

NuStar Energy L.P.  
Form 10-Q  
November 05, 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 September 30, 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 October 31, 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 September 30, 2015 and December 31, 2014</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 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>28</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
Item 4.	<u>Controls and Procedures</u>	<u>46</u>

PART II – OTHER INFORMATION

Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
Item 6.	<u>Exhibits</u>	<u>47</u>
	<u>SIGNATURES</u>	<u>48</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)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$116,425	\$87,912
Accounts receivable, net of allowance for doubtful accounts of \$8,154 and \$7,808 as of September 30, 2015 and December 31, 2014, respectively	133,973	208,314
Receivable from related parties	—	164
Inventories	53,876	55,713
Other current assets	34,083	35,944
Assets held for sale	—	1,100
Total current assets	338,357	389,147
Property, plant and equipment, at cost	5,136,964	4,815,396
Accumulated depreciation and amortization	(1,480,691)	(1,354,664)
Property, plant and equipment, net	3,656,273	3,460,732
Intangible assets, net	115,471	58,670
Goodwill	704,404	617,429
Investment in joint venture	—	74,223
Deferred income tax asset	3,144	4,429
Other long-term assets, net	317,482	314,166
Total assets	\$5,135,131	\$4,918,796
Liabilities and Partners' Equity		
Current liabilities:		
Accounts payable	\$97,883	\$162,056
Payable to related party	16,418	15,128
Short-term debt	42,000	77,000
Accrued interest payable	27,921	33,345
Accrued liabilities	50,802	61,025
Taxes other than income tax	17,560	14,121
Income tax payable	2,789	2,517
Total current liabilities	255,373	365,192
Long-term debt	3,109,359	2,749,452
Long-term payable to related party	30,550	33,537
Deferred income tax liability	24,497	27,308
Other long-term liabilities	61,452	27,097
Commitments and contingencies (Note 5)		
Partners' equity:		
Limited partners (77,886,078 common units outstanding as of September 30, 2015 and December 31, 2014)	1,699,483	1,744,810
General partner	37,726	39,312
Accumulated other comprehensive loss	(83,309)	(67,912)

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

Total partners' equity	1,653,900	1,716,210
Total liabilities and partners' equity	\$5,135,131	\$4,918,796

See Condensed Notes to Consolidated Financial Statements.

3

---

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Service revenues	\$288,574	\$266,651	\$833,128	\$755,551
Product sales	204,992	527,771	785,993	1,637,829
Total revenues	493,566	794,422	1,619,121	2,393,380
Costs and expenses:				
Cost of product sales	193,958	509,794	738,074	1,578,508
Operating expenses:				
Third parties	87,730	84,570	254,658	246,541
Related party	34,904	31,394	100,761	91,025
Total operating expenses	122,634	115,964	355,419	337,566
General and administrative expenses:				
Third parties	8,535	7,567	25,188	20,044
Related party	15,144	17,400	50,237	48,942
Total general and administrative expenses	23,679	24,967	75,425	68,986
Depreciation and amortization expense	52,301	48,599	157,523	142,765
Total costs and expenses	392,572	699,324	1,326,441	2,127,825
Operating income	100,994	95,098	292,680	265,555
Equity in earnings of joint ventures	—	2,749	—	1,737
Interest expense, net	(33,448	) (33,007	) (98,309	) (100,546
Interest income from related party	—	—	—	1,055
Other income (expense), net	1,776	(1,388	) 61,892	1,816
Income from continuing operations before income tax expense	69,322	63,452	256,263	169,617
Income tax expense	4,306	4,335	9,797	10,317
Income from continuing operations	65,016	59,117	246,466	159,300
Income (loss) from discontinued operations, net of tax	—	2,831	774	(2,316
Net income	65,016	61,948	247,240	156,984
Less net loss attributable to noncontrolling interest	—	(173	) —	(395
Net income attributable to NuStar Energy L.P.	\$65,016	\$62,121	\$247,240	\$157,379
Net income (loss) per unit applicable to limited partners:				
Continuing operations	\$0.68	\$0.61	\$2.68	\$1.59
Discontinued operations	—	0.03	0.01	(0.03
Total (Note 10)	\$0.68	\$0.64	\$2.69	\$1.56
Weighted-average limited partner units outstanding	77,886,078	77,886,078	77,886,078	77,886,078
Comprehensive income	\$38,878	\$58,167	\$231,843	\$159,811
Less comprehensive loss attributable to noncontrolling interest	—	(159	) —	(828
Comprehensive income attributable to NuStar Energy L.P.	\$38,878	\$58,326	\$231,843	\$160,639

