PLAINS GP HOLDINGS LP
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

Commission File Number: 1-36132

PLAINS GP HOLDINGS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	90-1005472
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

333 Clay Street, Suite 1600, Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 646-4100

(Registrant's telephone number, including area code)

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

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

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

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

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

As of July 31, 2015, there were 224,312,453 Class A Shares outstanding.

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PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1.UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 30	$ 404
Trade accounts receivable and other receivables, net	2,688	2,615
Inventory	941	891
Other current assets	287	271
Total current assets	3,946	4,181
PROPERTY AND EQUIPMENT	15,118	14,219
Accumulated depreciation	(2,070)	(1,927)
Property and equipment, net	13,048	12,292
OTHER ASSETS		
Goodwill	2,442	2,465
Investments in unconsolidated entities	1,841	1,735
Deferred tax asset	1,848	1,705
Linefill and base gas	976	930
Long-term inventory	159	186
Other long-term assets, net	494	489
Total assets	$ 24,754	$ 23,983
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 3,118	$ 2,987
Short-term debt	915	1,287

Other current liabilities	442	482
Total current liabilities	4,475	4,756
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discount of $16 and $18, respectively	8,759	8,757
Other long-term debt	938	541
Other long-term liabilities and deferred credits	568	548
Total long-term liabilities	10,265	9,846
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
PARTNERS' CAPITAL		
Class A Shareholders (224,312,453 and 206,933,274 shares outstanding, respectively)	1,801	1,657
Class B Shareholders (381,738,120 and 399,096,499 shares outstanding, respectively)	—	—
Noncontrolling interests	8,213	7,724
Total partners' capital	10,014	9,381
Total liabilities and partners' capital	$ 24,754	$ 23,983

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

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PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
REVENUES				
Supply and Logistics segment revenues	$ 6,346	$ 10,856	$ 11,978	$ 22,201
Transportation segment revenues	180	195	366	376
Facilities segment revenues	137	144	261	301
Total revenues	6,663	11,195	12,605	22,878
COSTS AND EXPENSES				
Purchases and related costs	5,848	10,280	10,890	20,950
Field operating costs	417	360	763	696
General and administrative expenses	80	91	159	181
Depreciation and amortization	110	100	218	197
Total costs and expenses	6,455	10,831	12,030	22,024
OPERATING INCOME	208	364	575	854
OTHER INCOME/(EXPENSE)				
Equity earnings in unconsolidated entities	52	23	89	44
Interest expense (net of capitalized interest of $13, $10, $27 and $22, respectively)	(107)	(85)	(211)	(166)
Other income/(expense), net	1	4	(3)	2
INCOME BEFORE TAX	154	306	450	734
Current income tax expense	(19)	(16)	(61)	(52)
Deferred income tax expense	(32)	(15)	(24)	(35)
NET INCOME	103	275	365	647
Net income attributable to noncontrolling interests	(73)	(260)	(304)	(618)
NET INCOME ATTRIBUTABLE TO PAGP	$ 30	$ 15	$ 61	$ 29
BASIC NET INCOME PER CLASS A SHARE	$ 0.14	$ 0.11	$ 0.28	$ 0.21
DILUTED NET INCOME PER CLASS A SHARE	$ 0.14	$ 0.11	$ 0.27	$ 0.21
	224	136	218	135

BASIC WEIGHTED AVERAGE CLASS A SHARES OUTSTANDING				
DILUTED WEIGHTED AVERAGE CLASS A SHARES OUTSTANDING	224	136	606	135

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

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Net income	$ 103	$ 275	$ 365	$ 647
Other comprehensive income/(loss)	170	91	(206)	(45)
Comprehensive income	273	366	159	602
Comprehensive income attributable to noncontrolling interests	(242)	(351)	(99)	(573)
Comprehensive income attributable to PAGP	$ 31	$ 15	$ 60	$ 29

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

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

(in millions)

	Derivative Instruments	Translation Adjustments	Total
	(unaudited)		
Balance at December 31, 2014	$ (159)	$ (308)	$ (467)
Reclassification adjustments	19	—	19
Deferred gain on cash flow hedges, net of tax	20	—	20
Currency translation adjustments	—	(245)	(245)
Total period activity	39	(245)	(206)

