PLAINS GP HOLDINGS LP
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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)

(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. ý Yes o 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). ý Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company) 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). o Yes ý No

As of July 31, 2018, there were 157,954,130 Class A Shares outstanding.

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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, 2018	December 31, 2017
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$37	$40
Trade accounts receivable and other receivables, net	2,824	3,029
Inventory	636	713
Other current assets	358	221
Total current assets	3,855	4,003
PROPERTY AND EQUIPMENT	17,215	16,901
Accumulated depreciation	(2,942)	(2,796)
Property and equipment, net	14,273	14,105
OTHER ASSETS		
Goodwill	2,535	2,566
Investments in unconsolidated entities	3,116	2,756
Deferred tax asset	1,377	1,386
Linefill and base gas	866	872
Long-term inventory	169	164
Other long-term assets, net	901	901
Total assets	$27,092	$26,753
LIABILITIES AND PARTNERS’ CAPITAL		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$3,557	$3,459
Short-term debt	943	737
Other current liabilities	624	337
Total current liabilities	5,124	4,533
LONG-TERM LIABILITIES		
Senior notes, net of unamortized discounts and debt issuance costs	8,937	8,933
Other long-term debt	29	250
Other long-term liabilities and deferred credits	787	679
Total long-term liabilities	9,753	9,862
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
PARTNERS’ CAPITAL		

Class A Shareholders (157,954,130 and 156,111,139 shares outstanding, respectively)	1,661	1,695
Noncontrolling interests	10,554	10,663
Total partners' capital	12,215	12,358
Total liabilities and partners' capital	$27,092	$26,753

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

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,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
REVENUES				
Supply and Logistics segment revenues	$7,781	$5,781	$15,892	$12,176
Transportation segment revenues	152	161	298	299
Facilities segment revenues	147	136	288	270
Total revenues	8,080	6,078	16,478	12,745
COSTS AND EXPENSES				
Purchases and related costs	7,551	5,320	15,070	10,912
Field operating costs	312	304	605	593
General and administrative expenses	81	69	161	145
Depreciation and amortization	50	129	176	251
Total costs and expenses	7,994	5,822	16,012	11,901
OPERATING INCOME	86	256	466	844
OTHER INCOME/(EXPENSE)				
Equity earnings in unconsolidated entities	96	68	171	121
Interest expense (net of capitalized interest of $7, $9, $13 and $15, respectively)	(111)	(127)	(217)	(256)
Other income/(expense), net	11	1	10	(4)
INCOME BEFORE TAX	82	198	430	705
Current income tax expense	(7)	(1)	(20)	(11)
Deferred income tax benefit/(expense)	21	(23)	(41)	(119)
NET INCOME	96	174	369	575
Net income attributable to noncontrolling interests	(89)	(150)	(325)	(510)
NET INCOME ATTRIBUTABLE TO PAGP	$7	$24	$44	$65
BASIC AND DILUTED NET INCOME PER CLASS A SHARE	$0.05	$0.16	$0.28	$0.47
BASIC AND DILUTED WEIGHTED AVERAGE CLASS A SHARES OUTSTANDING	157	153	157	136

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 COMPREHENSIVE INCOME/(LOSS)
(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income	$96	$174	$369	$575
Other comprehensive income/(loss)	(56)	75	(121)	111
Comprehensive income	40	249	248	686
Comprehensive income attributable to noncontrolling interests	(45)	(209)	(230)	(600)
Comprehensive income/(loss) attributable to PAGP	$(5)	$40	$18	$86

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	Other	Total
	(unaudited)			
Balance at December 31, 2017	$(223)	$ (548)	$ 1	$(770)
Reclassification adjustments	5	—	—	5
Unrealized gain on hedges	45	—	—	45
Currency translation adjustments	—	(171)	—	(171)
Total period activity	50	(171)	—	(121)
Balance at June 30, 2018	$(173)	$ (719)	$ 1	$(891)

	Derivative Instruments	Translation Adjustments	Other	Total
	(unaudited)			
Balance at December 31, 2016	$(228)	$ (782)	$ 1	$(1,009)
Reclassification adjustments	9	—	—	9
Unrealized loss on hedges	(12)	—	—	(12)
Currency translation adjustments	—	114	—	114
Total period activity	(3)	114	—	111
Balance at June 30, 2017	$(231)	$ (668)	$ 1	$(898)

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,	
	2018	2017
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$369	$575
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	176	251
Equity-indexed compensation expense	36	23
Inventory valuation adjustments	—	35
Deferred income tax expense	41	119
Settlement of terminated interest rate hedging instruments	14	(29)
Equity earnings in unconsolidated entities	(171)	(121)
Distributions on earnings from unconsolidated entities	206	136
Other	13	5
Changes in assets and liabilities, net of acquisitions	329	465
Net cash provided by operating activities	1,013	1,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in connection with acquisitions, net of cash acquired	—	(1,281)
Investments in unconsolidated entities	(216)	(250)
Additions to property, equipment and other	(724)	(549)
Proceeds from sales of assets	426	389
Return of investment from unconsolidated entities	9	21
Other investing activities	(1)	16
Net cash used in investing activities	(506)	(1,654)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings under PAA commercial paper program (Note 9)	135	25
Net borrowings under PAA senior unsecured revolving credit facility (Note 9)	126	—
Net repayments under PAA senior secured hedged inventory facility (Note 9)	(333)	(450)
Repayments of PAA senior notes	—	(400)
Net proceeds from sales of Class A shares	—	1,535
Net proceeds from sales of common units by a subsidiary	—	129
Distributions paid to Class A shareholders (Note 10)	(94)	(141)
Distributions paid to noncontrolling interests (Note 10)	(403)	(630)
Other financing activities	62	126
Net cash provided by/(used in) financing activities	(507)	194
Effect of translation adjustment on cash	(3)	1
Net decrease in cash and cash equivalents	(3)	—
Cash and cash equivalents, beginning of period	40	50
Cash and cash equivalents, end of period	$37	$50

