## PART I

### Items 1 and 2. *Business and Properties*

### General

Plains All American Pipeline, L.P. is a Delaware limited partnership formed in September 1998. Our operations are conducted directly and indirectly through our primary operating subsidiaries, Plains Marketing, L.P., Plains Pipeline, L.P. and Plains Marketing Canada, L.P. As used in this Form 10-K, the terms "we", "us", "our", "ours" and similar terms refer to Plains All American Pipeline, L.P. and its subsidiaries, unless the context indicates otherwise. We are engaged in interstate and intrastate crude oil transportation and crude oil gathering, marketing, terminalling and storage, as well as the marketing and storage of liquefied petroleum gas and other natural gas related petroleum products. We refer to liquefied petroleum gas and other natural gas related petroleum products collectively as "LPG."

We are one of the largest midstream crude oil companies in North America. We have an extensive network of pipeline transportation, terminalling, storage and gathering assets in key oil producing basins, transportation corridors and at major market hubs in the United States and Canada. Our crude oil and LPG operations can be categorized into two primary business activities:

- *Crude Oil Pipeline Transportation Operations.* As of December 31, 2005, we owned approximately 15,000 miles (of which approximately 13,000 miles are included in our pipeline segment) of active gathering and mainline crude oil pipelines located throughout the United States and Canada. Our activities from pipeline operations generally consist of transporting volumes of crude oil for a fee and third party leases of pipeline capacity, barrel exchanges and buy/sell arrangements.

- *Gathering, Marketing, Terminalling and Storage Operations.* As of December 31, 2005, we owned approximately 39 million barrels of active above-ground crude oil terminalling and storage facilities, approximately 15 million barrels of which relate to our gathering, marketing, terminalling and storage segment (the remaining approximately 24 million barrels of tankage are associated with our pipeline transportation operations within our pipeline segment). These facilities include a crude oil terminalling and storage facility at Cushing, Oklahoma. Cushing, which we refer to as the Cushing Interchange, is one of the largest crude oil market hubs in the United States and is the designated delivery point for New York Mercantile Exchange, or NYMEX, crude oil futures contracts. We utilize our storage tanks to counter-cyclically balance our gathering and marketing operations and to execute various hedging strategies to stabilize profits and reduce the negative impact of crude oil market volatility, while at the same time providing upside exposure to opportunities inherent in volatile market conditions. Our terminalling and storage operations also generate revenue at the Cushing Interchange and our other locations through a combination of storage and throughput charges to third parties. We also own approximately 1.8 million barrels of LPG storage. Our gathering and marketing activities include:

  - the purchase of U.S. and Canadian crude oil at the wellhead and the bulk purchase of crude oil at pipeline and terminal facilities, as well as foreign cargoes at their load port and various other locations in transit;

  - the transportation of crude oil on trucks, barges, pipelines and ocean-going vessels;

  - the subsequent resale or exchange of crude oil at various points along the crude oil distribution chain; and

  - the purchase of LPG from producers, refiners and other marketers, the storage of LPG at storage facilities owned by us or third parties, the transportation of LPG to our terminals and the sale of LPG to wholesalers, retailers and industrial end users.

In addition, through our 50% equity ownership in PAA/Vulcan Gas Storage, LLC ("PAA/Vulcan"), we are engaged in the development and operation of natural gas storage facilities.

### Business Strategy

Our principal business strategy is to provide competitive and efficient crude oil transportation, gathering, marketing, terminalling and storage services to our producer and refiner customers, and to address the regional crude oil supply and demand imbalances that exist in the United States and Canada by combining the strategic location and distinctive capabilities of our transportation and terminalling assets with our extensive marketing and distribution expertise. We believe successful execution of this strategy will enable us to generate sustainable earnings and cash flow. We intend to grow our business by:

- increasing and optimizing throughput on our existing pipeline and gathering assets and realizing cost efficiencies through operational improvements;
- utilizing our Gulf Coast assets, our Cushing Terminal and leased assets to increase our presence in the importation of foreign crude oil through Gulf of Mexico receipt facilities;
- developing and implementing internal growth projects that address evolving needs in the crude oil transportation sector and that are well positioned to benefit from long-term industry trends and opportunities;
- selectively pursuing strategic and accretive acquisitions of crude oil marketing, transportation, gathering, terminalling and storage assets that complement our existing asset base and distribution capabilities; and
- using our terminalling and storage assets in conjunction with merchant and hedging activities to address physical market imbalances, mitigate inherent risks and increase margin.

To a lesser degree, we engage in a similar business strategy with respect to the wholesale marketing and storage of LPG and, through our 50% ownership in PAA/Vulcan, in the storage of natural gas. We also intend to prudently and economically leverage our asset base, knowledge base and skill sets to participate in other energy-related businesses that have characteristics and opportunities similar to our existing activities.

## Financial Strategy

### *Targeted Credit Profile*

We believe that a major factor in our continued success is our ability to maintain a competitive cost of capital and access to the capital markets. We have consistently communicated to the financial community our intention to maintain a strong credit profile that we believe is consistent with an investment grade credit rating. We have targeted a general credit profile with the following attributes:

- an average long-term debt-to-total capitalization ratio of approximately 50%;
- an average long-term debt-to-EBITDA ratio of approximately 3.5x or less (EBITDA is earnings before interest, taxes, depreciation and amortization); and
- an average EBITDA-to-interest coverage ratio of approximately 3.3x or better.