Balance at June 30, 2015	$ (120)	$ (553)	$ (673)

	Derivative Instruments (unaudited)	Translation Adjustments	Total
Balance at December 31, 2013	$ (77)	$ (20)	$ (97)
Reclassification adjustments	10	—	10
Deferred loss on cash flow hedges, net of tax	(51)	—	(51)
Currency translation adjustments	—	(4)	(4)
Total period activity	(41)	(4)	(45)
Balance at June 30, 2014	$ (118)	$ (24)	$ (142)

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

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PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Six Months Ended June 30,	
	2015	2014
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 365	$ 647
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	218	197
Equity-indexed compensation expense	36	68
Inventory valuation adjustments	24	37
Deferred income tax expense	24	35
Gain on sales of linefill and base gas	—	(8)
Gain on foreign currency revaluation	(26)	(5)
Settlement of terminated interest rate hedging instruments	(29)	(7)
Equity earnings in unconsolidated entities	(89)	(44)
Distributions from unconsolidated entities	102	51
Other	(11)	5
Changes in assets and liabilities, net of acquisitions	40	(22)
Net cash provided by operating activities	654	954
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions, net of cash acquired	(64)	(2)
Additions to property, equipment and other	(1,031)	(918)
Investment in unconsolidated entities	(119)	(67)
Cash received for sales of linefill and base gas	—	23
Cash paid for purchases of linefill and base gas	(125)	(140)
Proceeds from sales of assets	2	3
Other investing activities	(6)	—
Net cash used in investing activities	(1,343)	(1,101)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings/(repayments) under PAA commercial paper program (Note 6)	151	(344)
Net borrowings under AAP senior secured revolving credit facility (Note 6)	24	11
Proceeds from the issuance of PAA senior notes (Note 6)	—	698
Repayments of PAA senior notes (Note 6)	(149)	—
Net proceeds from the issuance of common units by subsidiaries (Note 7)	1,099	444
Distributions paid to Class A shareholders (Note 7)	(92)	(40)
Distributions paid to noncontrolling interests (Note 7)	(713)	(626)
Other financing activities	(4)	(11)
Net cash provided by financing activities	316	132

Effect of translation adjustment on cash	(1)	—
Net decrease in cash and cash equivalents	(374)	(15)
Cash and cash equivalents, beginning of period	404	43
Cash and cash equivalents, end of period	$ 30	$ 28
Cash paid for:		
Interest, net of amounts capitalized	$ 195	$ 166
Income taxes, net of amounts refunded	$ 30	$ 104

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

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(in millions)

	Partners' Capital (Excluding Noncontrolling Interests)		Noncontrolling	Total Partners'
	Class A	Class B	Interests	Capital
	(unaudited)			
Balance at December 31, 2014	$ 1,657	$ —	$ 7,724	$ 9,381
Net income	61	—	304	365
Distributions	(92)	—	(713)	(805)
Deferred tax asset	179	—	—	179
Change in ownership interest in connection with Exchange Right exercises (Note 7)	(3)		3	—
Issuance of common units by subsidiaries	—	—	1,099	1,099
Settlement of employee income tax withholding obligations under LTIP	—	—	(13)	(13)
Equity-indexed compensation expense	—	—	17	17
Distribution equivalent right payments	—	—	(3)	(3)
Other comprehensive loss	(1)	—	(205)	(206)
Balance at June 30, 2015	$ 1,801	$ —	$ 8,213	$ 10,014

	Partners' Capital (Excluding Noncontrolling Interests)		Noncontrolling	Total Partners'
	Class A	Class B	Interests	Capital
	(unaudited)			
Balance at December 31, 2013	$ 1,035	$ —	$ 7,244	$ 8,279
Net income	29	—	618	647
Distributions	(40)	—	(626)	(666)
Deferred tax asset	23	—	—	23
Change in ownership interest in connection with Exchange Right exercises (Note 7)	(1)	—	1	—
Issuance of common units by subsidiaries	—	—	444	444
Issuance of PAA common units under LTIP	—	—	1	1
Settlement of employee income tax withholding obligations under LTIP	—	—	(19)	(19)
Equity-indexed compensation expense	—	—	23	23
Distribution equivalent right payments	—	—	(3)	(3)
Other comprehensive loss	—	—	(45)	(45)
Balance at June 30, 2014	$ 1,046	$ —	$ 7,638	$ 8,684

