

PLAINS ALL AMERICAN PIPELINE LP

Form 10-Q

November 06, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

Commission File Number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.

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(Exact name of registrant as specified in its charter)

Delaware	76-0582150
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(713) 646-4100

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in

(in millions, except unit data)

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

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Short-term debt	681	1,287
Other current liabilities	434	482
Total current liabilities	3,478	4,755

LONG-TERM LIABILITIES

Senior notes, net of unamortized discount of \$18 and \$18, respectively	9,757	8,757
Other long-term debt	213	5
Other long-term liabilities and deferred credits	553	548
Total long-term liabilities	10,523	9,310

COMMITMENTS AND CONTINGENCIES (NOTE 10)

PARTNERS' CAPITAL

Common unitholders (397,727,624 and 375,107,793 units outstanding, respectively)	7,799	7,793
General partner	359	340
Total partners' capital excluding noncontrolling interests	8,158	8,133
Noncontrolling interests	58	58
Total partners' capital	8,216	8,191
Total liabilities and partners' capital	\$ 22,217	\$ 22,256

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per unit data)

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

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

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in millions)

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

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

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN

ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

(in millions)

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

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Balance at September 30, 2015	\$ (208)	\$ (777)	\$ (985)
		Derivative Translation Instruments Adjustments (unaudited)	Total
Balance at December 31, 2013	\$ (77)	\$ (20)	\$ (97)
Reclassification adjustments	16	—	16
Deferred loss on cash flow hedges, net of tax	(57)	—	(57)
Currency translation adjustments	—	(170)	(170)
Total period activity	(41)	(170)	(211)
Balance at September 30, 2014	\$ (118)	\$ (190)	\$ (308)

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

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

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

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(in millions)

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

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

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Distribution equivalent right
payments

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

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

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1—Organization and Basis of Consolidation and Presentation

Organization

Plains All American Pipeline, L.P. (“PAA”) is a Delaware limited partnership formed in 1998. Our operations are conducted directly and indirectly through our primary operating subsidiaries. As used in this Form 10-Q and unless the context indicates otherwise, the terms “Partnership,” “we,” “us,” “our,” “ours” and similar terms refer to PAA and its subsidiaries.

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

Our 2% general partner interest is held by PAA GP LLC, a Delaware limited liability company, whose sole member is Plains AAP, L.P. (“AAP”), a Delaware limited partnership. In addition to its ownership of PAA GP LLC, AAP also owns all of our incentive distribution rights (“IDRs”). Plains All American GP LLC (“GP LLC”), a Delaware limited liability company, is AAP’s general partner. Plains GP Holdings, L.P. (“PAGP”) is the sole member of GP LLC, and at September 30, 2015, owned an approximate 37% limited partner interest in AAP.

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

Definitions

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

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

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Basis of Consolidation and Presentation

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

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

Note 2—Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

Note 3—Net Income Per Limited Partner Unit

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

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

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

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

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

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

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

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

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Note 4—Accounts Receivable

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

To mitigate credit risk related to our accounts receivable, we utilize a rigorous credit review process. We closely monitor market conditions to make a determination with respect to the amount, if any, of open credit to be extended to any given customer and the form and amount of financial performance assurances we require. Such financial assurances are commonly provided to us in the form of advance cash payments, standby letters of credit or parental guarantees. As of September 30, 2015 and December 31, 2014, we had received \$110 million and \$180 million, respectively, of advance cash payments from third parties to mitigate credit risk. We also received \$46 million and \$198 million, as of September 30, 2015 and December 31, 2014, respectively, of standby letters of credit to support obligations due from third parties, a portion of which applies to future business. The decrease in standby letters of credit and advance cash payments from third parties as of September 30, 2015 compared to December 31, 2014 is largely due to a decrease in exposure to various customers requiring letters of credit. Additionally, in an effort to mitigate credit risk, a significant portion of our transactions with counterparties are settled on a net-cash basis. Furthermore, we also enter into netting agreements (contractual agreements that allow us to offset receivables and payables with those counterparties against each other on our balance sheet) for a majority of such arrangements.

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

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

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

	September 30, 2015				December 31, 2014			
	Volumes	Unit of Measure	Carrying Value	Price/Unit (1)	Volumes	Unit of Measure	Carrying Value	Price/Unit (1)
Inventory								