

PLAINS ALL AMERICAN PIPELINE LP
Form 8-K
February 23, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) February 23, 2006

Plains All American Pipeline, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation)

1-14569
(Commission
File Number)

76-0582150
(IRS Employer
Identification No.)

333 Clay Street, Suite 1600, Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **713-646-4100**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 9.01. Financial Statements and Exhibits

(d) Exhibit 99.1 Press Release dated February 23, 2006

Item 2.02 and Item 7.01. Results of Operations and Financial Condition; Regulation FD Disclosure

Plains All American Pipeline, L.P. (the Partnership) today issued a press release reporting its fourth quarter and annual 2005 results. We are furnishing the press release, attached as Exhibit 99.1, pursuant to Item 2.02 and Item 7.01 of Form 8-K. Pursuant to Item 7.01 we are providing detail guidance for financial performance for the first quarter of calendar 2006 and the full year of calendar 2006 (which supersedes preliminary guidance in our 8-K furnished on October 27, 2005). In accordance with General Instruction B.2. of Form 8-K, the information presented herein under Item 2.02 and Item 7.01 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such a filing.

Disclosure of First Quarter 2006 Estimates; Update of Full Year 2006 Guidance

EBIT and EBITDA (each as defined below in Note 1 to the Operating and Financial Guidance table) are non-GAAP financial measures. Net income and cash flows from operating activities are the most directly comparable GAAP measures to EBIT and EBITDA. In Note 11 below, we reconcile EBITDA and EBIT to net income for the guidance periods presented. However, it is impractical to reconcile EBIT and EBITDA to cash flows from operating activities for forecasted periods. We also encourage you to visit our website at www.paalp.com, in particular the section entitled Non-GAAP Reconciliation, which presents a historical reconciliation of certain commonly used non-GAAP financial measures, including EBIT and EBITDA. We present EBIT and EBITDA because we believe they provide additional information with respect to both the performance of our fundamental business activities and our ability to meet our future debt service, capital expenditures and working capital requirements. We also believe that debt holders commonly use EBITDA to analyze partnership performance. In addition, we have highlighted the impact of our long-term incentive program on EBITDA, Net Income and Net Income per Limited Partner Unit.

The following guidance for the three months ending March 31, 2006 and the twelve months ending December 31, 2006 are based on assumptions and estimates that we believe are reasonable given our assessment of historical trends, business cycles and other information reasonably available. However, our assumptions and future performance are both subject to a wide range of business risks and uncertainties, so no assurance can be provided that actual performance will fall within the guidance ranges. Please refer to the information under the caption

Forward-Looking Statements and Associated Risks below. These risks and uncertainties, as well as other unforeseeable risks and uncertainties, could cause our actual results to differ materially from those in the following table. The operating and financial guidance provided below is given as of the date hereof, based on information known to us as of February 22, 2006. We undertake no obligation to publicly update or revise any forward-looking statements.

Plains All American Pipeline, L.P.

Operating and Financial Guidance

(in millions, except per unit data)

