PLAINS GP HOLDINGS LP
Form 10-K
February 27, 2019

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

Form 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o 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)

Registrant's telephone number, including area code: (713) 646-4100

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Shares, Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the Class A shares held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the Class A shares outstanding, for this purpose, as if they may be affiliates of the registrant) was approximately $3.7 billion on June 29, 2018, based on a closing price of $23.91 per Class A share as reported on the New York Stock Exchange on such date. As of February 12, 2019 there were 159,485,588 Class A shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement to be filed pursuant to Regulation 14A pertaining to the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III hereof. The registrant intends to file such Proxy Statement no later than 120 days after the end of the fiscal year covered by this Form 10-K.

Table of Contents

PLAINS GP HOLDINGS, L.P. AND SUBSIDIARIES
FORM 10-K—2018 ANNUAL REPORT
Table of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

All statements included in this report, other than statements of historical fact, are forward-looking statements, including but not limited to statements incorporating the words “anticipate,” “believe,” “estimate,” “expect,” “plan,” “intend” a “forecast,” as well as similar expressions and statements regarding our business strategy, plans and objectives for future operations. The absence of such words, expressions or statements, however, does not mean that the statements are not forward-looking. Any such forward-looking statements reflect our current views with respect to future events, based on what we believe to be reasonable assumptions. Certain factors could cause actual results or outcomes to differ materially from the results or outcomes anticipated in the forward-looking statements. The most important of these factors include, but are not limited to:

- our ability to pay distributions to our Class A shareholders;
- our expected receipt of, and amounts of, distributions from Plains AAP, L.P.;
- declines in the actual or expected volume of crude oil and NGL shipped, processed, purchased, stored, fractionated and/or gathered at or through the use of our assets, whether due to declines in production from existing oil and gas reserves, reduced demand, failure to develop or slowdown in the development of additional oil and gas reserves, whether from reduced cash flow to fund drilling or the inability to access capital, or other factors;
- the effects of competition, including the effects of capacity overbuild in areas where we operate;
- market distortions caused by over-commitments to infrastructure projects, which impacts volumes, margins, returns and overall earnings;
- unanticipated changes in crude oil and NGL market structure, grade differentials and volatility (or lack thereof);
- environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;
- fluctuations in refinery capacity in areas supplied by our mainlines and other factors affecting demand for various grades of crude oil, NGL and natural gas and resulting changes in pricing conditions or transportation throughput requirements;
- maintenance of PAA’s credit rating and ability to receive open credit from suppliers and trade counterparties;
- the occurrence of a natural disaster, catastrophe, terrorist attack (including eco-terrorist attacks) or other event, including cyber or other attacks on our electronic and computer systems;
- failure to implement or capitalize, or delays in implementing or capitalizing, on expansion projects, whether due to permitting delays, permitting withdrawals or other factors;
- shortages or cost increases of supplies, materials or labor;
- the impact of current and future laws, rulings, governmental regulations, accounting standards and statements, and related interpretations;
- tightened capital markets or other factors that increase our cost of capital or limit our ability to obtain debt or equity financing on satisfactory terms to fund additional acquisitions, expansion projects, working capital requirements and the repayment or refinancing of indebtedness;
- the availability of, and our ability to consummate, acquisition or combination opportunities;
- the 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 historical operations;
- the currency exchange rate of the Canadian dollar;
- continued creditworthiness of, and performance by, our counterparties, including financial institutions and trading companies with which we do business;
- inability to recognize current revenue attributable to deficiency payments received from customers who fail to ship or move more than minimum contracted volumes until the related credits expire or are used;
- non-utilization of our assets and facilities;
- increased costs, or lack of availability, of insurance;
- weather interference with business operations or project construction, including the impact of extreme weather events or conditions;

Table of Contents

- the effectiveness of our risk management activities;
- fluctuations in the debt and equity markets, including the price of PAA's units at the time of vesting under its long-term incentive plans;
- risks related to the development and operation of our assets, including our ability to satisfy our contractual obligations to our customers;
- general economic, market or business conditions and the amplification of other risks caused by volatile financial markets, capital constraints and pervasive liquidity concerns; and
- other factors and uncertainties inherent in the transportation, storage, terminalling and marketing of crude oil, as well as in the storage of natural gas and the processing, transportation, fractionation, storage and marketing of natural gas liquids.