Based on our financial position at December 31, 2005 and operating and financial results for 2005, we were within our targeted credit profile. In order for us to maintain our targeted credit profile and achieve growth through internal growth projects and acquisitions, we intend to fund at least 50% of the capital requirements associated with these activities with equity and cash flow in excess of distributions. From time to time, we may be outside the parameters of our targeted credit profile as, in certain cases, these capital expenditures may initially be financed using debt.

### *Credit Rating*

As of February 2006, our senior unsecured ratings with Standard & Poor’s and Moody’s Investment Services were BBB- stable and Baa3 stable, respectively, both of which are considered “investment grade.’’ We have targeted the attainment of even stronger investment grade ratings of BBB+ and Baa1 for Standard & Poor’s and Moody’s Investment Services, respectively. We cannot give assurance that our current ratings will remain in effect for any given period of time, that we will be able to attain the higher ratings we have targeted or that one or both of these ratings will not be lowered or withdrawn entirely by the ratings agency. Note that a credit rating is not a recommendation to buy, sell or hold securities, and may be revised or withdrawn at any time.

**Competitive Strengths**

We believe that the following competitive strengths position us to successfully execute our principal business strategy:

- ***Many of our pipeline transportation and storage assets are strategically located and operationally flexible and have additional capacity or expansion capability.*** Our primary crude oil pipeline transportation and gathering assets are located in well-established oil producing regions and transportation corridors and are connected, directly or indirectly, with our terminalling and storage assets that are located at major trading locations and premium markets that serve as gateways to major North American refinery and distribution markets where we have strong business relationships. Specific assets with additional capacity or expansion potential include our ownership interest in the Capline System, our Cushing Terminal and our St. James Terminal, which is expected to be in service in 2007. Our Cushing Terminal is a designated delivery point for the NYMEX crude oil futures contract and is one of the most modern large-scale terminalling and storage facilities at the Cushing Interchange, incorporating operational enhancements designed to safely and efficiently terminal, store, blend and segregate large volumes and multiple varieties of crude oil. When completed, our St. James Terminal will have many similar characteristics.

- ***We possess specialized crude oil market knowledge.*** We believe our business relationships with participants in various phases of the crude oil distribution chain, from crude oil producers to refiners, as well as our own industry expertise, provide us with an extensive understanding of the North American physical crude oil markets.

- ***Our business activities are counter-cyclically balanced.*** We believe that our terminalling and storage activities and our gathering and marketing activities are counter-cyclical. We believe that this balance of activities, combined with our pipeline transportation operations, generally provides us with the flexibility to maintain a base level of margin irrespective of whether a strong or weak market exists and, in certain circumstances, to realize incremental margin during volatile market conditions.

- ***We have the evaluation, integration and engineering skill sets and the financial flexibility to continue to pursue acquisition and expansion opportunities.*** Over the past eight years, we have completed and integrated approximately 35 acquisitions with an aggregate purchase price of approximately $2.0 billion. We have also implemented internal expansion capital projects totaling over $400 million. In addition, we believe we have significant resources to finance future strategic expansion and acquisition opportunities. As of December 31, 2005, we had approximately $789 million available under our committed credit facilities, subject to covenant compliance. We believe we have one of the strongest capital structures relative to other master limited partnerships with capitalizations greater than $1.0 billion. In addition, the investors in our general partner are diverse and financially strong and have demonstrated their support by providing capital to help finance previous acquisitions. We believe they are supportive long-term sponsors of the partnership.

- ***We have an experienced management team whose interests are aligned with those of our unitholders.*** Our executive management team has an average of more than 20 years industry experience, with an average of more than 15 years with us or our predecessors and affiliates. Members of our senior management team own an approximate 5% interest in our general partner and collectively own approximately 900,000 common units, including fully vested options. In addition, through grants of phantom units, the senior management team also owns significant contingent equity incentives that generally vest upon achievement of performance objectives, continued service or both.

We believe many of these competitive strengths have similar application to our efforts to expand our presence in the natural gas storage sector. See "—Natural Gas Storage Market Overview" and "—Description of PAA/Vulcan Natural Gas Storage Assets."

**Organizational History**

We were formed as a master limited partnership in September 1998 to acquire and operate the midstream crude oil businesses and assets of a predecessor entity. We completed our initial public offering in November 1998. Since June 2001, our 2% general partner interest has been held by Plains AAP, L.P., a Delaware limited partnership. Plains All American GP LLC, a Delaware limited liability company, is Plains AAP, L.P.'s general partner. Unless the context otherwise requires, we use the term "general partner" to refer to both Plains AAP, L.P. and Plains All American GP LLC. Plains AAP, L.P. and Plains All American GP LLC are essentially held by seven owners. See

Item 12. “Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters—Beneficial Ownership of General Partner Interest.”