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)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$247,240	\$156,984
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	157,523	142,765
Amortization of debt related items	6,693	7,015
Gain from sale or disposition of assets	(1,632	) (3,840
Gain associated with the Linden Acquisition	(56,277	) —
Asset impairment loss	—	2,067
Deferred income tax expense	626	2,453
Equity in earnings of joint ventures	—	(1,737
Distributions of equity in earnings of joint ventures	2,500	5,879
Changes in current assets and current liabilities (Note 11)	19,803	1,080
Other, net	(352	) 2,529
Net cash provided by operating activities	376,124	315,195
Cash Flows from Investing Activities:		
Capital expenditures	(240,671	) (229,548
Change in accounts payable related to capital expenditures	(7,802	) 10,910
Acquisitions	(142,500	) —
Increase in other long-term assets	(3,587	) —
Proceeds from sale or disposition of assets	17,125	25,975
Increase in note receivable from Axeon	—	(13,328
Other, net	—	(853
Net cash used in investing activities	(377,435	) (206,844
Cash Flows from Financing Activities:		
Proceeds from long-term debt borrowings	747,779	537,436
Proceeds from short-term debt borrowings	622,000	205,200
Long-term debt repayments	(365,410	) (451,269
Short-term debt repayments	(657,000	) (183,800
Distributions to unitholders and general partner	(294,153	) (294,153
(Decrease) increase in cash book overdrafts	(12,281	) 3,470
Other, net	(792	) (930
Net cash provided by (used in) financing activities	40,143	(184,046
Effect of foreign exchange rate changes on cash	(10,319	) 638
Net increase (decrease) in cash and cash equivalents	28,513	(75,057
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	\$116,425	\$25,686
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 15.0% total interest in us as of September 30, 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 and nine months ended September 30, 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 and nine months ended September 30, 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 September 2015, the Financial Accounting Standards Board (FASB) issued amended guidance for business combinations that eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment be recognized in the reporting period in which the adjustment is identified. The changes are effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been issued. 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 July 2015, the FASB issued amended guidance that requires inventory to be measured at the lower of cost or net realizable value. The changes are effective for annual and interim periods beginning after December 15, 2016, and

early adoption is permitted. We will adopt these provisions January 1, 2017, and we do not expect the amended guidance to have a material impact on our financial position, results of operations or disclosures.

In April 2015, the 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. In August 2015, the FASB issued amended guidance that would allow debt issuance costs related to line-of-credit agreements to continue to be presented as an asset on the balance sheet. 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.

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 will adopt these provisions January 1, 2016, and we do not expect the guidance to have a material impact on our financial position, results of operations or disclosures.

In May 2014, the FASB and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard. In August 2015, the FASB deferred the effective date by one year. The standard is now effective for public entities for annual and interim periods beginning after December 15, 2017, using one of two retrospective transition methods. Early adoption is permitted, but not before the original effective date. 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.

**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%.

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 (expense), net" in the condensed consolidated statements of comprehensive income for the nine months ended September 30, 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 allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of the acquisition. The 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	134,484
Goodwill	86,975
Intangible assets (a)	70,050
Other long-term assets	110

Purchase price allocation

\$293,365

(a) 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 (the Turkey Sale). We recognized a gain of \$3.7 million on the Turkey Sale for the three and nine months ended September 30, 2014. We presented the results of operations for those

7

---

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

facilities as discontinued operations. We allocated interest expense of \$0.1 million and \$0.8 million for the three and nine months ended September 30, 2014, respectively, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of Dollars)			
Revenues	\$—	\$276	\$208	\$3,456
Income (loss) before income tax expense	\$—	\$2,831	\$774	\$(2,316)

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:

	September 30, 2015	December 31, 2014
	(Thousands of Dollars)	
Crude oil	\$2,326	\$3,527
Finished products	42,721	43,206
Materials and supplies	8,829	8,980
Total	\$53,876	\$55,713

## 4. DEBT

## Revolving Credit Agreement

During the nine months ended September 30, 2015, the balance under our \$1.5 billion five-year revolving credit agreement (the Revolving Credit Agreement) increased by \$306.6 million, which we used for general partnership purposes and to fund a portion of strategic capital expenditures, including the Linden Acquisition. The Revolving Credit Agreement matures on October 29, 2019 and 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 September 30, 2015, our weighted-average interest rate was 2.0% and we had \$908.1 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. 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. 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 September 30, 2015, our

consolidated debt coverage ratio was 4.4x, and we had \$561.0 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 weighted-average interest rate was 0.1% as of September 30, 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

Table of Contents

NUSTAR ENERGY L.P. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 nine months ended September 30, 2015, we received \$13.6 million from the trustee. As of September 30, 2015, the amount remaining in trust totaled \$57.9 million.