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

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PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1—Organization and Basis of Consolidation and Presentation

Organization

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

As of June 30, 2015, our sole assets consisted of (i) a 100% managing member interest in Plains All American GP LLC (“GP LLC”) and (ii) an approximate 37% limited partner interest in Plains AAP, L.P. (“AAP”) through our ownership of 224,312,453 Class A units of AAP (“AAP units”). GP LLC is a Delaware limited liability company that holds the general partner interest in AAP. AAP is a Delaware limited partnership that directly owns all of PAA’s IDRs and indirectly owns the 2% general partner interest in PAA. AAP is the sole member of PAA GP LLC (“PAA GP”), a Delaware limited liability company that directly holds the 2% general partner interest in PAA. Plains GP Holdings LLC, a Delaware limited liability company, is our general partner.

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

PAA is a publicly traded master limited partnership that owns and operates midstream energy infrastructure and provides logistics services for crude oil, natural gas liquids (“NGL”), natural gas and refined products. PAA owns an extensive network of pipeline transportation, terminalling, storage and gathering assets in key crude oil and NGL producing basins and transportation corridors and at major market hubs in the United States and Canada. Our business activities are conducted through three operating segments: Transportation, Facilities and Supply and Logistics. See Note 11 for further discussion of our operating segments.

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Definitions

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

AOCI	=	Accumulated other comprehensive income/(loss)
Bcf	=	Billion cubic feet
Btu	=	British thermal unit
CAD	=	Canadian dollar
DERs	=	Distribution equivalent rights
EPA	=	United States Environmental Protection Agency
FASB	=	Financial Accounting Standards Board
GAAP	=	Generally accepted accounting principles in the United States
ICE	=	Intercontinental Exchange
LIBOR	=	London Interbank Offered Rate
LTIP	=	Long-term incentive plan
Mcf	=	Thousand cubic feet
NGL	=	Natural gas liquids, including ethane, propane and butane
NYMEX	=	New York Mercantile Exchange
Oxy	=	Occidental Petroleum Corporation or its subsidiaries
PLA	=	Pipeline loss allowance
SEC	=	United States Securities and Exchange Commission
USD	=	United States dollar
WTI	=	West Texas Intermediate

Basis of Consolidation and Presentation

The accompanying unaudited condensed consolidated interim financial statements and related notes thereto should be read in conjunction with our 2014 Annual Report on Form 10-K. The accompanying condensed consolidated financial statements include the accounts of PAGP and all of its wholly owned subsidiaries and those entities that it controls. Under GAAP, we consolidate PAA, AAP and GP LLC. Amounts associated with the interests in these entities not owned by us are reflected in our results of operations as net income attributable to noncontrolling interests and on our balance sheet in the partners' capital section as noncontrolling interests. Investments in entities over which we have significant influence but not control are accounted for by the equity method. The financial statements have been prepared in accordance with the instructions for interim reporting as set forth by the SEC. All adjustments (consisting only of normal recurring adjustments) that in the opinion of management were necessary for a fair statement of the results for the interim periods have been reflected. All significant intercompany transactions have been eliminated in consolidation, and certain reclassifications have been made to information from previous years to conform to the current presentation. These reclassifications do not affect net income attributable to PAGP. The condensed consolidated balance sheet data as of December 31, 2014 was derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the three and six months ended June 30, 2015 should not be taken as indicative of results to be expected for the entire year.

Subsequent events have been evaluated through the financial statements issuance date and have been included in the following footnotes where applicable.