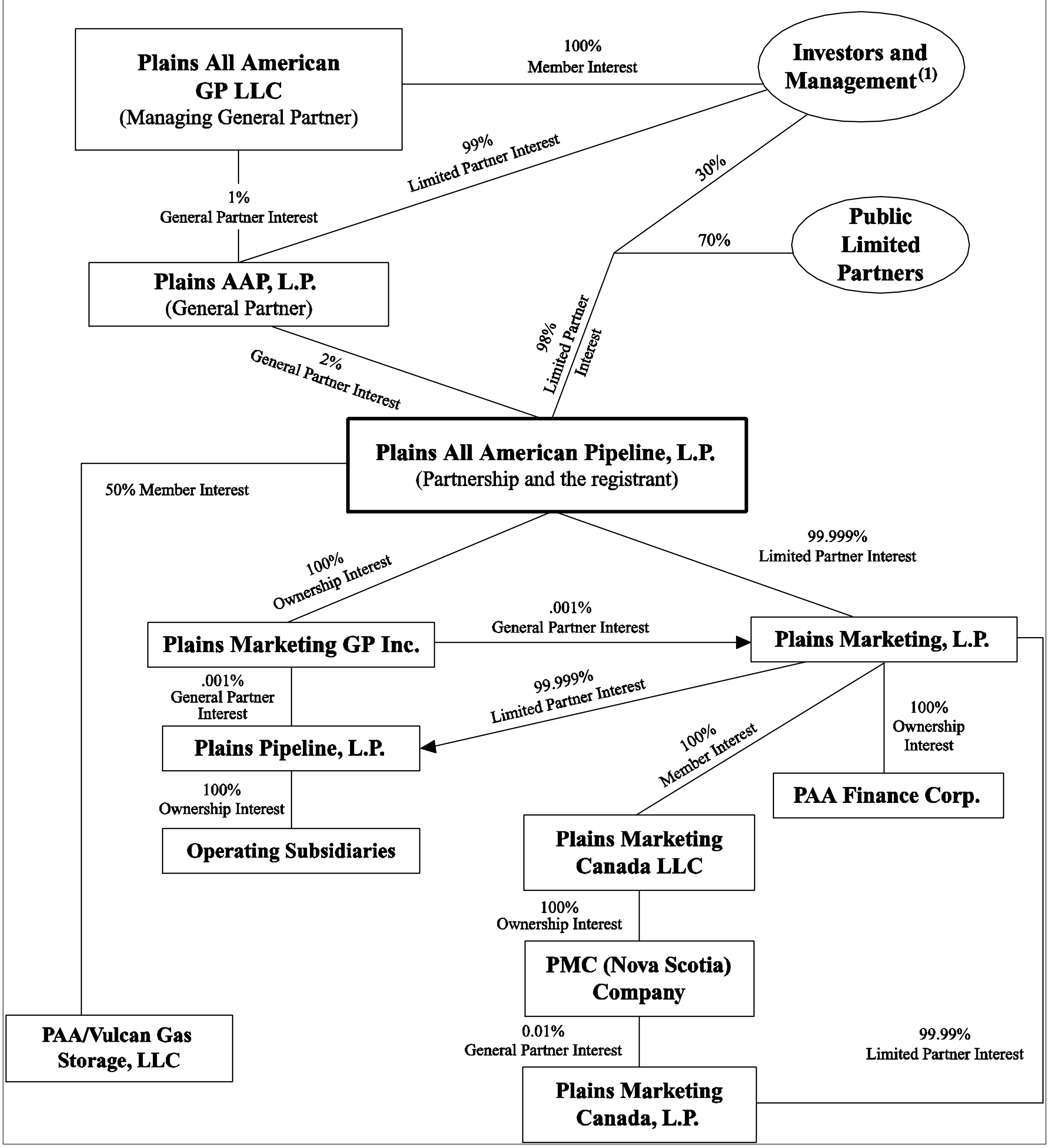
**Partnership Structure and Management**

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through two operating partnerships, Plains Marketing, L.P. and Plains Pipeline, L.P. Our Canadian and LPG operations are conducted through Plains Marketing Canada, L.P.

Our general partner, Plains AAP, L.P., is managed by its general partner, Plains All American GP LLC, which has ultimate responsibility for conducting our business and managing our operations. See Item 10. “Directors and Executive Officers of our General Partner.” Our general partner does not receive a management fee or other compensation in connection with its management of our business, but it is reimbursed for substantially all direct and indirect expenses incurred on our behalf.

The chart on the next page depicts the current structure and ownership of Plains All American Pipeline, L.P. and certain subsidiaries.

## Partnership Structure




(1) Based on Form 4 filings for officers and directors, 13D filings for Paul G. Allen and Richard Kayne and other information believed to be reliable for the remaining investors, this group, or affiliates of such investors, beneficially owns approximately 21.6 million limited partner units, representing approximately 30% of all outstanding units.

## Acquisitions

The acquisition of assets and operations that are strategic and complementary to our existing operations constitutes an integral component of our business strategy and growth objective. Such assets and operations include crude oil related assets and LPG assets, as well as energy related assets that have characteristics and opportunities similar to these business lines, and enable us to leverage our asset base, knowledge base and skill sets. We have established a target to complete, on average, $200 million to $300 million in acquisitions per year, subject to availability of attractive assets on acceptable terms. Since 1998, and through December 31, 2005, we have completed numerous acquisitions for a cumulative purchase price of approximately $2.0 billion. In addition, from time to time, we have sold assets that are no longer considered essential to our operations.

