725,957
Total liabilities and partners' equity	\$2,321,728	\$3,987,769	\$1,760,938	\$ 2,890,860	\$(5,877,148)	\$5,084,147

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Balance Sheets

December 31, 2014

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Cash and cash equivalents	\$923	\$6	\$—	\$ 86,983	\$—	\$87,912
Receivables, net	—	47,038	18,347	143,093	—	208,478
Inventories	—	1,998	3,768	49,989	(42)	55,713
Other current assets	—	10,403	418	25,239	(116)	35,944
Assets held for sale	—	—	—	1,100	—	1,100
Intercompany receivable	—	1,438,675	—	—	(1,438,675)	—
Total current assets	923	1,498,120	22,533	306,404	(1,438,833)	389,147
Property, plant and equipment, net	—	1,820,126	559,808	1,080,798	—	3,460,732
Intangible assets, net	—	55,801	—	2,869	—	58,670
Goodwill	—	149,453	170,652	297,324	—	617,429
Investment in wholly owned subsidiaries	2,289,673	37,179	910,394	913,343	(4,150,589)	—
Investment in joint venture	—	—	—	74,223	—	74,223
Deferred income tax asset	—	—	—	4,429	—	4,429
Other long-term assets, net	673	279,058	26,329	8,106	—	314,166
Total assets	\$2,291,269	\$3,839,737	\$1,689,716	\$ 2,687,496	\$(5,589,422)	\$4,918,796
Liabilities and Partners' Equity						
Payables	\$—	\$60,687	\$8,211	\$ 108,286	\$—	\$177,184
Short-term debt	—	77,000	—	—	—	77,000
Accrued interest payable	—	33,340	—	5	—	33,345
Accrued liabilities	862	32,178	6,965	21,020	—	61,025
Taxes other than income tax	125	7,896	3,099	3,001	—	14,121
Income tax payable	—	—	—	—	—	—