Receivables Financing Agreement

On June 15, 2015, NuStar Energy L.P. and NuStar Finance LLC (NuStar Finance), a newly formed special purpose entity and wholly owned subsidiary of NuStar Logistics, entered into a \$125.0 million receivables financing agreement with third-party lenders (the Receivables Financing Agreement) and agreements with certain of NuStar Energy’s wholly owned subsidiaries (collectively with the Receivables Financing Agreement, the Securitization Program). Under the Securitization Program, certain of NuStar Energy’s wholly owned subsidiaries, NuStar Logistics, NuPOP, NuStar Energy Services, Inc. and NuStar Supply & Trading LLC (collectively, the Originators), sell their accounts receivable to NuStar Finance on an ongoing basis, and NuStar Finance provides the newly acquired accounts receivable as collateral for its revolving borrowings under the Receivables Financing Agreement. The maximum amount available for borrowing by NuStar Finance under the Receivables Financing Agreement is \$125.0 million, with an option for NuStar Finance to request an increase of up to \$75.0 million from the lenders (for aggregate total borrowings not to exceed \$200.0 million). The amount available for borrowing is based on the availability of eligible receivables and other customary factors and conditions. The Securitization Program contains various customary affirmative and negative covenants and default, indemnification and termination provisions, and the Receivables Financing Agreement provides for acceleration of amounts owed upon the occurrence of certain specified events.

Borrowings by NuStar Finance under the Receivables Financing Agreement bear interest at either the applicable commercial paper rate or the applicable bank rate, each as defined under the Receivables Financing Agreement. The Securitization Program has an initial termination date of June 15, 2018, with the option to renew for additional 364-day periods thereafter. As of September 30, 2015, \$98.9 million of our accounts receivable are included in the Securitization Program. The amount of borrowings outstanding under the Receivables Financing Agreement totaled \$56.9 million as of September 30, 2015, which is included in “Long-term debt” on the consolidated balance sheet.

NuStar Finance’s sole business consists of purchasing such receivables and providing them as collateral under the Securitization Program. NuStar Finance is a separate legal entity and the assets of NuStar Finance, including these accounts receivable, are not available to satisfy the claims of creditors of NuStar Energy, the Originators or their affiliates.

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 September 30, 2015, we have accrued \$4.2 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.

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Recurring Fair Value Measurements

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

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	\$462	\$—	\$—	\$462
Commodity derivatives	7,927	1,181	—	9,108
Other long-term assets, net:				
Interest rate swaps	—	2,925	—	2,925
Total	\$8,389	\$4,106	\$—	\$12,495
Liabilities:				
Accrued liabilities:				
Product imbalances	\$(1,592	) \$—	\$—	\$(1,592
Commodity derivatives	—	(1,041	) —	(1,041
Other long-term liabilities:				
Guarantee liability	—	—	(1,286	) (1,286
Interest rate swaps	—	(929	) —	(929
Total	\$(1,592	) \$(1,970	) \$(1,286	) \$(4,848
	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.

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 September 30, 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 \$55.9 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 September 30, 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:

	Nine Months Ended September 30, 2015 (Thousands of Dollars)
Beginning balance	\$580
Adjustments to guarantee liability	706
Ending balance	\$1,286

## 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:

	September 30, 2015		December 31, 2014	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(Thousands of Dollars)			
Long-term debt	\$3,073,330	\$3,109,359	\$2,764,242	\$2,749,452
Axeon Term Loan	\$169,607	\$169,941	\$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 September 30, 2015, the carrying amount of the receivable for the Axeon Term Loan is \$169.9 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 \$1.3 million as of September 30, 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 credit loss indicators. Axeon failed to make a scheduled principal payment by September 30, 2015, which will increase the interest rate until Axeon makes the payment.

## 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 commodity 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.