Cash paid for:		
Interest, net of amounts capitalized	$203	$252
Income taxes, net of amounts refunded	$11	$34

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 CHANGES IN PARTNERS' CAPITAL
(in millions)

	Class A Shareholders	Noncontrolling Interests	Total Partners' Capital
	(unaudited)		
Balance at December 31, 2017	$1,695	$ 10,663	$12,358
Impact of adoption of ASU 2017-05 (Note 2)	24	89	113
Balance at January 1, 2018	1,719	10,752	12,471
Net income	44	325	369
Distributions (Note 10)	(94)	(440)	(534)
Deferred tax asset	8	—	8
Other comprehensive loss	(26)	(95)	(121)
Other	10	12	22
Balance at June 30, 2018	$1,661	$ 10,554	$12,215

	Class A Shareholders	Noncontrolling Interests	Total Partners' Capital
	(unaudited)		
Balance at December 31, 2016	$1,737	$ 8,970	$10,707
Net income	65	510	575
Distributions	(141)	(630)	(771)
Deferred tax asset	393	—	393
Sales of Class A shares	462	1,073	1,535
Sales of common units by a subsidiary	13	116	129
Issuance of common units by a subsidiary for acquisition of interest in Advantage Joint Venture	5	35	40
Other comprehensive income	21	90	111
Other	23	(12)	11
Balance at June 30, 2017	$2,578	$ 10,152	$12,730

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 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 June 30, 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-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, 2018, PAGP owned (i) a 100% managing member interest in Plains All American GP LLC ("GP LLC"), an entity that has also elected to be taxed as a corporation for United States federal income tax purposes and (ii) an approximate 56% limited partner interest in Plains AAP, L.P. ("AAP") through our direct ownership of approximately 157.0 million Class A units of AAP ("AAP units") and indirect ownership of approximately 1.0 million AAP units through GP LLC. 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 June 30, 2018, directly owned a limited partner interest in PAA through its ownership of approximately 281.2 million PAA common units (approximately 35% of PAA's total outstanding common units and Series A preferred units combined). 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.

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. Our business activities are conducted through three operating segments: Transportation, Facilities and Supply and Logistics. See Note 14 for further discussion of our operating segments.

PAA GP Holdings LLC, a Delaware limited liability company, is our general partner. 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, including responsibility for conducting the business and managing the operations of AAP and PAA. GP LLC employs our domestic officers and personnel involved in the operation and management of AAP and PAA. PAA's Canadian officers and personnel are employed by our subsidiary, Plains Midstream Canada ULC ("PMC").

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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)
ASC	= Accounting Standards Codification
ASU	= Accounting Standards Update
Bcf	= Billion cubic feet
Btu	= British thermal unit
CAD	= Canadian dollar
CODM	= Chief Operating Decision Maker
EBITDA	= Earnings before interest, taxes, depreciation and amortization
EPA	= United States Environmental Protection Agency
FASB	= Financial Accounting Standards Board
GAAP	= Generally accepted accounting principles in the United States
ICE	= Intercontinental Exchange
ISDA	= International Swaps and Derivatives Association
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 2017 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. Investments in entities over which we have significant influence but not control are accounted for by the equity method. We apply proportionate consolidation for pipelines and other assets in which we own undivided joint interests. 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. The condensed consolidated balance sheet data as of December 31, 2017 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, 2018 should not be taken as indicative of results to be expected for the entire year.

Management judgment is required to evaluate whether PAGP controls an entity. Key areas of that evaluation include (i) determining whether an entity is a variable interest entity ("VIE"); (ii) determining whether PAGP is the primary beneficiary of a VIE, including evaluating which activities of the VIE most significantly impact its economic performance and the degree of power that PAGP and its related parties have over those activities through variable interests; and (iii) identifying events that require reconsideration of whether an entity is a VIE and continuously evaluating whether PAGP is a VIE's primary beneficiary.

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We have determined that our subsidiaries, PAA and AAP, are VIEs and should be consolidated by PAGP because:

- The limited partners of PAA and AAP lack (i) substantive "kick-out rights" (i.e., the right to remove the general partner) based on a simple majority or lower vote and (ii) substantive participation rights and thus lack the ability to block actions of the general partner that most significantly impact the economic performance of PAA and AAP, respectively.

- AAP is the primary beneficiary of PAA because it has the power to direct the activities that most significantly impact PAA's performance and the right to receive benefits, and obligation to absorb losses, that could be significant to PAA.

- PAGP is the primary beneficiary of AAP because it has the power to direct the activities that most significantly impact AAP's performance and the right to receive benefits, and obligation to absorb losses, that could be significant to AAP.