	Guidance ⁽¹⁾		Twelve Months	
	Three Months		Ending	
	Ending		December 31, 2006	
	March 31, 2006			
	Low	High	Low	High
Pipeline				
Net revenues	\$ 92.0	\$ 95.5	\$ 390.4	\$ 398.7
Field operating costs	(46.0)	(45.1)	(182.8)	(180.7)
General and administrative expenses	(12.4)	(12.2)	(46.4)	(45.6)
	33.6	38.2	161.2	172.4
Gathering, Marketing, Terminalling & Storage				
Net revenues	103.7	108.1	356.1	371.4
Field operating costs	(33.3)	(32.6)	(131.1)	(129.2)
General and administrative expenses	(19.4)	(19.1)	(73.1)	(71.9)
	51.0	56.4	151.9	170.3
Total Segment Profit				
	84.6	94.6	313.1	342.7
Depreciation and amortization expense	(21.4)	(21.0)	(89.2)	(87.7)
Interest expense	(15.5)	(14.8)	(64.7)	(61.7)
Equity Earnings (Loss) in PAA/Vulcan Gas Storage, LLC			2.3	2.7
Income Before Cumulative Effect of Change in Accounting Principle	47.7	58.8	161.5	196.0
Cumulative Effect of Change in Accounting Principle	6.4	6.4	6.4	6.4
Net Income	\$ 54.1	\$ 65.2	\$ 167.9	\$ 202.4
Net Income to Limited Partners	\$ 47.6	\$ 58.4	\$ 142.7	\$ 176.5
Basic Net Income Per Limited Partner Unit				
Weighted Average Units Outstanding	73.8	73.8	73.8	73.8
Net Income per Unit	\$ 0.64	\$ 0.74	\$ 1.93	\$ 2.39
Diluted Net Income Per Limited Partner Unit				
Weighted Average Units Outstanding	75.4	75.4	75.5	75.5
Net Income per Unit	\$ 0.63	\$ 0.72	\$ 1.89	\$ 2.34
EBIT	\$ 69.6	\$ 80.0	\$ 232.6	\$ 264.1
EBITDA	\$ 91.0	\$ 101.0	\$ 321.8	\$ 351.8
Selected Items Impacting Comparability				
LTIP charge	\$ (10.4)	\$ (10.4)	\$ (34.6)	\$ (34.6)
Cumulative Effect of Change in Accounting Principle	6.4	6.4	6.4	6.4
	\$ (4.0)	\$ (4.0)	\$ (28.2)	\$ (28.2)
Excluding Selected Items Impacting Comparability				
Adjusted EBITDA	\$ 95.0	\$ 105.0	\$ 350.0	\$ 380.0
Adjusted Net Income	\$ 58.1	\$ 69.2	\$ 196.1	\$ 230.6
Adjusted Basic Net Income per Limited Partner Unit	\$ 0.70	\$ 0.85	\$ 2.31	\$ 2.77
Adjusted Diluted Net Income per Limited Partner Unit	\$ 0.68	\$ 0.83	\$ 2.26	\$ 2.70

(1) The projected average foreign exchange rate is \$1.20 CAD to \$1 USD.

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Notes and Significant Assumptions:

1. *Definitions.*

EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes and depreciation and amortization expense
Bbl/d	Barrel per day
Segment Profit	Net revenues less purchases, field operating costs, and segment general and administrative expenses
LTIP	Long-Term Incentive Plan
LPG	Liquefied petroleum gas and other petroleum products
FX	Foreign currency exchange
GMT&S	Gathering, Marketing, Terminalling & Storage

2. *Pipeline Operations.* Pipeline volume estimates are based on historical trends, anticipated future operating performance and completion of internal growth projects. Volumes are influenced by temporary market-driven storage and withdrawal of oil, maintenance schedules at end-user refineries, field declines and other external factors beyond our control. Actual segment profit could vary materially depending on the level of volumes transported.

For the three months ending March 31, 2006 projected volumes incorporate assumptions with respect to 1) scheduled maintenance on a certain producer's asset that feeds All American Pipeline, 2) expected lower cyclical demand volumes on Capline Pipeline, and 3) lingering effects of 2005 Hurricanes Katrina and Rita. Volumes for the remainder of the year are projected to increase from a combination of cyclical demand and recovery of certain volumes impacted by last year's hurricanes.

The following table summarizes our pipeline volumes and breaks out the major systems that are significant either in total volumes transported or in contribution to total pipeline segment profit.

	2006 Guidance Three Months Ending March 31	Twelve Months Ending December 31
Average Daily Volumes (000's Bbl/d)		
All American	43	47
Basin	279	273
Capline	96	122
West Texas / New Mexico area systems(1)	424	415
Canada(2)	265	265
Other	693	723
	1,800	1,845
Average Segment Profit (\$/Bbl)		
As Estimated	\$ 0.222 (3)	\$ 0.248 (3)
Excluding Selected Items Impacting Comparability	\$ 0.251 (3)	\$ 0.271 (3)

(1) The aggregate of 11 systems in the West Texas / New Mexico area.

(2) The aggregate of 8 systems.

(3) Mid-point of estimate.