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**Interest Rate Risk**

We are a party to certain interest rate swap agreements to manage our exposure to changes in interest rates. During the nine months ended September 30, 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. 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 6.1 million barrels and 4.7 million barrels as of September 30, 2015 and December 31, 2014, respectively. The fair values of our derivative instruments included in our consolidated balance sheets were as follows:

	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
(Thousands of Dollars)					
<b>Derivatives Designated as Hedging Instruments:</b>					
Commodity contracts	Other current assets	\$1,262	\$5,609	\$(261)	) \$—
Interest rate swaps - cash flow hedges	Other long-term assets, net	2,925	—	—	—
Interest rate swaps - cash flow hedges	Other long-term liabilities	—	—	(929)	) —
Total		4,187	5,609	(1,190)	) —
<b>Derivatives Not Designated as Hedging Instruments:</b>					
Commodity contracts	Other current assets	15,922	38,704	(7,815)	) (27,951)
Commodity contracts	Accrued liabilities	4,272	13,081	(5,313)	) (17,704)
Total		20,194	51,785	(13,128)	) (45,655)
Total Derivatives		\$24,381	\$57,394	\$(14,318)	) \$(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:

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

Commodity Contracts	September 30, 2015	December 31, 2014
	(Thousands of Dollars)	
Net amounts of assets presented in the consolidated balance sheets	\$9,108	\$16,362
Net amounts of liabilities presented in the consolidated balance sheets	\$(1,041)	\$(4,623)

12

---

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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) (Thousands of Dollars)	Amount of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Three months ended September 30, 2015:				
Commodity contracts	Cost of product sales	\$ 16,005	\$(15,479)	) \$ 526
Three months ended September 30, 2014:				
Commodity contracts	Cost of product sales	\$ 1,219	\$(1,058)	) \$ 161
Nine months ended September 30, 2015:				
Commodity contracts	Cost of product sales	\$ 11,506	\$(8,748)	) \$ 2,758
Nine months ended September 30, 2014:				
Commodity contracts	Cost of product sales	\$ 2,178	\$(2,840)	) \$ (662)
Derivatives Designated as Cash Flow Hedging Instruments				
		Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) (Thousands of Dollars)	Amount of Gain (Loss) Reclassified from AOCI into Interest expense, net (Effective Portion) (a)	
Three months ended September 30, 2015:				
Interest rate swaps		\$ (16,757)	)	\$—
Unwound interest rate swaps		—	)	(2,405)
Three months ended September 30, 2014:				
Unwound interest rate swaps		\$—	)	\$(2,625)
Nine months ended September 30, 2015:				
Interest rate swaps		\$ 1,996	)	\$—
Unwound interest rate swaps		—	)	(7,449)
Nine months ended September 30, 2014:				
Unwound interest rate swaps		\$—	)	\$(8,062)

(a) As of September 30, 2015, we expect to reclassify a loss of \$8.7 million to “Interest expense, net” within the next twelve months associated with unwound forward-starting interest rate swaps.



Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Derivatives Not Designated as Hedging Instruments	Income Statement Location	Amount of Gain (Loss) Recognized in Income (Thousands of Dollars)
Three months ended September 30, 2015:		
Commodity contracts	Cost of product sales	\$1,151
Three months ended September 30, 2014:		
Commodity contracts	Cost of product sales	\$6,680
Nine months ended September 30, 2015:		
Commodity contracts	Cost of product sales	\$1,142
Nine months ended September 30, 2014:		
Commodity contracts	Cost of product sales	\$2,270

## 8. RELATED PARTY TRANSACTIONS

We had a payable to related party of \$16.4 million and \$15.1 million as of September 30, 2015 and December 31, 2014, respectively, mainly representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to related party as of September 30, 2015 and December 31, 2014 of \$30.6 million and \$33.5 million, respectively, representing long-term employee benefits.

The following table summarizes information pertaining to related party transactions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of Dollars)			
Revenues	\$—	\$—	\$—	\$929
Operating expenses	\$34,904	\$31,394	\$100,761	\$91,025
General and administrative expenses	\$15,144	\$17,400	\$50,237	\$48,942
Interest income	\$—	\$—	\$—	\$1,055
Revenues included in discontinued operations, net of tax	\$—	\$36	\$—	\$528
Expenses included in discontinued operations, net of tax	\$—	\$184	\$2	\$1,596

## 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.

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

In September 2014, we sold our 75% interest in our facility in Mersin, Turkey. Therefore, we no longer have a noncontrolling interest for the three and nine months ending September 30, 2015. The following table summarizes changes in the carrying amount of equity attributable to NuStar Energy L.P. partners and noncontrolling interest:

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014		
	Total Partners' Equity	NuStar Energy L.P. Partners' Equity	Noncontrolling Interest	Total Partners' Equity	
	(Thousands of Dollars)				
Beginning balance	\$1,713,073	\$1,808,370	\$989	\$1,809,359	
Net income (loss)	65,016	62,121	(173	) 61,948	
Other comprehensive (loss) income:					
Foreign currency translation adjustment	(11,786	) (6,420	) 14	(6,406	)
Net unrealized loss on cash flow hedges	(16,757	) —	—	—	
Net loss on cash flow hedges reclassified into interest expense, net	2,405	2,625	—	2,625	
Total other comprehensive (loss) income	(26,138	) (3,795	) 14	(3,781	)
Cash distributions to partners	(98,051	) (98,051	) —	(98,051	)
Other	—	—	(830	) (830	)
Ending balance	\$1,653,900	\$1,768,645	\$—	\$1,768,645	
	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014		
	Total Partners' Equity	NuStar Energy L.P. Partners' Equity	Noncontrolling Interest	Total Partners' Equity	
	(Thousands of Dollars)				
Beginning balance	\$1,716,210	\$1,902,136	\$1,658	\$1,903,794	
Net income (loss)	247,240	157,379	(395	) 156,984	
Other comprehensive (loss) income:					
Foreign currency translation adjustment	(24,842	) (4,802	) (433	) (5,235	)
Net unrealized gain on cash flow hedges	1,996	—	—	—	
Net loss on cash flow hedges reclassified into interest expense, net	7,449	8,062	—	8,062	
Total other comprehensive (loss) income	(15,397	) 3,260	(433	) 2,827	

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

Cash distributions to partners	(294,153	)	(294,153	)	—	(294,153	)	
Other	—		23		(830	)	(807	)
Ending balance	\$1,653,900		\$1,768,645		\$—		\$1,768,645	

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 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	(24,842 )	9,445	(15,397 )
Balance as of September 30, 2015	\$(53,681 )	\$(29,628 )	\$(83,309 )

## 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of Dollars)			
Net income attributable to NuStar Energy L.P.	\$65,016	\$62,121	\$247,240	\$157,379
Less general partner incentive distribution	10,805	10,805	32,415	32,415
Net income after general partner incentive distribution	54,211	51,316	214,825	124,964
General partner interest	2	% 2	% 2	% 2
General partner allocation of net income after general partner incentive distribution	1,084	1,025	4,297	2,498
General partner incentive distribution	10,805	10,805	32,415	32,415
Net income applicable to general partner	\$11,889	\$11,830	\$36,712	\$34,913

## 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of Dollars, Except Per Unit Data)			
General partner interest	\$1,961	\$1,961	\$5,883	\$5,883
General partner incentive distribution	10,805	10,805	32,415	32,415
Total general partner distribution	12,766	12,766	38,298	38,298
Limited partners' distribution	85,285	85,285	255,855	255,855
Total cash distributions	\$98,051	\$98,051	\$294,153	\$294,153

Cash distributions per unit applicable to limited partners	\$1.095	\$1.095	\$3.285	\$3.285
--	---------	---------	---------	---------

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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
September 30, 2015 (a)	\$1.095	\$98,051	November 9, 2015	November 13, 2015
June 30, 2015	\$1.095	\$98,051	August 7, 2015	August 13, 2015
March 31, 2015	\$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 October 30, 2015.

## 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of Dollars, Except Unit and Per Unit Data)			
Net income attributable to NuStar Energy L.P.	\$65,016	\$62,121	\$247,240	\$157,379
Less general partner distribution (including incentive distribution rights)	12,766	12,766	38,298	38,298
Less limited partner distribution	85,285	85,285	255,855	255,855
Distributions in excess of earnings	\$(33,035)	\$(35,930)	\$(46,913)	\$(136,774)
General partner earnings:				
Distributions	\$12,766	\$12,766	\$38,298	\$38,298
Allocation of distributions in excess of earnings (2%)	(661)	(719)	(939)	(2,736)
Total	\$12,105	\$12,047	\$37,359	\$35,562
Limited partner earnings:				
Distributions	\$85,285	\$85,285	\$255,855	\$255,855
Allocation of distributions in excess of earnings (98%)	(32,374)	(35,211)	(45,974)	(134,038)
Total	\$52,911	\$50,074	\$209,881	\$121,817
Weighted-average limited partner units outstanding	77,886,078	77,886,078	77,886,078	77,886,078
Net income per unit applicable to limited partners	\$0.68	\$0.64	\$2.69	\$1.56



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:

	Nine Months Ended September 30,	
	2015	2014
	(Thousands of Dollars)	
Decrease (increase) in current assets:		
Accounts receivable	\$75,532	\$60,010
Receivable from related parties	—	51,037
Inventories	1,654	19,865
Other current assets	1,660	(1,302)
Increase (decrease) in current liabilities:		
Accounts payable	(45,626)	(134,932)
Payable to related party	743	5,841
Accrued interest payable	(5,424)	(5,611)
Accrued liabilities	(12,338)	807
Taxes other than income tax	3,239	5,319
Income tax payable	363	46
Changes in current assets and current liabilities	\$19,803	\$1,080

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:

	Nine Months Ended September 30,	
	2015	2014
	(Thousands of Dollars)	
Cash paid for interest, net of amount capitalized	\$105,340	\$103,832
Cash paid for income taxes, net of tax refunds received	\$8,987	\$9,826

## 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.

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Results of operations for the reportable segments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Thousands of Dollars)			
Revenues:				
Pipeline	\$ 131,395	\$ 125,461	\$ 378,030	\$ 346,218
Storage:				
Third parties	155,475	137,771	450,372	400,421
Intersegment	6,628	6,174	19,707	20,147
Related party	—	—	—	929
Total storage	162,103	143,945	470,079	421,497
Fuels Marketing	206,696	531,190	790,719	1,645,812
Consolidation and intersegment eliminations	(6,628)	(6,174)	(19,707)	(20,147)
Total revenues	\$ 493,566	\$ 794,422	\$ 1,619,121	\$ 2,393,380
Operating income:				
Pipeline	\$ 68,536	\$ 65,652	\$ 201,996	\$ 178,878
Storage	59,986	49,401	161,715	141,415
Fuels marketing	(1,819)	7,518	10,756	21,897
Consolidation and intersegment eliminations	(1)	(25)	41	(35)
Total segment operating income	126,702	122,546	374,508	342,155
General and administrative expenses	23,679	24,967	75,425	68,986
Other depreciation and amortization expense	2,029	2,481	6,403	7,614
Total operating income	\$ 100,994	\$ 95,098	\$ 292,680	\$ 265,555

Total assets by reportable segment were as follows:

	September 30, 2015	December 31, 2014
	(Thousands of Dollars)	
Pipeline	\$ 2,029,115	\$ 1,962,821
Storage	2,445,403	2,241,573
Fuels marketing	156,434	227,642
Total segment assets	4,630,952	4,432,036
Other partnership assets	504,179	486,760
Total consolidated assets	\$ 5,135,131	\$ 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

September 30, 2015

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Cash and cash equivalents	\$ 885	\$ 931	\$—	\$ 114,609	\$—	\$ 116,425
Receivables, net	—	465	—	133,508	—	133,973
Inventories	—	2,157	3,669	48,050	—	53,876
Other current assets	109	15,015	1,307	17,652	—	34,083
Intercompany receivable	—	1,591,877	—	—	(1,591,877 )	—
Total current assets	994	1,610,445	4,976	313,819	(1,591,877 )	338,357
Property, plant and equipment, net	—	1,895,471	569,231	1,191,571	—	3,656,273
Intangible assets, net	—	50,671	—	64,800	—	115,471
Goodwill	—	149,453	170,652	384,299	—	704,404
Investment in wholly owned subsidiaries	2,244,115	47,686	1,020,841	933,458	(4,246,100 )	—
Deferred income tax asset	—	—	—	4,323	(1,179 )	3,144
Other long-term assets, net	799	275,954	26,329	14,400	—	317,482
Total assets	\$ 2,245,908	\$ 4,029,680	\$ 1,792,029	\$ 2,906,670	\$ (5,839,156)	\$ 5,135,131
<b>Liabilities and Partners' Equity</b>						
Payables	\$ 26	\$ 41,513	\$ 11,348	\$ 61,414	\$—	\$ 114,301
Short-term debt	—	42,000	—	—	—	42,000
Accrued interest payable	—	27,902	—	19	—	27,921
Accrued liabilities	962	24,005	7,199	18,636	—	50,802
Taxes other than income tax	63	6,527	4,506	6,464	—	17,560
Income tax payable	—	288	6	2,495	—	2,789
Intercompany payable	507,648	—	826,286	257,943	(1,591,877 )	—
Total current liabilities	508,699	142,235	849,345	346,971	(1,591,877 )	255,373
Long-term debt	—	3,052,459	—	56,900	—	3,109,359
Long-term payable to related party	—	25,107	—	5,443	—	30,550
Deferred income tax liability	—	1,143	36	24,497	(1,179 )	24,497
Other long-term liabilities	—	28,086	9,097	24,269	—	61,452
Total partners' equity	1,737,209	780,650	933,551	2,448,590	(4,246,100 )	1,653,900
Total liabilities and partners' equity	\$ 2,245,908	\$ 4,029,680	\$ 1,792,029	\$ 2,906,670	\$ (5,839,156)	\$ 5,135,131