With the exception of a deferred tax asset of $1.377 billion and $1.386 billion as of June 30, 2018 and December 31, 2017, respectively, substantially all assets and liabilities presented on PAGP's consolidated balance sheet are those of PAA. Only the assets of each respective VIE can be used to settle the obligations of that individual VIE, and the creditors of each/either of those VIEs do not have recourse against the general credit of PAGP. PAGP did not provide any financial support to PAA or AAP during the six months ended June 30, 2018 or the year ended December 31, 2017. See Note 15 to our Consolidated Financial Statements included in Part IV of our 2017 Annual Report on Form 10-K for information regarding the Omnibus Agreement entered into in connection with the Simplification Transactions.

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

Except as discussed below and in our 2017 Annual Report on Form 10-K, there have been no new accounting pronouncements that have become effective or have been issued during the six months ended June 30, 2018 that are of significance or potential significance to us.

Accounting Standards Updates Adopted During the Period

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies what type of transactions involving nonfinancial assets are covered by the scope of the standard and provides guidance on how to account for those transactions, including partial sales of real estate. Within this guidance, all sales and partial sales of businesses, which may have previously been accounted for using the in-substance real estate guidance, should follow the consolidation guidance. This guidance is effective for interim and annual periods beginning after December 15, 2017, and must be adopted at the same time as Topic 606 (defined below). We adopted this ASU on January 1, 2018, using the modified retrospective approach. The cumulative effect of our adoption resulted in increases in both the carrying value of investments in unconsolidated entities and retained earnings of $113 million related to the retained noncontrolling interest in those entities from partial sales of businesses accounted for under in-substance real estate guidance during 2016 and 2017.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), requiring that a statement of cash flows explain the change in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents during the period. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017. We adopted this ASU on January 1, 2018. Our adoption did not have an impact on our statement of cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, followed by a series of related accounting standard updates (collectively referred to as “Topic 606”) 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 control of those goods or services. We adopted Topic 606 on January 1, 2018, and applied the modified retrospective approach. See Note 3 for additional information.

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Accounting Standards Updates Issued During the Period

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include share-based payment awards to nonemployees and eliminates the classification differences for employee and nonemployee share-based payment awards. This guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We expect to adopt this guidance on January 1, 2019, and we do not currently anticipate that our adoption will have a material impact on our financial position, results of operations or cash flows.

Other Accounting Standards Updates

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), that revises the current accounting model for leases. The most significant changes are the clarification of the definition of a lease and required lessee recognition on the balance sheet of lease assets and liabilities with lease terms of more than 12 months (with the election of the practical expedient to exclude short-term leases on the balance sheet), including extensive quantitative and qualitative disclosures. This guidance will become effective for interim and annual periods beginning after December 15, 2018, with a modified retrospective application required. Early adoption is permitted, including adoption in an interim period. We expect to adopt this guidance on January 1, 2019 and are assessing the use of optional practical expedients. We are currently evaluating the effect that adopting this guidance will have on our financial position, results of operations and cash flows. Although our evaluation is ongoing, we do expect that the adoption will impact our financial statements as the standard requires the recognition on the balance sheet of a right of use asset and corresponding lease liability. We are currently analyzing our contracts to determine whether they contain a lease under the revised guidance and have not quantified the amount of the asset and liability that will be recognized on our consolidated balance sheet.

Note 3—Revenues

Revenue Recognition

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605, Revenue Recognition.

There was no material impact to opening retained earnings as of January 1, 2018 due to the adoption of Topic 606. There also was no material impact to revenues, or any other financial statement line items, for the three and six months ended June 30, 2018 as a result of applying Topic 606.

Under Topic 606, we disaggregate our revenues by segment and type of activity. These categories depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors.

Supply and Logistics Segment Revenues from Contracts with Customers. The following table presents our Supply and Logistics segment revenues from contracts with customers disaggregated by type of activity (in millions):

	Three Months Ended June 30,	Six Months Ended June 30,

	2018	2018
Supply and Logistics segment revenues from contracts with customers		
Crude oil transactions	$ 7,649	$ 14,672
NGL and other transactions	475	1,626
Total Supply and Logistics segment revenues from contracts with customers	$ 8,124	$ 16,298

Revenues from sales of crude oil, NGL and natural gas are recognized at the time title to the product sold transfers to the purchaser, which occurs upon delivery of the product to the purchaser or its designee. Sales of crude oil and NGL consist of outright sales contracts. The consideration received under these contracts is variable based on commodity prices. Inventory purchases and sales under buy/sell transactions are treated as inventory exchanges which are excluded from Supply and Logistics segment revenues in our Condensed Consolidated Statements of Operations. Revenues recognized by our Supply and Logistics segment primarily represent margin based activities.

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In addition, we have certain crude oil sales agreements that are entered into in conjunction with storage arrangements and future inventory exchanges. The revenues under these agreements are deferred until all performance obligations associated with the related agreements are completed. The inventory that has been sold under these crude oil sales agreements is reflected in “Other Current Assets” on our Condensed Consolidated Balance Sheet until all of our performance obligations are complete. At that time, the inventory that has been sold is removed from our Condensed Consolidated Balance Sheet and recorded as “Purchases and Related Costs” in our Condensed Consolidated Statement of Operations. At June 30, 2018, other current assets and deferred revenue associated with these agreements was approximately $197 million and $197 million, respectively. See Contract Balances below for further discussion of contract liabilities associated with these agreements.

We may also utilize derivatives in connection with the transactions described above. Derivative revenue is not included as a component of revenue from contracts with customers, but is included in other items in revenue. The change in the fair value of derivatives that are not designated or do not qualify for hedge accounting is recognized in revenues each period.