The following table summarizes selected acquisitions that we have completed over the past five years:

| Acquisition | Date | Description | Approximate Purchase Price (in millions) |
|---|---|---|---|
| Investment in Natural Gas Storage Facilities | September 2005 | Joint venture with Vulcan Gas Storage LLC to develop and operate natural gas storage facilities. | $ 125 (1) |
| Schaefferstown Propane Storage Facility | August 2004 | Storage capacity of approximately 0.5 million barrels of refrigerated propane | $ 32 |
| Cal Ven Pipeline System | May 2004 | 195 miles of gathering and mainline crude oil pipelines in northern Alberta | $ 19 |
| Link Energy LLC | April 2004 | The North American crude oil and pipeline operations of Link Energy, LLC ("Link") | $ 332 |
| Capline and Capwood Pipeline Systems | March 2004 | An approximate 22% undivided joint interest in the Capline Pipeline System and an approximate 76% undivided joint interest in the Capwood Pipeline System | $ 158 |
| South Saskatchewan Pipeline System | November 2003 | A 158-mile mainline crude oil pipeline and 203 miles of gathering lines in Saskatchewan | $ 48 |
| ArkLaTex Pipeline System | October 2003 | 240 miles of crude oil gathering and mainline pipelines and 470,000 barrels of crude oil storage capacity | $ 21 |
| Iraan to Midland Pipeline System | June 2003 | 98-mile mainline crude oil pipeline | $ 18 |
| South Louisiana Assets | June 2003 and December 2003 | Various terminalling and gathering assets in South Louisiana, including a 100% interest in Atchafalaya Pipeline, L.L.C. | $ 18 |
| Iatan Gathering System | March 2003 | West Texas crude oil gathering system | $ 24 |
| Red River Pipeline System | February 2003 | 334-mile crude oil pipeline along with 645,000 barrels of crude oil storage capacity | $ 19 |

| Acquisition | Date | Description | Approximate Purchase Price (in millions) |
|---|---|---|---|
| Shell West Texas Assets | August 2002 | Basin Pipeline System, Permian Basin Pipeline System and the Rancho Pipeline System | $ 324 |
| Canadian Operations | May/July 2001 | The assets of CANPET Energy Group (crude oil and LPG marketing) and substantially all of the Canadian crude oil pipeline, gathering, storage and terminalling assets of Murphy Oil Company Ltd. (560 miles of crude oil and condensate mainlines along with 1.1 million barrels of crude oil storage and terminalling capacity) | $ 232 |

(1) Represents 50% of the purchase price for the acquisition made by our joint venture. The joint venture completed an acquisition for approximately $250 million during 2005. See "—Investment in Natural Gas Storage Facilities" below.

### *Ongoing Acquisition Activities*

Consistent with our business strategy, we are continuously engaged in discussions with potential sellers regarding the possible purchase by us of assets and operations that are strategic and complementary to our existing operations. Such assets and operations include crude oil related assets, LPG assets and, through our interest in PAA/Vulcan, natural gas storage assets. In addition, we have in the past and intend in the future to evaluate and pursue other energy related assets that have characteristics and opportunities similar to these business lines, and enable us to leverage our asset base, knowledge base and skill sets. Such acquisition efforts may involve participation by us in processes that have been made public and involve a number of potential buyers, commonly referred to as "auction" processes, as well as situations in which we believe we are the only party or one of a limited number of potential buyers in negotiations with the potential seller. These acquisition efforts often involve assets which, if acquired, could have a material effect on our financial condition and results of operations.

### *Investment in Natural Gas Storage Facilities*

PAA/Vulcan, a limited liability company, was formed in the third quarter of 2005. We own 50% of PAA/Vulcan and the remaining 50% is owned by Vulcan Gas Storage LLC, a subsidiary of Vulcan Capital, the investment arm of Paul G. Allen. The Board of Directors of PAA/Vulcan consists of an equal number of our representatives and representatives of Vulcan Gas Storage, and is responsible for providing strategic direction and policy-making. We, as the managing member, are responsible for the day-to-day operations. PAA/Vulcan is not a variable interest entity, and we do not have the ability to control the entity; therefore, we account for the investment under the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." This investment is reflected on a separate line in our consolidated balance sheet.

In September 2005, PAA/Vulcan acquired Energy Center Investments LLC ("ECI"), an indirect subsidiary of Sempra Energy, for approximately $250 million. ECI develops and operates underground natural gas storage facilities. We and Vulcan Gas Storage LLC each made an initial cash investment of approximately $112.5 million, and a subsidiary of PAA/Vulcan entered into a $90 million credit facility contemporaneously with closing. Approximately $255 million of the total funding of $315 million was used to finance the acquisition and closing costs. It is anticipated that the remaining balance will be combined with funds obtained from future financing activities related to the construction of an underground natural gas storage facility in South Louisiana.