Other factors described herein, as well as factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read Item 1A. "Risk Factors." Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

Table of Contents

PART I

Items 1 and 2. Business and Properties

General

Plains GP Holdings, L.P. (“PAGP”) is a Delaware limited partnership formed in July 2013 that has elected to be taxed as a corporation for United States federal income tax purposes. PAGP does not directly own any operating assets; as of December 31, 2018, its principal sources of cash flow are derived from an indirect investment in Plains All American Pipeline, L.P (“PAA”), a publicly traded Delaware limited partnership. As used in this Form 10-K 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.

Organizational History

We completed our initial public offering (“IPO”) in October 2013, and our Class A shares are publicly traded on the New York Stock Exchange under the ticker symbol “PAGP”. Immediately prior to completion of our IPO, certain owners of Plains AAP, L.P. (“AAP”) transferred a portion of their interests in AAP to us, resulting in our ownership of a limited partnership interest in AAP. As of December 31, 2018, we owned (i) a 100% managing member interest in Plains All American GP LLC (“GP LLC”), which has also elected to be taxed as a corporation for United States federal income tax purposes, and (ii) an approximate 57% limited partner interest in AAP through our direct ownership of approximately 158.5 million Class A units of AAP (“AAP units”) and indirect ownership of approximately 1.0 million AAP units through GP LLC. As of such date, the remaining limited partner interests in AAP were held by a group of owners that included many of the owners of AAP immediately prior to our IPO and various current and former members of management (collectively, the “Legacy Owners”).

GP LLC is a Delaware limited liability company that also holds the non-economic general partner interest in AAP. AAP is a Delaware limited partnership that, as of December 31, 2018, directly owned a limited partner interest in PAA through its ownership of approximately 280.5 million PAA common units (approximately 35% of PAA’s total outstanding common units and Series A preferred units combined (together, “PAA Common Unit Equivalents”)). AAP is the sole member of PAA GP LLC (“PAA GP”), a Delaware limited liability company that directly holds the non-economic general partner interest in PAA. Our non-economic general partner interest is held by PAA GP Holdings LLC (“PAGP GP”), a Delaware limited liability company.

PAA is a publicly traded master limited partnership that owns and operates midstream energy infrastructure and provides logistics services primarily for crude oil, natural gas liquids (“NGL”) and natural gas. 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.

References to the “PAGP Entities” include PAGP GP, PAGP, GP LLC, AAP and PAA GP. References to the “Plains Entities” include the PAGP Entities and PAA and its subsidiaries.

Table of Contents

Partnership Structure and Management

Our general partner manages our operations and activities and is responsible for exercising on our behalf any rights we have as the sole and managing member of GP LLC. The board of directors of our general partner (the “Board”) has ultimate responsibility for managing the business and affairs of AAP, PAA and us. GP LLC employs all domestic officers and personnel involved in the operation and management of PAA. PAA’s Canadian officers and personnel are employed by Plains Midstream Canada ULC (“PMC”). Our general partner does not receive a management fee or other compensation in connection with its management of our business.

The two diagrams below show our organizational structure and ownership as of December 31, 2018 in both a summarized and more detailed format. The first diagram depicts our legal structure in summary format, while the second diagram depicts a more comprehensive view of such structure, including ownership and economic interests and shares and units outstanding:

Summarized Partnership Structure
(as of December 31, 2018)

(1) Through a “pass-through” voting right as a result of PAA’s ownership of our Class C shares, PAA’s common unitholders have the effective right to vote, pro rata with the holders of our Class A and Class B shares, for the election of eligible directors.

(2) Represents percentage ownership of PAA Common Unit Equivalents.