Transportation Segment Revenues from Contracts with Customers. The following table presents our Transportation segment revenues from contracts with customers disaggregated by type of activity (in millions):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Transportation segment revenues from contracts with customers		
Tariff activities:		
Crude oil pipelines	$ 412	$ 801
NGL pipelines	24	51
Total tariff activities	436	852
Trucking	34	68
Total Transportation segment revenues from contracts with customers	$ 470	$ 920

Our Transportation segment operations generally consist of fee-based activities associated with transporting crude oil and NGL on pipelines, gathering systems and trucks. Revenues from pipeline tariffs and fees are associated with the transportation of crude oil and NGL at a published tariff. We primarily recognize pipeline tariff and fee revenues over time as services are rendered, based on the volumes transported. As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor. We recognize the allowance volumes collected as part of the transaction price and record this non-cash consideration at fair value, measured as of the contract inception date.

Facilities Segment Revenues from Contracts with Customers. The following table presents our Facilities segment revenues from contracts with customers disaggregated by type of activity (in millions):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Facilities segment revenues from contracts with customers		
Crude oil, NGL and other terminalling and storage	$ 171	$ 337

NGL and natural gas processing and fractionation	91	191
Rail load / unload	16	32
Total Facilities segment revenues from contracts with customers	$ 278	$ 560

Our Facilities segment operations generally consist of fee-based activities associated with providing storage, terminalling and throughput services primarily for crude oil, NGL and natural gas, as well as NGL fractionation and isomerization services and natural gas and condensate processing services. Revenues generated in this segment include (i) fees that are generated from storage capacity agreements, (ii) terminal throughput fees that are generated when we receive liquids from one connecting source and deliver the applicable product to another connecting carrier, (iii) fees from NGL fractionation and isomerization services, (iv) fees from natural gas and condensate processing services, (v) fees associated with natural gas park and loan activities, interruptible storage services and wheeling and balancing services ("natural gas storage related activities") and (vi) loading and unloading fees at our rail terminals.

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We generate revenue through a combination of month-to-month and multi-year agreements and processing arrangements. Storage fees are typically recognized in revenue ratably over the term of the contract regardless of the actual storage capacity utilized as our performance obligation is to make available storage capacity for a period of time. Terminal fees (including throughput and rail fees) are recognized as the liquids enter or exit the terminal and are received from or delivered to the connecting carrier or third-party terminal, as applicable. Fees from NGL fractionation and isomerization services and gas processing services are recognized in the period when the services are performed. Natural gas storage related activities fees are recognized in the period the natural gas moves across our header system. We recognize rail loading and unloading fees when the volumes are delivered or received.

Reconciliation to Total Revenues of Reportable Segments. Topic 606 requires us to provide information about the relationship between the disaggregated revenues presented above and segment revenues. These disclosures only include information regarding revenues associated with consolidated entities, and revenues from entities accounted for by the equity method are not included in the disclosures. The following table presents the reconciliation of our revenues from contracts with customers (as described above for each segment) to segment revenues and total revenues as disclosed in our Condensed Consolidated Statement of Operations (in millions):

Three Months Ended June 30, 2018	Transportation	Facilities	Supply and Logistics	Total
Revenues from contracts with customers	$ 470	$ 278	$ 8,124	$8,872
Other items in revenues	5	6	(343)	(332)
Total revenues of reportable segments	$ 475	$ 284	$ 7,781	$8,540
Intersegment revenues				(460)
Total revenues				$8,080
Six Months Ended June 30, 2018	**Transportation**	**Facilities**	**Supply and Logistics**	**Total**
Revenues from contracts with customers	$ 920	$ 560	$ 16,298	$17,778
Other items in revenues	9	16	(405)	(380)
Total revenues of reportable segments	$ 929	$ 576	$ 15,893	$17,398
Intersegment revenues				(920)
Total revenues				$16,478

Trade Accounts Receivable and Other Receivables. We generally invoice customers in the month following that in which products or services were provided and generally require payment within 30 days of the invoice date. The following is a reconciliation of trade accounts receivable from revenues from contracts with customers to total Trade accounts receivable and other receivables, net as presented on our Condensed Consolidated Balance Sheet (in millions):

	June 30, 2018	December 31, 2017
Trade accounts receivable arising from revenues from contracts with customers	$2,721	$ 2,584
Other trade accounts receivables and other receivables [(1)]	3,763	3,709
Impact due to contractual rights of offset with counterparties	(3,660)	(3,264)
Trade accounts receivable and other receivables, net	$2,824	$ 3,029

(1) The balance is comprised primarily of accounts receivable associated with buy/sell arrangements that are not within the scope of Topic 606.

Minimum Volume Commitments. We have certain agreements that require counterparties to transport or throughput a minimum volume over an agreed upon period. These contracts are within the scope of Topic 606. In addition, we have certain buy/sell agreements that require customers to deliver a minimum volume over an agreed upon period that are within the scope of ASC Topic 845, Nonmonetary Transactions ("Topic 845"). Some of these agreements include make-up rights if the minimum volume is not met. We record a receivable from the counterparty in the period that services are provided or when the transaction occurs, including amounts for deficiency obligations from counterparties associated with minimum volume commitments. If a counterparty has a make-up right associated with a deficiency, we defer the revenue attributable to the

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counterparty's make-up right as a contract liability and subsequently recognize the revenue at the earlier of when the deficiency volume is delivered or shipped, when the make-up right expires or when it is determined that the counterparty's ability to utilize the make-up right is remote.