## Crude Oil Market Overview

Our assets and our business strategy are designed to service our producer and refiner customers by addressing regional crude oil supply and demand imbalances that exist in the United States and Canada. According to the Energy Information Administration ("EIA"), the United States consumes approximately 15.3 million barrels of crude oil per day, while only producing 5.2 million barrels per day. Accordingly, the United States relies on foreign imports for nearly 66% of the crude oil used by U.S. domestic refineries. This imbalance represents a continuing trend. Foreign imports of crude oil into the U.S. have tripled over the last 21 years, increasing from 3.2 million barrels per day in 1984 to 10.1 million barrels per day for the 12 months ended November 2005, as U.S. refinery demand has increased and domestic crude oil production has declined due to natural depletion.

The Department of Energy segregates the United States into five Petroleum Administration Defense Districts ("PADDs") which are used by the energy industry for reporting statistics regarding crude oil supply and demand. The table below sets forth supply, demand and shortfall information for each PADD for the twelve months ended November 2005 and is derived from information published by the EIA (see EIA website at www.eia.doe.gov).

| Petroleum Administration Defense District | Regional Supply | Refinery Demand | Supply Shortfall |
|---|---|---|---|
| | (Millions of barrels per day) | | |
| PADD I (East Coast) | 0.0 | 1.6 | (1.6) |
| PADD II (Midwest) | 0.5 | 3.3 | (2.8) |
| PADD III (South) | 2.8 | 7.1 | (4.3) |
| PADD IV (Rockies) | 0.3 | 0.6 | (0.3) |
| PADD V (West Coast) | 1.6 | 2.7 | (1.1) |
| **Total U.S.** | **5.2** | **15.3** | **(10.1)** |

Although PADD III has the largest supply shortfall, PADD II is believed to be the most critical region with respect to supply and transportation logistics because it is the largest, most highly populated area of the U.S. that does not have direct access to oceanborne cargoes.

Over the last 21 years, crude oil production in PADD II has declined from approximately 1.0 million barrels per day to approximately 500,000 barrels per day. Over this same time period, refinery demand has increased from approximately 2.7 million barrels per day in 1984 to 3.3 million barrels per day for the twelve months ended November 2005. As a result, the volume of crude oil transported into PADD II has increased 65%, from 1.7 million barrels per day to 2.8 million barrels per day. This aggregate shortfall is principally supplied from the north by direct imports from Canada and from the Gulf Coast area and the Cushing Interchange to the south.

The logistical transportation, terminalling and storage challenges associated with regional volumetric supply and demand imbalances are further complicated by the fact that crude oil from different sources is not fungible. The crude slate available to U.S. refineries consists of over 50 different grades and varieties of crude oil. Each crude grade has distinguishing physical properties, such as specific gravity (generally referred to as light or heavy), sulfur content (generally referred to as sweet or sour) and metals content as well as varying economic attributes. In many cases, these factors result in the need for such grades to be batched or segregated in the transportation and storage processes, blended to precise specifications or adjusted in value. In addition, from time to time, natural disasters and geopolitical factors, such as hurricanes, earthquakes, tsunamis, inclement weather, labor strikes, refinery disruptions, embargoes and armed conflicts, may impact supply, demand and transportation and storage logistics.

## Description of Segments and Associated Assets

Our crude oil and LPG business activities are conducted through two primary segments, Pipeline Operations and Gathering, Marketing, Terminalling and Storage Operations ("GMT&S"). We have an extensive network of pipeline transportation, terminalling, storage and gathering assets in key oil producing basins, transportation corridors and at major market hubs in the United States and Canada.

Following is a description of the activities and assets for each of our business segments.

### *Pipeline Operations*

As of December 31, 2005, we owned approximately 15,000 miles of active gathering and mainline crude oil pipelines located throughout the United States and Canada. Approximately 13,000 miles of these pipelines are used in our pipeline operations segment with the remainder used in our GMT&S segment. Our activities from pipeline operations generally consist of transporting crude oil for a fee and third party leases of pipeline capacity, as well as barrel exchanges and buy/sell arrangements.

Substantially all of our pipeline systems are controlled or monitored from one of two central control rooms with computer systems designed to continuously monitor real-time operational data, such as measurement of crude oil quantities injected into and delivered through the pipelines, product flow rates, and pressure and temperature variations. The systems are designed to enhance leak detection capabilities, sound automatic alarms in the event of operational conditions outside of pre-established parameters and provide for remote controlled shut-down of the majority of our pump stations on the pipeline systems. Pump stations, storage facilities and meter measurement points along the pipeline systems are linked by telephone, satellite, radio or a combination thereof to provide communications for remote monitoring and in some instances control, which reduces our requirement for full-time site personnel at most of these locations.

We make repairs on and replacements of our mainline pipeline systems when necessary or appropriate. We attempt to control corrosion of the mainlines through the use of cathodic protection, corrosion inhibiting chemicals injected into the crude stream and other protection systems typically used in the industry. Maintenance facilities containing spare parts and equipment for pipe repairs, as well as trained response personnel, are strategically located along the pipelines and in concentrated operating areas. We believe that all of our pipelines have been constructed and are maintained in all material respects in accordance with applicable federal, state, provincial and local laws and regulations, standards prescribed by the American Petroleum Institute ("API"), the Canadian Standards Association and accepted industry practice. See "—Regulation—Pipeline and Storage Regulation."