Table of Contents

Detailed Partnership Structure
(as of December 31, 2018)

7

Table of Contents

(1) Represents the number of AAP units for which the outstanding Class B units of AAP (referred to herein as the "AAP Management Units") will be exchangeable, assuming the conversion of all such units at a rate of approximately 0.941 AAP units for each AAP Management Unit.

(2) Assumes conversion of all outstanding AAP Management Units into AAP units.

(3) Each Class C share represents a non-economic limited partner interest in us. Through a "pass-through" voting right as a result of PAA's ownership of our Class C shares, PAA's common unitholders have the effective right to vote, pro rata with the holders of our Class A and Class B shares, for the election of eligible directors.

(4) Amount does not include (i) 48,606 PAA common units that will become issuable to AAP that relate to AAP Management Units that were outstanding but not earned as of December 31, 2018 and (ii) 183,819 PAA common units that were issued to AAP in January 2019 in respect of AAP Management units that became earned effective December 31, 2018.

(5) Represents percentage ownership of PAA Common Unit Equivalents. PAA's Series B preferred units are not convertible into common units and are not included in PAA Common Unit Equivalents.

(6) PAA holds direct and indirect ownership interests in consolidated operating subsidiaries including, but not limited to, Plains Marketing, L.P., Plains Pipeline, L.P. and PMC.

(7) PAA holds indirect equity interests in unconsolidated entities including Advantage Pipeline, L.L.C. ("Advantage"), BridgeTex Pipeline Company, LLC ("BridgeTex"), Cactus II Pipeline LLC ("Cactus II"), Caddo Pipeline LLC ("Caddo"), Cheyenne Pipeline LLC ("Cheyenne"), Diamond Pipeline LLC ("Diamond"), Eagle Ford Pipeline LLC ("Eagle Ford Pipeline"), Eagle Ford Terminals Corpus Christi LLC ("Eagle Ford Terminals"), Midway Pipeline LLC ("Midway Pipeline"), Saddlehorn Pipeline Company, LLC ("Saddlehorn"), Settoon Towing, LLC ("Settoon Towing"), STACK Pipeline LLC ("STACK") and White Cliffs Pipeline, L.L.C. ("White Cliffs").

Our Business

As of December 31, 2018, our only cash-generating assets consisted of approximately 159.5 million AAP units, which represented an approximate 57% limited partner and economic interest in AAP. Of these AAP units, we directly own approximately 158.5 million, and we indirectly own the remaining 1.0 million AAP units through our 100% ownership in GP LLC. Unless we directly acquire and hold assets or businesses in the future, our cash flows will be generated solely from the cash distributions we receive on the AAP units. AAP currently receives all of its cash flows from distributions on common units it owns in PAA. As of December 31, 2018, AAP owned approximately 280.5 million common units in PAA.

Accordingly, our primary business objective is to increase our cash available for distribution to our Class A shareholders through the execution by PAA of its business strategy. In addition, we may facilitate PAA's growth activities through various means, including, but not limited to, making loans, purchasing equity interests or providing other forms of financial support to PAA.

We have and will maintain a one-to-one relationship between our Class A shares and the underlying PAA common units in which we have an indirect economic interest through our ownership interests in AAP and GP LLC (referred to as "Economic Parity"), such that the number of our outstanding Class A shares equals the number of AAP units we directly and indirectly own, which in turn equals the number of PAA common units held by AAP attributable to our direct and indirect ownership interest in AAP.