At June 30, 2018 and December 31, 2017, counterparty deficiencies associated with agreements (under Topic 606 and Topic 845) that include minimum volume commitments totaled $62 million and $57 million, respectively, of which $44 million and $37 million, respectively, was recorded as a contract liability, which we refer to as deferred revenue. The remaining balance of $18 million and $20 million at June 30, 2018 and December 31, 2017, respectively, was related to deficiencies for which the counterparties had not met their contractual minimum commitments and were not reflected in our Condensed Consolidated Financial Statements as we had not yet billed or collected such amounts.

Contract Balances. Our contract balances consist of amounts received associated with services or sales for which we have not yet completed the related performance obligation. The following table presents the change in the contract liability balance during the six months ended June 30, 2018 (in millions):

	Contract Liabilities
Balance at December 31, 2017	$ 90
Amounts recognized as revenue	(79)
Additions [(1)] [(2)]	445
Other	(3)
Balance at June 30, 2018	$ 453

(1) Includes approximately $197 million associated with crude oil sales agreements that are entered into in conjunction with storage arrangements and future inventory exchanges. Such amount is expected to be recognized as revenue in the second half of 2018.

(2) Includes $100 million associated with long-term capacity agreements with Cactus II Pipeline LLC. See Note 12 for additional information.

Remaining Performance Obligations. Topic 606 requires a presentation of information about partially and wholly unsatisfied performance obligations under contracts that exist as of the end of the period. The information includes the amount of consideration allocated to those remaining performance obligations and the timing of revenue recognition of those remaining performance obligations. Certain contracts meet the requirements for the presentation as remaining performance obligations. These arrangements include a fixed minimum level of service, typically a set volume of service, and do not contain any variability other than expected timing within a limited range. These contracts are all within the scope of Topic 606. The following table presents the amount of consideration associated with remaining performance obligations for the population of contracts with external customers meeting the presentation requirements as of June 30, 2018 (in millions):

	Remainder of 2018	2019	2020	2021	2022	2023 and Thereafter
Pipeline revenues supported by minimum volume commitments and long-term capacity agreements [(1)]	$ 51	$150	$193	$181	$180	$ 799
Long-term storage, terminalling and throughput agreements revenues	225	354	274	207	158	554
Total	$ 276	$504	$467	$388	$338	$ 1,353

(1) Includes revenues from certain contracts for which the amount and timing of revenue is subject to the completion of underlying construction projects.

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The presentation above does not include (i) expected revenues from legacy shippers not underpinned by minimum volume commitments, including pipelines where there are no or limited alternative pipeline transportation options, (ii) intersegment revenues and (iii) the amount of consideration associated with certain income generating contracts, which include a fixed minimum level of service, that are either not within the scope of Topic 606 or do not meet the requirements for presentation as remaining performance obligations under Topic 606. The following are examples of contracts that are not included in the table above because they are not within the scope of Topic 606 or do not meet the Topic 606 requirements for presentation:

- Minimum volume commitments related to the assets of equity method investees — Contracts include those related to the Eagle Ford, BridgeTex, STACK, Caddo, Saddlehorn, White Cliffs, Cheyenne and Diamond pipeline systems;
- Acreage dedications — Contracts include those related to the Permian Basin, Eagle Ford, Central, Rocky Mountain and Canada regions;
- Supply and Logistics contracts within the scope of Topic 845 — Contracts include buy/sell arrangements with future committed volumes on certain Permian Basin, Eagle Ford, Central and Canada region systems;
- All other Supply and Logistics contracts, due to the election of practical expedients related to variable consideration and short-term contracts, as discussed below;
- Transportation and Facilities contracts that are short-term, as discussed below;
- Contracts within the scope of ASC Topic 840, Leases; and
- Contracts within the scope of ASC Topic 815, Derivatives and Hedging.

We have elected practical expedients to exclude the presentation of remaining performance obligations for variable consideration which relates to wholly unsatisfied performance obligations. Certain contracts do not meet the requirements for presentation of remaining performance obligations under Topic 606 due to variability in amount of performance obligation remaining, variability in the timing of recognition or variability in consideration. Acreage dedications do require us to perform future services but do not contain a minimum level of services and are therefore excluded from this presentation. Long-term supply and logistics arrangements contain variable timing, volumes and/or consideration and are excluded from this presentation. The duration of these contracts varies across the periods presented above.

Additionally, we have elected practical expedients to exclude contracts with terms of one year or less, and therefore exclude the presentation of remaining performance obligations for short-term transportation, storage and processing services, supply and logistics arrangements, including the non-cancelable period of evergreen arrangements, and any other types of arrangements with terms of one year or less.

Note 4—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. Our Class B and Class C shares do not share in the earnings of the Partnership; accordingly, basic and diluted net income per Class B and Class C 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”).

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. See Note 11 to our Consolidated Financial Statements included in Part IV of our 2017 Annual Report on Form 10-K for information regarding exchanges of AAP units and AAP Management Units. PAGP LTIP awards that are deemed to be dilutive 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. See Note 16 to our Consolidated Financial Statements included in Part IV of our 2017 Annual Report on Form 10-K for information regarding PAGP LTIP awards.