## Major Pipeline Assets

### *All American Pipeline System*

The All American Pipeline is a common carrier crude oil pipeline system that transports crude oil produced from certain outer continental shelf, or OCS, fields offshore California via connecting pipelines to refinery markets in California. The system extends approximately 10 miles along the California coast from Las Flores to Gaviota (24-inch diameter pipe) and continues from Gaviota approximately 126 miles to our station in Emidio, California (30-inch diameter pipe). Between Gaviota and our Emidio Station, the All American Pipeline interconnects with our San Joaquin Valley, or SJV, Gathering System as well as various third party intrastate pipelines. The system is subject to tariff rates regulated by the Federal Energy Regulatory Commission ("FERC").

The All American Pipeline currently transports OCS crude oil received at the onshore facilities of the Santa Ynez field at Las Flores and the onshore facilities of the Point Arguello field located at Gaviota. ExxonMobil, which owns all of the Santa Ynez production, and Plains Exploration and Production Company ("PXP") and other producers that together own approximately 70% of the Point Arguello production, have entered into transportation agreements committing to transport all of their production from these fields on the All American Pipeline. These agreements, which expire in August 2007, provide for a minimum tariff with annual escalations based on specific composite indices. The producers from the Point Arguello field that do not have contracts with us have no other existing means of transporting their production and, therefore, ship their volumes on the All American Pipeline at the filed tariffs. For 2005 and 2004, the tariffs averaged $1.87 per barrel and $1.81 per barrel, respectively. Effective January 1, 2006, based on the contractual escalator, the average tariff increased to $2.04 per barrel. The agreements do not require these owners to transport a minimum volume.

Approximately 10% of our revenues less purchases and field operating costs are derived from the pipeline transportation business associated with these two fields. The relative contribution to our revenues less direct field operating costs from these fields has decreased from approximately 26% in 2001 to current levels because of both (i) declines in volumes produced and transported from these fields and (ii) increases in our revenues from acquisitions and internal expansion projects. Since our acquisition of the system in 1998, the volume decline has been substantially offset by an increase in pipeline tariffs. Over the last ten years, transportation volumes received from the Santa Ynez and Point Arguello fields have declined from 92,000 and 60,000 average daily barrels, respectively, in 1995 to 41,000 and 10,000 average daily barrels, respectively, for 2005. We expect that there will continue to be natural production declines from each of these fields as the underlying reservoirs are depleted. A 5,000 barrel per day decline in volumes shipped from these fields would result in a decrease in annual pipeline segment profit of approximately $3.5 million, based on a tariff of $2.04 per barrel.

The table below sets forth the historical volumes received from both of these fields for the past five years:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (barrels in thousands) | | | | |
| Average daily volumes received from: | | | | | |
| Point Arguello (at Gaviota) | 10 | 10 | 13 | 16 | 18 |
| Santa Ynez (at Las Flores) | 41 | 44 | 46 | 50 | 51 |
| Total | 51 | 54 | 59 | 66 | 69 |

***Basin Pipeline System***

The Basin Pipeline System, in which we own an approximate 87% undivided joint interest, is a primary route for transporting Permian Basin crude oil to Cushing, Oklahoma, for further delivery to Mid-Continent and Midwest refining centers. We acquired our interest in the Basin Pipeline System in August 2002. Since acquisition, we have been the operator of the system. The Basin system is a 515-mile mainline, telescoping crude oil system with a capacity ranging from approximately 144,000 barrels per day to 400,000 barrels per day depending on the segment. System throughput (as measured by system deliveries) was approximately 290,000 barrels per day (net to our interest) during 2005. Within the current operating range, a 20,000 barrel per day decline in volumes shipped on the Basin system would result in a decrease in annual pipeline segment profit of approximately $1.4 million.

The Basin system consists of three primary movements of crude oil: (i) barrels that are shipped from Jal, New Mexico to the West Texas markets of Wink and Midland, where they are exchanged and/or further shipped to refining centers; (ii) barrels that are shipped to the Mid-Continent region on the Midland to Wichita Falls segment and the Wichita Falls to Cushing segment; and (iii) foreign and Gulf of Mexico barrels that are delivered into Basin at Wichita Falls and delivered to a connecting carrier or shipped to Cushing for further distribution to Mid-Continent or Midwest refineries. The system also includes approximately 5.5 million barrels (4.8 million barrels, net to our interest) of crude oil storage capacity located along the system.

In 2004, we expanded an approximate 425-mile section of the system from Midland to Cushing. With the completion of this expansion, the capacity of this section has increased approximately 15%, from 350,000 barrels per day to approximately 400,000 barrels per day. The Basin system is subject to tariff rates regulated by the FERC.

***Capline/Capwood Pipeline Systems***

The Capline Pipeline System, in which we own a 22% undivided joint interest, is a 633-mile, 40-inch mainline crude oil pipeline originating in St. James, Louisiana, and terminating in Patoka, Illinois. The Capline Pipeline System is one of the primary transportation routes for crude oil shipped into the Midwestern U.S., accessing over 2.7 million barrels of refining capacity in PADD II. Shell is the operator of this system. Capline has direct connections to a significant amount of crude production in the Gulf of Mexico. In addition, with its two active docks capable of handling 600,000-barrel tankers as well as access to the Louisiana Offshore Oil Port (“LOOP”), it is a key transporter of sweet and light sour foreign crude to PADD II. With a total system operating capacity of 1.14 million barrels per day of crude oil, approximately 248,000 barrels per day are subject to our interest. During 2005, throughput on our interest has averaged approximately 132,000 barrels per day. A 10,000 barrel per day decline in volumes shipped on the Capline system would result in a decrease in our annual pipeline segment profit of approximately $1.3 million.