Note 2—Recent Accounting Pronouncements

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs in entities' financial statements. Under this revised guidance, an entity will present such costs as a direct reduction from the related debt liability (rather than as an asset under current guidance). Additionally, amortization of the debt issuance costs will be reported as interest expense. This guidance will become effective for interim and annual periods beginning after December 15, 2015 and will be adopted retrospectively to all prior periods. Early adoption is permitted for financial statements that have not been previously issued. We expect to adopt this guidance on January 1, 2016, and we are

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currently evaluating the effect that adopting this guidance will have on our financial position, results of operations and cash flows.

In February 2015, the FASB issued guidance that revises the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Among other things, this guidance (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) affects the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships. This guidance will become effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We expect to adopt this guidance on January 1, 2016, and we are currently evaluating the effect that adopting this guidance will have on our financial position, results of operations and cash flows.

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

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers with the underlying principle that an entity will recognize revenue to reflect amounts expected to be received in exchange for the provision of goods and services to customers upon the transfer of those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and the related cash flows. This guidance can be adopted either with a full retrospective approach or a modified retrospective approach with a cumulative-effect adjustment as of the date of adoption. In July 2015, the FASB voted to approve a one-year deferral of the effective date of this standard, with final guidance expected to be issued by the end of the third quarter of 2015. This deferral would make the guidance effective for interim and annual periods beginning after December 15, 2017. Therefore, we currently expect to adopt this guidance on January 1, 2018, and we are evaluating which transition approach to apply and the effect that adopting this guidance will have on our financial position, results of operations and cash flows.

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

Note 3—Net Income Per Class A Share

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

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

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

For the three months ended June 30, 2015, and the three and six months ended June 30, 2014, the possible exchange of any AAP units and certain AAP Management Units would not have had a dilutive effect on basic net income per Class A share. For the six months ended June 30, 2015, the possible exchange of any AAP units would have had a dilutive effect on basic net income per Class A share and the possible exchange of certain AAP Management Units would not have had a dilutive effect on basic net income per Class A share. For the three and six months ended June 30, 2015 and 2014, our PAGP LTIP awards were dilutive. However, there were less than 0.1 million dilutive LTIP awards outstanding for each of the three and six months ended June 30, 2015 and 2014, which did not change the presentation of weighted average Class A shares outstanding or net income per Class A share. The following table illustrates the calculation of basic and diluted net income per Class A share for the periods indicated (in millions, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic Net Income per Class A Share				
Net income attributable to PAGP	$ 30	$ 15	$ 61	$ 29
Basic weighted average Class A shares outstanding	224	136	218	135
Basic net income per Class A share	$ 0.14	$ 0.11	$ 0.28	$ 0.21
Diluted Net Income per Class A Share				
Net income attributable to PAGP	$ 30	$ 15	$ 61	$ 29
Incremental net income attributable to PAGP resulting from assumed exchange of AAP units	—	—	105	—
Net income attributable to PAGP including incremental net income from assumed exchange of AAP units	$ 30	$ 15	$ 166	$ 29
Basic weighted average Class A shares outstanding	224	136	218	135
Dilutive shares resulting from assumed exchange of AAP units	—	—	388	—
Diluted weighted average Class A shares outstanding	224	136	606	135
Diluted net income per Class A share	$ 0.14	$ 0.11	$ 0.27	$ 0.21

Note 4—Accounts Receivable

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

To mitigate credit risk related to our accounts receivable, we utilize a rigorous credit review process. We closely monitor market conditions to make a determination with respect to the amount, if any, of open credit to be extended to any given customer and the form and amount of financial performance assurances we require. Such financial assurances are commonly provided to us in the form of advance cash payments, standby letters of credit or parental

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guarantees. As of June 30, 2015 and December 31, 2014, we had received $115 million and $180 million, respectively, of advance cash payments from third parties to mitigate credit risk. We also received $77 million and $198 million, as of June 30, 2015 and December 31, 2014, respectively, of standby letters of credit to support obligations due from third parties, a portion of which applies to future business. The decrease in standby letters of credit and advance cash payments from third parties as of June 30, 2015 compared to December 31, 2014 is largely due to a decrease in exposure to various customers requiring letters of credit. Additionally, in an effort to mitigate credit risk, a significant portion of our transactions with counterparties are settled on a net-cash basis. Furthermore, we also enter into netting agreements (contractual agreements that allow us to offset receivables and payables with those counterparties against each other on our balance sheet) for a majority of such arrangements.