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
<b>Assets</b>						
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
<b>Liabilities and Partners' Equity</b>						
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	—	—	4	2,629	(116 )	2,517
Intercompany payable	506,160	—	751,023	181,492	(1,438,675 )	—
Total current liabilities	507,147	211,101	769,302	316,433	(1,438,791 )	365,192
Long-term debt	—	2,749,452	—	—	—	2,749,452
Long-term payable to related party	—	28,094	—	5,443	—	33,537
Deferred income tax liability	—	528	22	26,758	—	27,308
Other long-term liabilities	—	13,681	6,963	6,453	—	27,097
Total partners' equity	1,784,122	836,881	913,429	2,332,409	(4,150,631 )	1,716,210
Total liabilities and partners' equity	\$2,291,269	\$3,839,737	\$1,689,716	\$ 2,687,496	\$(5,589,422)	\$4,918,796

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Comprehensive Income

For the Three Months Ended September 30, 2015

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$140,492	\$53,988	\$299,456	\$(370 )	\$493,566
Costs and expenses	428	73,274	34,344	284,895	(369 )	392,572
Operating (loss) income	(428 )	67,218	19,644	14,561	(1 )	100,994
Equity in earnings (loss) of subsidiaries	65,444	(2,730 )	16,113	36,270	(115,097 )	—
Interest (expense) income, net	—	(35,495 )	505	1,542	—	(33,448 )
Other income, net	—	500	7	1,269	—	1,776
Income from continuing operations before income tax expense	65,016	29,493	36,269	53,642	(115,098 )	69,322
Income tax expense	—	334	2	3,970	—	4,306
Net income	\$65,016	\$29,159	\$36,267	\$49,672	\$(115,098 )	\$65,016
Comprehensive income	\$65,016	\$14,807	\$36,267	\$37,886	\$(115,098 )	\$38,878

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Comprehensive Income

For the Three Months Ended September 30, 2014

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$134,345	\$54,431	\$606,307	\$(661 )	\$794,422
Costs and expenses	479	72,363	36,710	590,409	(637 )	699,324
Operating (loss) income	(479 )	61,982	17,721	15,898	(24 )	95,098
Equity in earnings (loss) of subsidiaries	62,600	(1,952 )	18,402	36,119	(115,169 )	—
Equity in earnings of joint venture	—	—	—	2,749	—	2,749
Interest (expense) income, net	—	(33,306 )	16	283	—	(33,007 )
Other expense, net	—	(18 )	(20 )	(1,350 )	—	(1,388 )
Income from continuing operations before income tax expense	62,121	26,706	36,119	53,699	(115,193 )	63,452
Income tax expense	—	220	2	4,113	—	4,335
Income from continuing operations	62,121	26,486	36,117	49,586	(115,193 )	59,117
(Loss) income from discontinued operations, net of tax	—	(13 )	—	2,844	—	2,831
Net income	62,121	26,473	36,117	52,430	(115,193 )	61,948
Less net loss attributable to noncontrolling interest	—	—	—	(173 )	—	(173 )
Net income attributable to NuStar Energy L.P.	\$62,121	\$26,473	\$36,117	\$52,603	\$(115,193 )	\$62,121
Comprehensive income	\$62,121	\$33,515	\$36,117	\$41,607	\$(115,193 )	\$58,167
Less comprehensive loss attributable to noncontrolling interest	—	—	—	(159 )	—	(159 )
Comprehensive income attributable to NuStar Energy L.P.	\$62,121	\$33,515	\$36,117	\$41,766	\$(115,193 )	\$58,326

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Comprehensive Income

For the Nine Months Ended September 30, 2015

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$411,698	\$155,284	\$1,053,448	\$(1,309)	\$1,619,121
Costs and expenses	1,356	222,515	99,208	1,004,713	(1,351)	1,326,441
Operating (loss) income	(1,356)	189,183	56,076	48,735	42	292,680
Equity in earnings (loss) of subsidiaries	248,596	(8,118)	110,448	167,207	(518,133)	—
Interest (expense) income, net	—	(100,448)	679	1,460	—	(98,309)
Other income, net	—	1,175	16	60,701	—	61,892
Income from continuing operations before income tax expense	247,240	81,792	167,219	278,103	(518,091)	256,263
Income tax expense	—	390	20	9,387	—	9,797
Income from continuing operations	247,240	81,402	167,199	268,716	(518,091)	246,466
Income from discontinued operations, net of tax	—	—	—	774	—	774
Net income	\$247,240	\$81,402	\$167,199	\$269,490	\$(518,091)	\$247,240
Comprehensive income	\$247,240	\$90,847	\$167,199	\$244,648	\$(518,091)	\$231,843