The Capwood Pipeline System, in which we own a 76% undivided joint interest, is a 58-mile, 20-inch mainline crude oil pipeline originating in Patoka, Illinois, and terminating in Wood River, Illinois. The Capwood Pipeline System has an operating capacity of 277,000 barrels per day of crude oil. Of that capacity, approximately 211,000 barrels per day are subject to our interest. The system has the ability to deliver crude oil at Wood River to several other PADD II refineries and pipelines. Movements on the Capwood system are driven by the volumes shipped on Capline as well as by volumes of Canadian crude that can be delivered to Patoka via the Mustang Pipeline. PAA assumed the operatorship of the Capwood system from Shell Pipeline Company LP at the time of purchase. During 2005 throughput net to our interest averaged approximately 107,000 barrels per day.

Our significant pipeline systems are discussed on the previous pages. Following is a tabular presentation of all of our active pipeline assets in the United States and Canada, including those previously mentioned, grouped by geographic location:

| Region | Pipeline | Ownership Percentage | Pipeline Mileage | 2005 Average Net Barrels per day[1] |
|---|---|---|---|---|
| Southwest US | Basin | 87.0% | 515 | 290,000 |
| | West Texas Gathering | 100.0% | 800 | 81,000 |
| | Permian Basin Gathering | 100.0% | 819 | 56,000 |
| | Dollarhide | 100.0% | 24 | 5,000 |
| | Mesa | 53.5% | 79 | 32,000 |
| | Iraan | 100.0% | 98 | 30,000 |
| | Iatan | 100.0% | 360 | 21,000 |
| | New Mexico | 100.0% | 1,185 | 77,000 |
| | Texas | 100.0% | 1,276 | 93,000 |
| | Lefors | 100.0% | 68 | 2,000 |
| | Merkel | 100.0% | 128 | 3,000 |
| | Hardemann | 100.0% | 65 | 5,000 |
| | Garden City | 100.0% | 5 | 7,000 |
| | Spraberry Gathering | 100.0% | 412 | 33,000 |
| Western US | All American | 100.0% | 140 | 51,000 |
| | San Joaquin Valley | 100.0% | 77 | 74,000 |
| US Rocky Mountains | Butte | 22.0% | 370 | 17,000 |
| | North Dakota | 100.0% | 620 | 77,000 |
| US Gulf Coast | Sabine Pass | 100.0% | 33 | 11,000 |
| | Ferriday | 100.0% | 290 | 8,000 |
| | La Gloria | 100.0% | 119 | 24,000 |
| | Red River | 100.0% | 359 | 17,000 |
| | ArkLaTex | 100.0% | 107 | 15,000 |
| | Red Rock | 100.0% | 55 | 3,000 |
| | Atchafalaya | 100.0% | 35 | 13,000 |
| | Eugene Island | 100.0% | 66 | 10,000 |
| | Bridger Lakes | 100.0% | 17 | 2,000 |
| | Capline | 22.0% | 633 | 132,000 |
| | Capwood/Patoka | 76.0% | 58 | 116,000 |
| | Pearsall | 100.0% | 62 | 2,000 |
| | Mississippi/Alabama | 100.0% | 601 | 57,000 |
| | Southwest Louisiana | 100.0% | 217 | 4,000 |
| | Cocodrie | 100.0% | 27 | 6,000 |
| | Golden Meadows | 100.0% | 33 | 4,000 |
| | Turtle Bayou | 100.0% | 14 | 5,000 |
| | Erath | 100.0% | 50 | 6,000 |
| | Hiedelberg | 100.0% | 72 | 13,000 |
| | East Texas | 100.0% | 19 | 7,000 |
| Central US | Oklahoma | 100.0% | 1,498 | 62,000 |
| | Midcontinent | 100.0% | 1,197 | 29,000 |
| | Cushing to Broome | 100.0% | 100 | 66,000 |
| | United States Total | | 12,703 | 1,566,000 |
| Canada | Cal Ven | 100.0% | 92 | 16,000 |
| | Manito | 100.0% | 101 | 63,000 |
| | Milk River | 100.0% | 19 | 102,000 |
| | Cactus Lake | 14.9% | 82 | 3,000 |
| | Wascana | 100.0% | 107 | 4,000 |
| | Wapella | 100.0% | 73 | 16,000 |
| | Joarcam | 100.0% | 35 | 3,000 |
| | South Sask | 100.0% | 158 | 48,000 |
| | Canada Total | | 667 | 255,000 |
| | Total | | 13,370 | 1,821,000 |

(1) Reflects volumes for the entire year for all pipeline systems including those reclassified to the pipeline segment during 2005.