We review all outstanding accounts receivable balances on a monthly basis and record a reserve for amounts that we expect will not be fully recovered. We do not apply actual balances against the reserve until we have exhausted substantially all collection efforts. At June 30, 2015 and December 31, 2014, substantially all of our trade accounts receivable (net of allowance for doubtful accounts) were less than 30 days past their scheduled invoice date. Our allowance for doubtful accounts receivable totaled $4 million as of both June 30, 2015 and December 31, 2014. Although we consider our allowance for doubtful accounts receivable to be adequate, actual amounts could vary significantly from estimated amounts.

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

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

	June 30, 2015				December 31, 2014			
	Volumes	Unit of Measure	Carrying Value	Price/ Unit (1)	Volumes	Unit of Measure	Carrying Value	Price/ Unit (1)
Inventory								
Crude oil	12,916	barrels	$ 649	$ 50.25	6,465	barrels	$ 304	$ 47.02
NGL	12,931	barrels	213	$ 16.47	13,553	barrels	454	$ 33.50
Natural gas	16,342	Mcf	45	$ 2.75	32,317	Mcf	102	$ 3.16
Other	N/A		34	N/A	N/A		31	N/A
Inventory subtotal			941				891	
Linefill and base gas								
Crude oil	13,195	barrels	790	$ 59.87	11,810	barrels	744	$ 63.00
NGL	1,348	barrels	48	$ 35.61	1,212	barrels	52	$ 42.90

Natural gas	29,812	Mcf	138	$ 4.63	28,612	Mcf	134	$ 4.68
Linefill and base gas subtotal			976				930	
Long-term inventory								
Crude oil	2,420	barrels	134	$ 55.37	2,582	barrels	136	$ 52.67
NGL	1,652	barrels	25	$ 15.13	1,681	barrels	50	$ 29.74
Long-term inventory subtotal			159				186	
Total			$ 2,076				$ 2,007	

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

At the end of each reporting period, we assess the carrying value of our inventory and make any adjustments necessary to reduce the carrying value to the applicable net realizable value. Any resulting adjustments are a component of “Purchases and related costs” on our accompanying Condensed Consolidated Statements of Operations. We recorded a charge of $24 million during the six months ended June 30, 2015, which primarily related to the writedown of our

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NGL inventory due to declines in prices during the first quarter of 2015. The loss was substantially offset by a portion of the derivative mark-to-market gain that was recognized in the fourth quarter of 2014. See Note 8 for discussion of our derivative and risk management activities. During the six months ended June 30, 2014, we recorded a charge of $37 million related to the writedown of our natural gas inventory that was purchased in conjunction with managing natural gas storage deliverability requirements during the extended period of severe cold weather in the first quarter of 2014.

Note 6—Debt

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

	June 30, 2015	December 31, 2014
SHORT-TERM DEBT		
PAA commercial paper notes, bearing a weighted-average interest rate of 0.49% and 0.46%, respectively (1)	$ 512	$ 734
PAA senior notes:		
5.25% senior notes due June 2015	—	150
3.95% senior notes due September 2015	400	400
Other	3	3
Total short-term debt	915	1,287
LONG-TERM DEBT		
PAA senior notes, net of unamortized discount of $16 and $18, respectively	8,759	8,757
PAA commercial paper notes, bearing a weighted-average interest rate of 0.49% (2)	373	—
AAP term loan, bearing a weighted-average interest rate of 1.8% and 1.8%, respectively	500	500
AAP senior secured revolving credit facility, bearing a weighted-average interest rate of 1.8% and 1.8%, respectively	60	36
Other	5	5
Total long-term debt	9,697	9,298
Total debt (3)	$ 10,612	$ 10,585

(1) We classified these PAA commercial paper notes as short term at June 30, 2015 and December 31, 2014 as these notes were primarily designated as working capital borrowings, were required to be repaid within one year and were primarily for hedged NGL and crude oil inventory and NYMEX and ICE margin deposits.

(2)

We have the ability and intent to refinance these PAA commercial paper notes on a long-term basis; therefore, we have classified such notes as long-term at June 30, 2015.