PAA's Business Strategy

PAA's principal business strategy is to provide competitive and efficient midstream transportation, terminalling, storage, processing, fractionation and supply and logistics services to producers, refiners and other customers. Toward this end, PAA endeavors to address regional supply and demand imbalances for crude oil and NGL in the United States and Canada by combining the strategic location and capabilities of its transportation, terminalling, storage, processing and fractionation assets with its supply, logistics and distribution expertise. We believe PAA's successful execution of this strategy will enable it to generate sustainable earnings and cash flow. PAA intends to manage and grow its business by:

- running a safe, reliable, environmentally and socially responsible operation, which includes driving operational excellence, cost savings, asset optimization and improved efficiencies throughout the organization;

Table of Contents

- developing and implementing growth projects that (i) address evolving crude oil and NGL needs in the midstream transportation and infrastructure sector and (ii) are well positioned to benefit from long-term industry trends and opportunities;
- using its transportation, terminalling, storage, processing and fractionation assets in conjunction with its supply and logistics activities to provide flexibility for customers, capture market opportunities, address physical market imbalances, mitigate inherent risks and increase margin; and
- selectively pursuing strategic and accretive acquisitions that complement its existing asset base and distribution capabilities.

PAA's Competitive Strengths

We believe that the following competitive strengths position PAA to successfully execute its principal business strategy:

- Many of PAA's assets are strategically located and operationally flexible. The majority of PAA's primary Transportation segment assets are in crude oil service, are located in well-established crude oil producing regions (with PAA's largest asset presence in the Permian Basin) and other transportation corridors and are connected, directly or indirectly, with PAA's Facilities segment assets. The majority of PAA's Facilities segment assets are located at major trading locations and premium markets that serve as gateways to major North American refinery and distribution markets where PAA has strong business relationships. In addition, PAA's assets include pipeline, rail, barge, truck and storage assets, which provide PAA's customers and PAA with significant flexibility and optionality to satisfy demand and balance markets, particularly during a dynamic period of changing product flows and recent developments with respect to rising crude oil exports.
- PAA possesses specialized crude oil and NGL market knowledge. We believe PAA's business relationships with participants in various phases of the crude oil and NGL distribution chain, from producers to refiners, as well as PAA's own industry expertise (including PAA's knowledge of North American crude oil and NGL flows), provide PAA with an extensive understanding of the North American physical crude oil and NGL markets.
- PAA's supply and logistics activities typically generate a positive margin with the opportunity to realize incremental margins. We believe the variety of activities executed within PAA's Supply and Logistics segment in combination with PAA's risk management strategies provides PAA with a low-risk opportunity to generate incremental margin, the amount of which may vary depending on market conditions (such as differentials and certain competitive factors).
- PAA has the strategic and technical skills and the financial flexibility to continue to pursue acquisition and expansion opportunities, whether on its own or through joint ventures. Since 1998, PAA has completed and integrated over 90 acquisitions with an aggregate purchase price of approximately $13.2 billion. Since 1998, PAA has also implemented expansion capital projects totaling over $14.4 billion. In addition, considering PAA's investment grade credit ratings at two of three agencies, liquidity and capital structure, PAA believes it has the financial resources and strength necessary to finance future strategic expansion, joint venture and acquisition opportunities. As of December 31, 2018, PAA had approximately $2.9 billion of liquidity available, including cash and cash equivalents and availability under its committed credit facilities, subject to continued covenant compliance.
- PAA has an experienced management team whose interests are aligned with those of its unitholders. PAA's executive management team has an average of 30+ years of industry experience, and an average of 16 years with PAA or its predecessors and affiliates. In addition, through their ownership of PAA common units and grants of phantom units and interests in us, PAA's management team has a vested interest in PAA's continued success.

Our Financial Strategy

Our financial strategy is designed to be complementary to PAA's financial and business strategies. Our only cash-generating assets consist of our direct and indirect limited partner interests in AAP, which currently receives all of its cash flows from distributions on the PAA common units it owns.

Table of Contents

We have entered into an Omnibus Agreement with the Plains Entities which provides for (i) our ability to issue additional Class A shares and use the net proceeds therefrom to purchase a like number of AAP units from AAP, and the corresponding ability of AAP to use the net proceeds therefrom to purchase a like number of PAA common units from PAA and (ii) our ability to lend proceeds of any future indebtedness we incur to AAP, and AAP's corresponding ability to lend such proceeds to PAA, in each case on substantially the same terms as we incur.