Segment profit is forecast using the volume assumptions in the table above priced at tariff rates currently received, with adjustments where appropriate for estimated escalation in certain rates as allowed by contractual terms, less estimated field operating costs and G&A. Field operating costs do not include depreciation. To illustrate the impact volume changes may have on segment profit, the following table provides a volume sensitivity analysis of three systems representing approximately 25% of total pipeline revenues.

Volume Sensitivity Analysis

System	Incr (Decr) in Volume (Bbls/d)	% of System Total	Incr (Decr) in Annualized Segment Profit (in millions)
All American	5,000	11 %	\$ 3.5
Basin	20,000	7 %	1.4
Capline	10,000	8 %	1.3

3. *Gathering, Marketing, Terminalling and Storage Operations.* The level of profit in the GMT&S segment is influenced by overall market structure and the degree of volatility in the crude oil market as well as variable operating expenses. Operating results for the three months ending March 31, 2006 reflect an expected continuation of the favorable market structure experienced in the fourth quarter of 2005. Operating results for the remaining nine months of 2006 reflect the expectation that the market structure will be more favorable than market conditions for 2003 and 2004, but not as favorable as those experienced throughout 2005, which were considered very favorable relative to our asset base and business model.

	Calendar 2006 Three Months Ending March 31	Twelve Months Ending December 31
Average Daily Volumes (000 s Bbl/d)		
Crude Oil Lease Gathering	600	605
LPG	90	75
	690	680
Segment Profit per Barrel		
As Estimated	\$ 0.865 (1)	\$ 0.649 (1)
Excluding Selected Items Impacting Comparability	\$ 0.955 (1)	\$ 0.725 (1)

(1) Mid-point of estimate.

Segment profit is forecast using the volume assumptions stated above and estimates of unit margins, field operating costs, G&A and carrying costs for contango inventory based on current and anticipated market conditions. Field operating costs do not include depreciation. Realized unit margins for any given lease-gathered barrel could vary significantly based on a variety of factors including location, quality and contract structure. Based on our mid-point projected segment profit per barrel for calendar 2006, a 15,000 Bbl/d variance in lease gathering volumes would impact segment profit by approximately \$4.0 million on an annualized basis. A \$0.01 variance in the aggregate average per-barrel margin would impact segment profit by approximately \$2.5 million on an annualized basis.

4. *Depreciation and Amortization.* Depreciation and amortization are forecast based on our existing depreciable assets and forecasted capital expenditures. Depreciation is computed using the straight-line method over estimated useful lives, which range from 3 years (for office property and equipment) to 40 years (for certain pipelines, crude oil terminals and facilities).

5. *Foreign Currency Revaluations and Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133).* The guidance presented above does

not include assumptions or projections with respect to potential gains or losses related to foreign currency revaluations and derivatives accounted for under SFAS 133, as there is no accurate way to forecast these potential gains or losses. The potential gains or losses related to these foreign currency revaluations and derivatives (primarily mark-to-market adjustments) could cause actual net income to differ materially from our projections.

6. *Acquisitions and Capital Expenditures.* Although acquisitions constitute a key element of our growth strategy, the forecasted results and associated estimates do not include any assumptions or forecasts for any material acquisition that may be made after the date hereof. Capital expenditures for expansion projects are forecast to be approximately \$230 million during calendar 2006. Following are some of the more notable projects to be undertaken in 2006 and the estimated expenditures for the year.

	Calendar 2006 (in millions)
Expansion Capital	
• St. James, Louisiana storage facility	\$ 60
• Spraberry System expansion	20
• High Prairie truck and rail terminals	31
• Kerrobert tankage and pumps	35
• Midale truck terminal	11
• Truck trailers	11
• Wichita Falls tankage	9
• Other Projects	53
	230
Maintenance Capital	23
Total Projected Capital Expenditures	\$ 253

7. *Capital Structure.* The guidance is based on our capital structure as of December 31, 2005.

8. *Interest Expense.* Debt balances are projected based on estimated cash flows, current distribution rates, capital expenditures for maintenance and expansion projects, expected timing of collections and payments, and forecasted levels of inventory and other working capital sources and uses.