(3) PAA's fixed-rate senior notes (including current maturities) had a face value of approximately $9.2 billion and $9.3 billion as of June 30, 2015 and December 31, 2014, respectively. We estimated the aggregate fair value of these notes as of June 30, 2015 and December 31, 2014 to be approximately $9.4 billion and $9.9 billion, respectively. PAA's fixed-rate senior notes are traded among institutions, and these trades are routinely published by a reporting service. Our determination of fair value is based on reported trading activity near the end of the reporting period. We estimate that the carrying value of outstanding borrowings under credit facilities and the PAA commercial paper program approximates fair value as interest rates reflect current market rates. The fair value estimates for the PAA senior notes, credit facilities and the PAA commercial paper program are based upon observable market data and are classified in Level 2 of the fair value hierarchy.

Credit Facilities

PAA senior unsecured 364-day revolving credit facility. In January 2015, PAA entered into a 364-day senior unsecured credit agreement with a borrowing capacity of $1.0 billion. Borrowings will accrue interest based, at PAA's election, on either the Eurocurrency Rate or the Base Rate, as defined in the agreement, in each case plus a margin based on PAA's credit rating at the applicable time.

Borrowings and Repayments

Total borrowings under credit agreements and the PAA commercial paper program for the six months ended June 30, 2015 and 2014 were approximately $17.9 billion and $34.6 billion, respectively. Total repayments under credit agreements and the PAA commercial paper program were approximately $17.7 billion and $34.9 billion for the six months ended June 30, 2015 and 2014, respectively. The variance in total gross borrowings and repayments is impacted by various business and financial factors including, but not limited to, the timing, average term and method of general partnership borrowing activities.

Letters of Credit

In connection with our supply and logistics activities, we provide certain suppliers with irrevocable standby letters of credit to secure our obligation for the purchase of crude oil, NGL and natural gas. Additionally, we issue letters of credit to support insurance programs, derivative transactions and construction activities. At June 30, 2015 and December 31, 2014, we had outstanding letters of credit of $63 million and $87 million, respectively.

Senior Notes Repayments

In June 2015, we repaid the PAA $150 million, 5.25% senior notes. We utilized cash on hand and available capacity under the PAA commercial paper program to repay these notes.

Note 7—Partners' Capital and Distributions

Distributions

The following table details the distributions paid to Class A shareholders during or pertaining to the first six months of 2015 (in millions, except per share data):

Date Declared	Distribution Date		Distributions to Class A Shareholders	Distributions per Class A Share
July 7, 2015	August 14, 2015	(1)	$ 51	$ 0.227
April 7, 2015	May 15, 2015		$ 50	$ 0.222
January 8, 2015	February 13, 2015		$ 42	$ 0.203

(1) Payable to shareholders of record at the close of business on July 31, 2015 for the period April 1, 2015 through June 30, 2015.

Exchange Rights

Holders of AAP units and their permitted transferees each have the right to exchange all or a portion of their AAP units for Class A shares at an exchange ratio of one Class A share for each AAP unit exchanged (referred to herein as their “Exchange Right”). This Exchange Right may be exercised only if, simultaneously therewith, an equal number of Class B shares and general partner units are transferred by the exercising party to us. For additional information regarding Exchange Rights, see Note 11 to our Consolidated Financial Statements included in Part IV of our 2014 Annual Report on Form 10-K. During the six months ended June 30, 2015, certain holders of AAP units and their permitted transferees exercised their Exchange Right, which resulted in the exchange of AAP units, general partner units and our Class B shares for our Class A shares. The impact of such Exchange Right exercises on our Class A and Class B shares outstanding is reflected in the table below.

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Shares Outstanding

The following table presents the activity for our Class A shares and Class B shares for the six months ended June 30, 2015:

	Class B Shares	Class A Shares
Balance at December 31, 2014	399,096,499	206,933,274
Shares (exchanged)/issued in connection with Exchange Right exercises	(17,358,379)	17,358,379
Shares issued in connection with PAGP LTIP award vestings	—	20,800
Balance at June 30, 2015	381,738,120	224,312,453

Consolidated Subsidiaries

Noncontrolling Interests in Subsidiaries

As of June 30, 2015, noncontrolling interests in our subsidiaries consisted of (i) a 98% limited partner interest in PAA, (ii) an approximate 63% limited partner interest in AAP that consists of Class A units and AAP Management Units (a profits interest) and (iii) a 25% interest in SLC Pipeline LLC.