Accordingly, we may access the equity capital markets from time to time to enhance the financial position of PAA and its ability to compete for incremental capital opportunities (including organic investments and third-party acquisitions) to drive future growth. We currently do not intend to incur any indebtedness in the near term. We would expect to fund direct acquisitions made by us, if any, with a combination of debt and equity.

PAA's Financial Strategy

Targeted Credit Profile

We believe that a major factor in PAA's continued success is its ability to maintain significant financial flexibility, a competitive cost of capital and access to the capital markets. In that regard, PAA intends to maintain a credit profile that it believes is consistent with investment grade credit ratings. PAA targets a credit profile with the following attributes:

- an average long-term debt-to-total capitalization ratio of approximately 50% or less;
- a long-term debt-to-Adjusted EBITDA multiple averaging between 3.5x and 4.0x, which has been the historical target range and is currently under internal review ("Adjusted EBITDA" is earnings before interest, taxes, depreciation and amortization (including our proportionate share of depreciation and amortization and gains and losses on significant asset sales by unconsolidated entities), gains and losses on asset sales and asset impairments, and gains on sales of investments in unconsolidated entities, adjusted for selected items that impact comparability. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Non-GAAP Financial Measures" for a discussion of our selected items that impact comparability and our non-GAAP measures.);
- an average total debt-to-total capitalization ratio of approximately 60% or less; and
- an average Adjusted EBITDA-to-interest coverage multiple of approximately 3.3x or better.

The first two of these four metrics include long-term debt as a critical measure, but do not include certain components of PAA's capital structure such as short-term debt, preferred units and operating leases that may be considered by rating agencies in assigning their ratings. At December 31, 2018, PAA's publicly-traded senior notes comprised approximately 98% of its reported long-term debt. Additionally, PAA also routinely incurs short-term debt primarily in connection with its supply and logistics activities that involve the simultaneous purchase and forward sale of crude oil and NGL. The crude oil and NGL purchased in these transactions are hedged. These borrowings are self-liquidating as they are repaid with sales proceeds. PAA also incurs short-term debt to fund New York Mercantile Exchange ("NYMEX") and Intercontinental Exchange ("ICE") margin requirements. In certain market conditions, these routine short-term debt levels may increase above certain baseline levels. Similar to PAA's working capital borrowings, these borrowings are self-liquidating. PAA does not consider the working capital borrowings or margin requirements associated with these activities to be part of its long-term capital structure.

For PAA to maintain its targeted credit profile and achieve growth through acquisitions and expansion capital, PAA has historically targeted to fund approximately 55% of the capital requirements associated with these activities with equity, cash flow in excess of distributions or proceeds from asset sales. However, in connection with PAA's leverage reduction plan, as discussed below, and in recognition of challenging financial markets, PAA has retained a larger amount of cash flow in excess of distributions, sold a meaningful amount of assets and refrained from accessing the equity capital markets. Additionally, from time to time, PAA may be outside the parameters of its targeted credit profile as, in certain cases, capital expenditures and acquisitions may be financed initially using debt or there may be delays in realizing anticipated synergies from acquisitions or contributions from expansion capital projects to Adjusted EBITDA.

PAA Leverage Reduction Plan

In August 2017, PAA announced that it was implementing an action plan to strengthen its balance sheet, reduce leverage, enhance its distribution coverage, minimize new issuances of common equity and position PAA for future distribution growth. See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary” for a summary of this action plan and the status of PAA’s efforts to implement such plan.

Table of Contents

PAA's Acquisitions

The acquisition of midstream assets and businesses that are strategic and complementary to PAA's existing operations constitutes an important component of its business strategy and growth objectives. Such assets and businesses include crude oil and NGL logistics assets as well as other energy assets that have characteristics and provide opportunities similar to its existing business lines and enable PAA to leverage its assets, knowledge and skill sets.

The following table summarizes acquisitions greater than $200 million that PAA has completed over the past five years.

Acquisition	Date	Description	Approximate Purchase Price [(1)] (in millions)
Alpha Crude Connector Gathering System	Feb-2017		