Calendar 2006 interest expense is expected to be between \$61.7 million and \$64.7 million, assuming an average long-term debt balance of approximately \$1,110 million and an all-in average rate of approximately 6.2%. Included in the effective cost of debt are projected interest payments, as well as commitment fees, amortization of long-term debt discounts, deferred amounts associated with terminated interest rate hedges and interest on short-term debt for non-contango inventory (primarily hedged LPG inventory and New York Mercantile Exchange margin deposits). At December 31, 2005, 100% of our long-term debt balance was fixed at an average interest rate of 6.0%. Interest on floating rate debt is based on a forward graduated LIBOR index curve of approximately 5.1%. The amortization of deferred amounts associated with terminated interest rate hedges results in a non-cash component to interest expense of approximately \$400,000 per quarter through

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September 2006, decreasing to approximately \$100,000 per quarter thereafter until fully amortized over the next ten years.

Interest expense does not include interest on borrowings for contango inventory. We treat these costs as carrying costs of the crude and include it as part of the purchase price of the crude.

9. *Net Income per Unit.* Basic net income per limited partner unit is calculated by dividing net income allocated to limited partners by the basic weighted average units outstanding during the period. Under *Emerging Issues Task Force Issue 03-06: Participating Securities and the Two-Class Method under FASB Statement No. 128* (EITF 03-06), when the Partnership's aggregate net income exceeds the aggregate distribution made during such period, earnings per limited partner unit are calculated as if all of the earnings for the period were distributed, regardless of the pro forma nature of the allocation and whether those earnings would actually be distributed during a particular period from an economic or practical perspective. Although EITF 03-06 does not impact overall net income or other financial results of the Partnership, for periods in which aggregate net income exceeds the aggregate distributions for such period, earnings per limited partner unit will be reduced. The following table sets forth the computation of basic and diluted earnings per limited partner unit.

	2006 Guidance (in millions, except per unit amounts)			
	Three Months Ending March 31, 2006		Twelve Months Ending December 31, 2006	
	Low	High	Low	High
Numerator for basic and diluted earnings per limited partner unit:				
Net Income	\$ 54.1	\$ 65.2	\$ 167.9	\$ 202.4
Less:				
General partners incentive distribution paid	(5.6)	(5.6)	(22.3)	(22.3)
General partner 2% ownership	(0.9)	(1.2)	(2.9)	(3.6)
Net income available to limited partners	48.5	59.6	145.6	180.1
Pro forma additional general partner's incentive distribution		(3.8)		
Net Income available for limited partners under EITF 03-06	\$ 47.6	\$ 54.6	\$ 142.7	\$ 176.5
Denominator:				
Denominator for basic earnings per limited partner unit- weighted average number of limited partner units	73.8	73.8	73.8	73.8
Effect of dilutive securities:				
Weighted average LTIP units	1.6	1.6	1.7	1.7
Denominator for diluted earnings per limited partner unit-weighted average number of limited partner units	75.4	75.4	75.5	75.5
Basic net income per limited partner unit	\$ 0.64	\$ 0.74	\$ 1.93	\$ 2.39
Diluted net income per limited partner unit	\$ 0.63	\$ 0.72	\$ 1.89	\$ 2.34

Net income allocated to limited partners is impacted by the income allocated to the general partner and the amount of the incentive distribution paid to the general partner. The amount of income allocated to our limited partnership interests is 98% of the total partnership income after deducting the amount of the general partner's incentive distribution. Based on our current annualized distribution rate of \$2.75 per unit, our general partner's distribution is forecast to be approximately \$26.4 million annually, of which \$22.3 million is attributed to the incentive distribution rights. The relative amount of the incentive distribution varies directionally with the number of units outstanding and the level of the distribution on the units. For distribution rates where EITF 03-06 does not apply, each \$0.05 per unit annual increase in the distribution over \$2.75 per unit decreases net income available for limited partners by approximately \$3.6 million (\$0.05 per unit) on an annualized basis.