Subsidiary Distributions

PAA Distributions. The following table details the distributions to PAA’s partners paid during or pertaining to the first six months of 2015, net of incentive distribution reductions (in millions, except per unit data):

			Distributions to PAA’s Partners				Distributions
			Limited	AAP			per limited
Date Declared	Distribution Date		Partners	2%	Incentive	Total	partner unit
July 7, 2015	August 14, 2015	(1)	$ 276	$ 6	$ 146	$ 428	$ 0.6950

April 7, 2015	May 15, 2015	$ 272	$ 6	$ 142	$ 420	$ 0.6850
January 8, 2015	February 13, 2015	$ 254	$ 5	$ 131	$ 390	$ 0.6750

(1) Payable to unitholders of record at the close of business on July 31, 2015 for the period April 1, 2015 through June 30, 2015.

AAP Distributions. The following table details the distributions to AAP's partners from distributions received from PAA paid during or pertaining to the first six months of 2015 (in millions):

			Distributions to AAP's Partners		
Distribution Date	Distributions Received by AAP from PAA	Cash Reserves	Total	Noncontrolling Interests	PAGP
August 14, 2015 (1)	$ 152	$ (5)	$ 147	$ 96	$ 51
May 15, 2015	$ 148	$ (3)	$ 145	$ 95	$ 50
February 13, 2015	$ 136	$ (3)	$ 133	$ 91	$ 42

(1) Payable to unitholders of record at the close of business on July 31, 2015 for the period April 1, 2015 through June 30, 2015.

Other Distributions. During the six months ended June 30, 2015, distributions of $1 million were paid to noncontrolling interests in SLC Pipeline LLC.

Sales of Common Units by Subsidiaries

PAA Continuous Offering Program. During the six months ended June 30, 2015, PAA issued an aggregate of approximately 1.1 million common units under its continuous offering program, generating proceeds of $58 million, net of offering costs.

PAA Underwritten Offering. In March 2015, PAA completed an underwritten public offering of 21.0 million common units, generating proceeds of approximately $1.0 billion, net of costs associated with the offering.

Note 8—Derivatives and Risk Management Activities

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

Commodity Price Risk Hedging

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

Commodity Purchases and Sales — In the normal course of our operations, we purchase and sell commodities. We use derivatives to manage the associated risks and to optimize profits. As of June 30, 2015, net derivative positions related to these activities included:

· An average of 151,600 barrels per day net long position (total of 4.7 million barrels) associated with our crude oil purchases, which was unwound ratably during July 2015 to match monthly average pricing.

· A net short time spread position averaging 17,800 barrels per day (total of 7.6 million barrels), which hedges a portion of our anticipated crude oil lease gathering purchases through October 2016.

· An average of 35,800 barrels per day (total of 5.5 million barrels) of crude oil grade spread positions through December 2015. These derivatives allow us to lock in grade basis differentials.

· A net short position of 13.9 Bcf through April 2016 related to anticipated sales of natural gas inventory and base gas requirements.

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- A net short position of 15.3 million barrels through June 2017 related to anticipated purchases and sales of our crude oil, NGL and refined products inventory.

Storage Capacity Utilization — We own a significant amount of crude oil, NGL and refined products storage capacity other than that used in our transportation operations. This storage may be leased to third parties or utilized in our own supply and logistics activities, including for the storage of inventory in a contango market. For capacity allocated to our supply and logistics operations, we have utilization risk in a backwardated market structure. As of June 30, 2015, we used derivatives to manage the risk of not utilizing approximately 0.8 million barrels of storage capacity through January 2016. These positions involve no outright price exposure, but instead enable us to profitably use the capacity to store hedged crude oil.