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For the three and six months ended June 30, 2018 and 2017, 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 three and six months ended June 30, 2018 and 2017, our PAGP LTIP awards were dilutive; however, there were less than 0.1 million dilutive LTIP awards for each period, which did not change the presentation of weighted average Class A shares outstanding or net income per Class A share.

The following table sets forth the computation of basic and diluted net income per Class A share (in millions, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic and Diluted Net Income per Class A Share				
Net income attributable to PAGP	$7	$24	$44	$65
Basic and diluted weighted average Class A shares outstanding	157	153	157	136
Basic and diluted net income per Class A share	$0.05	$0.16	$0.28	$0.47

Note 5—Accounts Receivable, Net

Our accounts receivable are primarily from purchasers and shippers of crude oil and, to a lesser extent, purchasers of NGL and natural gas. To mitigate credit risk related to our accounts receivable, we utilize a rigorous credit review process. We closely monitor market conditions and perform credit reviews of each customer 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, credit insurance or parental guarantees. As of June 30, 2018 and December 31, 2017, we had received $164 million and $117 million, respectively, of advance cash payments from third parties to mitigate credit risk. We also received $42 million and $54 million as of June 30, 2018 and December 31, 2017, respectively, of standby letters of credit to support obligations due from third parties, a portion of which applies to future business. 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 the majority of our net-cash 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, 2018 and December 31, 2017, 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 $3 million at both June 30, 2018 and December 31, 2017. 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 6—Inventory, Linefill and Base Gas and Long-term Inventory

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

	June 30, 2018				December 31, 2017			
	Volumes	Unit of Measure	Carrying Value	Price/ Unit [1]	Volumes	Unit of Measure	Carrying Value	Price/ Unit [1]
Inventory								
Crude oil	5,188	barrels	$ 359	$ 69.20	7,800	barrels	$ 402	$ 51.54
NGL	10,583	barrels	262	$ 24.76	10,774	barrels	294	$ 27.29
Other	N/A		15	N/A	N/A		17	N/A
Inventory subtotal			636				713	
Linefill and base gas								
Crude oil	12,410	barrels	716	$ 57.70	12,340	barrels	719	$ 58.27
NGL	1,562	barrels	42	$ 26.89	1,597	barrels	45	$ 28.18
Natural gas	24,976	Mcf	108	$ 4.32	24,976	Mcf	108	$ 4.32
Linefill and base gas subtotal			866				872	
Long-term inventory								
Crude oil	1,903	barrels	113	$ 59.38	1,870	barrels	105	$ 56.15
NGL	2,352	barrels	56	$ 23.81	2,167	barrels	59	$ 27.23
Long-term inventory subtotal			169				164	
Total			$ 1,671				$ 1,749	

(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 $35 million during the three and six months ended June 30, 2017 primarily related to the writedown of our crude oil inventory due to a decline in prices. Substantially all of this inventory valuation adjustment was offset by the recognition of gains on derivative instruments being utilized to hedge future sales of our crude oil inventory. Such gains were recorded to “Supply and Logistics segment revenues” on our accompanying Condensed Consolidated Statements of Operations. See Note 11 for discussion of our derivative and risk management activities. We did not record such charges during 2018.

Note 7—Divestitures

During the six months ended June 30, 2018, we received proceeds from asset sales of $426 million. The assets sold primarily included non-core property and equipment or are associated with the formation of strategic joint ventures and were previously reported in our Facilities and Transportation segments. We recognized a net gain related to these asset sales of approximately $81 million during the three and six months ended June 30, 2018, which is included in “Depreciation and amortization” on our Condensed Consolidated Statements of Operations. Such amount is comprised of gains of $105 million and losses of $24 million.

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Note 8—Goodwill

Goodwill by segment and changes in goodwill are reflected in the following table (in millions):

	Transportation	Facilities	Supply and Logistics	Total
Balance at December 31, 2017	$ 1,070	$ 988	$ 508	$ 2,566
Foreign currency translation adjustments	(11)	(5)	(3)	(19)
Dispositions and reclassifications to assets held for sale	(9)	(3)	—	(12)
Balance at June 30, 2018	$ 1,050	$ 980	$ 505	$ 2,535

We completed our goodwill impairment test as of June 30, 2018 and determined that there was no impairment of goodwill.

Note 9—Debt

Debt consisted of the following (in millions):

	June 30, 2018	December 31, 2017
SHORT-TERM DEBT		
PAA commercial paper notes, bearing a weighted-average interest rate of 3.1% and 2.4%, respectively (1)	$ 259	$ —
PAA senior secured hedged inventory facility, bearing a weighted-average interest rate of 3.1% and 2.6%, respectively (1)	450	664
PAA senior unsecured revolving credit facility, bearing a weighted-average interest rate of 3.4% (1)	100	—
Other	134	73
Total short-term debt (2)	943	737
LONG-TERM DEBT		
PAA senior notes, net of unamortized discounts and debt issuance costs of $63 and $67, respectively	8,937	8,933
PAA commercial paper notes and senior secured hedged inventory facility borrowings (3)	—	247
PAA senior unsecured revolving credit facility, bearing a weighted-average interest rate of 3.4% (3)	26	—
Other	3	3
Total long-term debt	8,966	9,183
Total debt (4)	$ 9,909	$ 9,920

(1) We classified these PAA commercial paper notes and credit facility borrowings as short-term as of June 30, 2018 and December 31, 2017, as these notes and borrowings 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) As of June 30, 2018 and December 31, 2017, balance includes borrowings of $426 million and $212 million, respectively, for cash margin deposits with NYMEX and ICE, which are associated with financial derivatives used for hedging purposes.