10. *Long-term Incentive Plans.* Effective January 1, 2006 we will adopt SFAS 123(R) Share-Based Payment, resulting in a cumulative effect of change in accounting principle of approximately \$6.4 million. The majority of phantom unit grants outstanding under our 1998 and 2005 Long-Term Incentive Plans contain vesting criteria that are based on a combination of performance benchmarks and service period. The phantom units under the 2005 plan primarily vest in various percentages on the later of 1) May 2007, May 2009, and May 2010, or 2) achievement of annualized distribution levels of \$2.60, \$2.80 and \$3.00 per unit, respectively, and the majority of the phantom units have a final service period vesting in 2011. In addition to exceeding the distribution level of \$2.60, it has been deemed probable that the \$3.00 distribution level will be reached. Accordingly, guidance includes, for phantom units tied to performance levels of \$3.00 or less, an accrual over the corresponding service period. For 2006, the guidance includes approximately \$34.6 million of principally non-cash expense associated with these phantom units. The earliest vesting event for outstanding grants will occur in 2007.

The actual amount of LTIP expense amortization in any given year will be directly influenced by our unit price at the end of each reporting period and the amount of amortization in the early years and will also be increased if a determination is made that achievement of any of the remaining performance thresholds is probable. Therefore, market variables could cause actual net income to differ materially from our projections.

11. *Reconciliation of EBITDA and EBIT to Net Income.* The following table reconciles the guidance ranges for EBITDA and EBIT to net income.

	Guidance (in millions)			
	Three Months Ending March 31, 2006		Twelve Months Ending December 31, 2006	
	Low	High	Low	High
Reconciliation to Net Income				
EBITDA	\$ 91.0	\$ 101.0	\$ 321.8	\$ 351.8
Depreciation and amortization	(21.4)	(21.0)	(89.2)	(87.7)
EBIT	69.6	80.0	232.6	264.1
Interest expense	(15.5)	(14.8)	(64.7)	(61.7)
Net Income	\$ 54.1	\$ 65.2	\$ 167.9	\$ 202.4

Forward-Looking Statements and Associated Risks

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

- the success of our risk management activities;
- environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;
- maintenance of our credit rating and ability to receive open credit from our suppliers and trade counterparties;
- abrupt or severe declines or interruptions in outer continental shelf production located offshore California and transported on our pipeline system;
- declines in volumes shipped on the Basin Pipeline, Capline Pipeline and our other pipelines by us and third party shippers;
- the availability of adequate third party production volumes for transportation and marketing in the areas in which we operate;
- successful third party drilling efforts in areas in which we operate pipelines or gather crude oil;
- demand for natural gas or various grades of crude oil and resulting changes in pricing conditions or transmission throughput requirements;
- fluctuations in refinery capacity in areas supplied by our transmission lines;
- the availability of, and our ability to consummate, acquisition or combination opportunities;
- our access to capital to fund additional acquisitions and our ability to obtain debt or equity financing on satisfactory terms;
- successful integration and future performance of acquired assets or businesses and the risks associated with operating in lines of business that are distinct and separate from our historical operations;
- the impact of current and future laws, rulings and governmental regulations;
- the effects of competition;
- continued creditworthiness of, and performance by, our counterparties;
- interruptions in service and fluctuations in rates of third party pipelines;
- increased costs or lack of availability of insurance;
- fluctuations in the debt and equity markets, including the price of our units at the time of vesting under our Long-Term Incentive Plans;

- the currency exchange rate of the Canadian dollar;
- the impact of crude oil and natural gas price fluctuations;

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- shortages or cost increases of power supplies, materials or labor;
- weather interference with business operations or project construction;
- general economic, market or business conditions; and
- other factors and uncertainties inherent in the marketing, transportation, terminalling, gathering and storage of crude oil and liquefied petroleum gas.

We undertake no obligation to publicly update or revise any forward-looking statements. Further information on risks and uncertainties is available in our filings with the Securities and Exchange Commission, which information is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	PLAINS ALL AMERICAN PIPELINE, L.P.	
	By:	PLAINS AAP, L. P., its general partner
	By:	PLAINS ALL AMERICAN GP LLC, its general partner
Date: February 23, 2006	By:	/s/ PHIL KRAMER
	Name:	Phil Kramer
	Title:	<i>Executive Vice President and Chief Financial Officer</i>