Natural Gas Processing/NGL Fractionation — We purchase natural gas for processing and operational needs. Additionally, we purchase NGL mix for fractionation and sell the resulting individual specification products (including ethane, propane, butane and condensate). In conjunction with these activities, we hedge the price risk associated with the purchase of the natural gas and the subsequent sale of the individual specification products. As of June 30, 2015, we had a long natural gas position of 15.2 Bcf through December 2016, a short propane position of 2.9 million barrels through December 2016, a short butane position of 0.9 million barrels through December 2016 and a short WTI position of 0.3 million barrels through December 2016. In addition, we had a long power position of 0.5 million megawatt hours, which hedges a portion of our power supply requirements at our natural gas processing and fractionation plants through December 2018.

To the extent they qualify and we decide to make the election, all of our commodity derivatives for which we elect hedge accounting are designated as cash flow hedges. Physical commodity contracts that meet the definition of a derivative but are ineligible, or not designated, for the normal purchases and normal sales scope exception are recorded on the balance sheet at fair value, with changes in fair value recognized in earnings. We have determined that substantially all of our physical purchase and sale agreements qualify for the normal purchases and normal sales scope exception.

Interest Rate Risk Hedging

We use interest rate derivatives to hedge interest rate risk associated with anticipated and outstanding interest payments occurring as a result of debt issuances. The derivative instruments we use to manage this risk consist primarily of interest rate swaps and treasury locks. As of June 30, 2015, AOCI includes deferred losses of $109 million that relate to open and terminated interest rate derivatives that were designated as cash flow hedges. The terminated interest rate derivatives were cash-settled in connection with the issuance or refinancing of debt agreements. The deferred loss related to these instruments is being amortized to interest expense over the terms of the hedged debt instruments.

We have entered into forward starting interest rate swaps to hedge the underlying benchmark interest rate related to forecasted interest payments through 2049. The following table summarizes the terms of our forward starting interest rate swaps as of June 30, 2015 (notional amounts in millions):

Hedged Transaction	Number and Types of Derivatives Employed	Notional Amount	Expected Termination Date	Average Rate Locked	Accounting Treatment
Anticipated interest payments	7 forward starting swaps (30-year)	$ 250	9/15/2015	3.02 %	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$ 200	6/15/2016	3.06 %	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$ 200	6/15/2017	3.14 %	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$ 200	6/15/2018	3.20 %	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$ 200	6/14/2019	2.83 %	Cash flow hedge

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During June 2015, we terminated ten forward starting swaps. These swaps had an aggregate notional amount of $250 million and an average fixed rate of 3.60%. We made a cash payment of approximately $31 million in connection with the termination of these swaps.

Currency Exchange Rate Risk Hedging

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

As of June 30, 2015, our outstanding foreign currency derivatives include derivatives we use to (i) hedge currency exchange risk associated with USD-denominated commodity purchases and sales in Canada and (ii) hedge currency exchange risk created by the use of USD-denominated commodity derivatives to hedge commodity price risk associated with CAD-denominated commodity purchases and sales.

The following table summarizes our open forward exchange contracts as of June 30, 2015 (in millions):

		USD	CAD	Average Exchange Rate USD to CAD
Forward exchange contracts that exchange CAD for USD:				
	2015	$ 208	$ 260	$ 1.00 - $ 1.25
	2016	30	38	$ 1.00 - $ 1.25
		$ 238	$ 298	
Forward exchange contracts that exchange USD for CAD:				
	2015	$ 253	$ 315	$ 1.00 - $ 1.24
	2016	30	37	$ 1.00 - $ 1.22
		$ 283	$ 352	

Summary of Financial Impact

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

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

	Three Months Ended June 30, 2015			
	Derivatives in Hedging Relationships			
Location of Gain/(Loss)	Gain/(Loss) Reclassified from AOCI into Income (1) (2)	Other Gain/(Loss) Recognized in Income (3)	Derivatives Not Designated as a Hedge	Total
Commodity Derivatives				
Supply and Logistics segment revenues	$ (19)	$ —	$ 44	$ 25
Transportation segment revenues	—	—	2	2
Field operating costs	—	—	2	2
Interest Rate Derivatives				
Interest expense	(6)	2	—	(4)