(3) As of June 30, 2018 and December 31, 2017, we classified a portion of PAA's commercial paper notes and PAA's credit facility borrowings as long-term based on PAA's ability and intent to refinance such amounts on a long-term basis.

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(4) PAA's fixed-rate senior notes had a face value of approximately $9.0 billion at both June 30, 2018 and December 31, 2017. We estimated the aggregate fair value of these notes as of June 30, 2018 and December 31, 2017 to be approximately $8.7 billion and $9.1 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 the 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, the 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.

Borrowings and Repayments

Total borrowings under the PAA credit facilities and commercial paper program for the six months ended June 30, 2018 and 2017 were approximately $23.5 billion and $36.8 billion, respectively. Total repayments under the PAA credit facilities and commercial paper program were approximately $23.6 billion and $37.2 billion for the six months ended June 30, 2018 and 2017, 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 and transportation of crude oil, NGL and natural gas. Additionally, we issue letters of credit to support insurance programs, derivative transactions including hedging related margin obligations and construction activities. At June 30, 2018 and December 31, 2017, we had outstanding letters of credit of $168 million and $166 million, respectively.

Note 10—Partners' Capital and Distributions

Shares Outstanding

The following tables present the activity for our Class A shares, Class B shares and Class C shares:

	Class A Shares	Class B Shares	Class C Shares
Outstanding at December 31, 2017	156,111,139	126,984,572	510,925,432
Exchange Right exercises [1]	1,842,991	(1,842,991)	—
Redemption Right exercises [1]	—	(3,123,251)	3,123,251
Issuance of Series A preferred units by a subsidiary	—	—	1,393,926
Other	—	—	17,766
Outstanding at June 30, 2018	157,954,130	122,018,330	515,460,375

	Class A Shares	Class B Shares	Class C Shares
Outstanding at December 31, 2016	101,206,526	138,043,486	491,910,863
Conversion of AAP Management Units [1]	—	1,557,860	—
Exchange Right exercises [1]	2,172,236	(2,172,236)	—
Redemption Right exercises [1]	—	(3,486,333)	3,486,333
Sales of Class A shares	50,086,326	—	—
Sales of common units by a subsidiary	—	—	4,033,567
Issuance of common units by a subsidiary for acquisition of interest in Advantage Joint Venture	—	—	1,252,269

Issuances of Series A preferred units by a subsidiary	—	—	2,601,300
Other	7,810	—	122,344
Outstanding at June 30, 2017	153,472,898	133,942,777	503,406,676

(1) See Note 11 to our Consolidated Financial Statements included in Part IV of our 2017 Annual Report on Form 10-K for information regarding conversions of AAP Management Units, Exchange Rights and Redemption Rights.

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Distributions

The following table details the distributions paid to Class A shareholders during or pertaining to the first six months of 2018 (in millions, except per share data):

Distribution Payment Date	Distributions to Class A Shareholders	Distributions per Class A Share
August 14, 2018 [(1)]	$ 48	$ 0.30
May 15, 2018	$ 47	$ 0.30
February 14, 2018	$ 47	$ 0.30

(1) Payable to shareholders of record at the close of business on July 31, 2018 for the period from April 1, 2018 through June 30, 2018.

Consolidated Subsidiaries

Noncontrolling Interests in Subsidiaries

As of June 30, 2018, noncontrolling interests in our subsidiaries consisted of (i) limited partner interests in PAA including a 65% interest in PAA's common units and PAA's Series A preferred units combined and 100% of PAA's Series B preferred units and (ii) an approximate 44% limited partner interest in AAP.

Subsidiary Distributions

PAA Series A Preferred Unit Distributions. The following table details distributions paid to PAA's Series A preferred unitholders during or pertaining to the first six months of 2018 (in millions, except unit and per unit data):

Distribution Payment Date	Series A Preferred Unitholders Distribution [(2)] Cash	Units	Distribution per Unit
August 14, 2018 [(1)]	$37	—	$ 0.525
May 15, 2018	$37	—	$ 0.525
February 14, 2018	$—	1,393,926	$ 0.525

(1) Payable to unitholders of record at the close of business on July 31, 2018 for the period from April 1, 2018 through June 30, 2018. At June 30, 2018, such amount was accrued to distributions payable in “Accounts payable and accrued liabilities” on our Condensed Consolidated Balance Sheet.

(2) On February 14, 2018, PAA issued additional Series A preferred units in lieu of a cash distribution of $37 million. With respect to any quarter ending on or prior to December 31, 2017 (the “Initial Distribution Period”), PAA was able to elect to pay distributions on its Series A preferred units in additional Series A preferred units, in cash or a combination of both. The Initial Distribution Period ended with the February 2018 distribution; as such, with respect to any quarter ending after the Initial Distribution Period, PAA must pay distributions on its Series A preferred units in cash.

PAA Series B Preferred Unit Distributions. Distributions on PAA's Series B preferred units are payable semiannually in arrears on the 15th day of May and November. The following table details distributions paid to PAA's Series B preferred unitholders during the first six months of 2018 (in millions, except per unit data):

Series B Preferred Unitholders

Distribution Payment Date	Cash Distribution	Distribution per Unit
May 15, 2018	$24.5	$ 30.625

As of June 30, 2018, we had accrued approximately $6 million of distributions payable to PAA's Series B preferred unitholders in “Accounts payable and accrued liabilities” on our Condensed Consolidated Balance Sheet.