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Comprehensive Income

For the Nine Months Ended September 30, 2014

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$369,308	\$163,890	\$1,869,240	\$(9,058 )	\$2,393,380
Costs and expenses	1,352	204,415	105,473	1,825,609	(9,024 )	2,127,825
Operating (loss) income	(1,352 )	164,893	58,417	43,631	(34 )	265,555
Equity in earnings (loss) of subsidiaries	158,732	(2,811 )	46,874	105,293	(308,088 )	—
Equity in (loss) earnings of joint ventures	—	(8,278 )	—	10,015	—	1,737
Interest (expense) income, net	—	(100,121 )	38	592	—	(99,491 )
Other income (expense), net	—	524	(36 )	1,328	—	1,816
Income from continuing operations before income tax expense	157,380	54,207	105,293	160,859	(308,122 )	169,617
Income tax expense	1	628	5	9,683	—	10,317
Income from continuing operations	157,379	53,579	105,288	151,176	(308,122 )	159,300
Loss from discontinued operations, net of tax	—	(181 )	—	(2,135 )	—	(2,316 )
Net income	157,379	53,398	105,288	149,041	(308,122 )	156,984
Less net loss attributable to noncontrolling interest	—	—	—	(395 )	—	(395 )
Net income attributable to NuStar Energy L.P.	\$157,379	\$53,398	\$105,288	\$149,436	\$(308,122 )	\$157,379
Comprehensive income	\$157,379	\$65,183	\$105,288	\$140,083	\$(308,122 )	\$159,811
Less comprehensive loss attributable to noncontrolling interest	—	—	—	(828 )	—	(828 )
Comprehensive income attributable to NuStar Energy L.P.	\$157,379	\$65,183	\$105,288	\$140,911	\$(308,122 )	\$160,639

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2015

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$292,631	\$157,684	\$89,173	\$277,881	\$(441,245)	\$376,124
Cash flows from investing activities:						
Capital expenditures	—	(156,510)	(30,846)	(53,315)	—	(240,671)
Change in accounts payable related to capital expenditures	—	(11,797)	4,707	(712)	—	(7,802)
Acquisitions	—	—	—	(142,500)	—	(142,500)
Increase in other long-term assets	—	—	—	(3,587)	—	(3,587)
Proceeds from sale or disposition of assets	—	10,318	20	6,787	—	17,125
Net cash used in investing activities	—	(157,989)	(26,119)	(193,327)	—	(377,435)
Cash flows from financing activities:						
Debt borrowings	—	1,280,879	—	88,900	—	1,369,779
Debt repayments	—	(990,410)	—	(32,000)	—	(1,022,410)
Distributions to unitholders and general partner	(294,153)	(147,076)	(147,077)	(147,092)	441,245	(294,153)
Net intercompany activity	1,484	(134,701)	84,023	49,194	—	—
Other, net	—	(7,462)	—	(5,611)	—	(13,073)
Net cash (used in) provided by financing activities	(292,669)	1,230	(63,054)	(46,609)	441,245	40,143
Effect of foreign exchange rate changes on cash	—	—	—	(10,319)	—	(10,319)
Net (decrease) increase in cash and cash equivalents	(38)	925	—	27,626	—	28,513
Cash and cash equivalents as of the beginning of the period	923	6	—	86,983	—	87,912
Cash and cash equivalents as of the end of the period	\$885	\$931	\$—	\$114,609	\$—	\$116,425

Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Nine Months Ended September 30, 2014

(Thousands of Dollars)

	NuStar Energy	NuStar Logistics	NuPOP	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$292,757	\$133,967	\$76,913	\$203,783	\$(392,225 )	\$315,195
Cash flows from investing activities:						
Capital expenditures	—	(174,296 )	(6,308 )	(48,944 )	—	(229,548 )
Change in accounts payable related to capital expenditures	—	18,470	81	(7,641 )	—	10,910
Proceeds from sale or disposition of assets	—	651	13	25,311	—	25,975
Increase in note receivable from Axeon	—	(13,328 )	—	—	—	(13,328 )
Other, net	—					