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PAA Common Unit Distributions. The following table details distributions paid to PAA's common unitholders during or pertaining to the first six months of 2018 (in millions, except per unit data):

Distribution Payment Date	Distributions Common Unitholders Public	AAP	Total Cash Distribution	Cash Distribution per Common Unit
August 14, 2018 [1]	$133	$ 85	$ 218	$ 0.30
May 15, 2018	$133	$ 85	$ 218	$ 0.30
February 14, 2018	$133	$ 85	$ 218	$ 0.30

(1) Payable to unitholders of record at the close of business on July 31, 2018 for the period from April 1, 2018 through June 30, 2018.

AAP Distributions. The following table details the distributions paid to AAP's partners during or pertaining to the first six months of 2018 from distributions received from PAA (in millions):

Distribution Payment Date	Distribution to AAP's Partners Noncontrolling Interests	PAGP	Total Cash Distributions
August 14, 2018 [1]	$37	$ 48	$ 85
May 15, 2018	$38	$ 47	$ 85
February 14, 2018	$38	$ 47	$ 85

(1) Payable to unitholders of record at the close of business on July 31, 2018 for the period from April 1, 2018 through June 30, 2018.

Note 11—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 manage our exposure to (i) commodity price risk, as well as to optimize our profits, (ii) interest rate risk and (iii) currency exchange rate risk. Our commodity price 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 throughout the hedging relationship, we assess whether the derivatives employed are highly effective in offsetting changes in cash flows of anticipated hedged transactions.

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, 2018, net derivative positions related to these activities included:

- A net long position of 4.0 million barrels associated with our crude oil purchases, which was unwound ratably during July 2018 to match monthly average pricing.

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- A net short time spread position of 8.8 million barrels, which hedges a portion of our anticipated crude oil lease gathering purchases through December 2019.
- A crude oil grade basis position of 55.4 million barrels through December 2020. These derivatives allow us to lock in grade basis differentials.
- A net short position of 11.0 million barrels through December 2020 related to anticipated net sales of our crude oil and NGL inventory.

Pipeline Loss Allowance Oil — As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor. We utilize derivative instruments to hedge a portion of the anticipated sales of the loss allowance oil that is to be collected under our tariffs. As of June 30, 2018, our PLA hedges included a short position consisting of crude oil futures of 1.0 million barrels through June 2019 and a long call option position of 1.0 million barrels through December 2019.

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, 2018, we had a long natural gas position of 62.1 Bcf which hedges a portion of our natural gas processing and operational needs through December 2020. We also had a short propane position of 12.9 million barrels through December 2020, a short butane position of 3.9 million barrels through December 2020 and a short WTI position of 2.4 million barrels through December 2020. In addition, we had a long power position of 0.2 million megawatt hours, which hedges a portion of our power supply requirements at our Canadian natural gas processing and fractionation plants through December 2019.

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 commodity contracts qualify for the normal purchases and normal sales scope exception.

Interest Rate Risk Hedging

We use interest rate derivatives to hedge the benchmark interest rate associated with interest payments occurring as a result of debt issuances. The derivative instruments we use to manage this risk consist of forward starting interest rate swaps and treasury locks. These derivatives are designated as cash flow hedges. As such, changes in fair value are deferred in AOCI and are reclassified to interest expense as we incur the interest expense associated with the underlying debt.

The following table summarizes the terms of our outstanding interest rate derivatives as of June 30, 2018 (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	8 forward starting swaps (30-year)	$ 200	6/14/2019	2.83 %	Cash flow hedge
Anticipated interest payments	8 forward starting swaps (30-year)	$ 200	6/15/2020	3.06 %	Cash flow hedge

Currency Exchange Rate Risk Hedging

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

As of June 30, 2018, our outstanding foreign currency derivatives include (i) derivatives we use to 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 and (ii) foreign currency exchange contracts we use to manage our Canadian business cash requirements.

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The following table summarizes our open forward exchange contracts as of June 30, 2018 (in millions):

		USD	CAD	Average Exchange Rate USD to CAD
Forward exchange contracts that exchange CAD for USD:				
	2018	$141	$187	$1.00 - $1.33
Forward exchange contracts that exchange USD for CAD:				
	2018	$266	$343	$1.00 - $1.29
	2019	$59	$76	$1.00 - $1.29

Preferred Distribution Rate Reset Option

A derivative feature embedded in a contract that does not meet the definition of a derivative in its entirety must be bifurcated and accounted for separately if the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract. The Preferred Distribution Rate Reset Option of the PAA Series A preferred units is an embedded derivative that must be bifurcated from the related host contract, the PAA partnership agreement, and recorded at fair value on our Condensed Consolidated Balance Sheets. Corresponding changes in fair value are recognized in “Other income/(expense), net” in our Condensed Consolidated Statement of Operations. See Note 11 to our Consolidated Financial Statements included in Part IV of our 2017 Annual Report on Form 10-K for additional information regarding the Series A preferred units and Preferred Distribution Rate Reset Option.

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 derivatives recognized in earnings is as follows (in millions):

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
Location of Gain/(Loss)	Derivatives in Hedging Relationships	Derivatives Not Designated as a Hedge	Total	Derivatives in Hedging Relationships	Derivatives Not Designated as a Hedge	Total
Commodity Derivatives						