### Gathering, Marketing, Terminalling and Storage Operations

The combination of our gathering and marketing operations and our terminalling and storage operations provides a counter-cyclical balance that has a stabilizing effect on our operations and cash flow. The strategic use of our terminalling and storage assets in conjunction with our gathering and marketing operations generally provides us with the flexibility to maintain a base level of margin irrespective of whether a strong or weak market exists and, in certain circumstances, to realize incremental margin during volatile market conditions. Following is a description of our activities with respect to this segment.

### *Gathering and Marketing Operations*

*Crude Oil.* The majority of our gathering and marketing activities are in the geographic locations previously discussed. These activities include:

- purchasing crude oil from producers at the wellhead and in bulk from aggregators at major pipeline interconnects or trading locations, as well as foreign cargoes at their load port and various other locations in transit;
- transporting crude oil on our own proprietary gathering assets and our common carrier pipelines or, when necessary or cost effective, assets owned and operated by third parties, including pipelines, trucks, barges and ocean-going vessels;
- exchanging crude oil for another grade of crude oil or at a different geographic location, as appropriate, in order to maximize margins or meet contract delivery requirements; and
- marketing crude oil to refiners or other resellers.

We purchase crude oil from multiple producers and believe that we generally have established broad-based relationships with the crude oil producers in our areas of operations. Gathering and marketing activities involve relatively large volumes of transactions, often with lower margins than pipeline and terminalling and storage operations.

The following table shows the average daily volume of our lease gathering and bulk purchases for the past five years:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (barrels in thousands) | | | | |
| Lease gathering | 610 | 589 | 437 | 410 | 348 |
| Bulk purchases (domestic and foreign) | 219 | 161 | 90 | 68 | 46 |
| Total volumes per day | 829 | 750 | 527 | 478 | 394 |

*Crude Oil Purchases.* We purchase crude oil in North America from producers under contracts, the majority of which range in term from a thirty-day evergreen to three year term. In a typical producer's operation, crude oil flows from the wellhead to a separator where the petroleum gases are removed. After separation, the crude oil is treated to remove water, sand and other contaminants and is then moved into the producer's on-site storage tanks. When the tank is approaching capacity, the producer contacts our field personnel to purchase and transport the crude oil to market. We utilize our truck fleet and gathering pipelines as well as third party pipelines, trucks, barges and ocean-going vessels to transport the crude oil to market. We own or lease approximately 500 trucks used for gathering crude oil. In addition, we purchase foreign crude oil. Under these contracts we may purchase crude oil upon delivery in the U.S. or we may purchase crude oil in foreign locations and transport crude oil on third party tankers.

*Bulk Purchases.* In addition to purchasing crude oil from producers, we purchase both domestic and foreign crude oil in bulk at major pipeline terminal locations and barge facilities. We purchase crude oil in bulk when we believe additional opportunities exist to realize margins further downstream in the crude oil distribution chain. The opportunities to earn additional margins vary over time with changing market conditions.

*Crude Oil Sales.* The marketing of crude oil is complex and requires current detailed knowledge of crude oil sources and end markets and a familiarity with a number of factors including grades of crude oil, individual refinery demand for specific grades of crude oil, area market price structures for the different grades of crude oil, location of customers, availability of transportation facilities and timing and costs (including storage) involved in delivering crude oil to the appropriate customer. We sell our crude oil to major integrated oil companies, independent refiners and other resellers in various types of sale and exchange transactions. The majority of these contracts are at market prices and have terms ranging from one month to three years.

We establish a margin for crude oil we purchase by selling crude oil for physical delivery to third party users, such as independent refiners or major oil companies, or by entering into a future delivery obligation with respect to futures contracts on the NYMEX, International Petroleum Exchange ("IPE") or over-the-counter. Through these transactions, we seek to maintain a position that is substantially balanced between crude oil purchases and sales and future delivery obligations. From time to time, we enter into various types of sale and exchange transactions including fixed price delivery contracts, floating price collar arrangements, financial swaps and crude oil futures contracts as hedging devices. Except for pre-defined inventory positions, our policy is generally to purchase only crude oil for which we have a market, to structure our sales contracts so that crude oil price fluctuations do not materially affect the segment profit we receive, and to not acquire and hold crude oil, futures contracts or other derivative products for the purpose of speculating on crude oil price changes as these activities could expose us to significant losses.

*Crude Oil Exchanges.* We pursue exchange opportunities to enhance margins throughout the gathering and marketing process. When opportunities arise to increase our margin or to acquire a grade of crude oil that more closely matches our physical delivery requirement or the preferences of our refinery customers, we exchange physical crude oil with third parties. These exchanges are effected through contracts called exchange or buy/sell agreements. Through an exchange agreement, we agree to buy crude oil that differs in terms of geographic location, grade of crude oil or physical delivery schedule from crude oil we have available for sale. Generally, we enter into exchanges to acquire crude oil at locations that are closer to our end markets, thereby reducing transportation costs and increasing our margin. We also exchange our crude oil to be physically delivered at a later date, if the exchange is expected to result in a higher margin net of storage costs, and enter into exchanges based on the grade of crude oil, which includes such factors as sulfur content and specific gravity, in order to meet the quality specifications of our physical delivery contracts. The accounting for buy/sell agreements is expected to change in 2006. See Note 2 to our Consolidated Financial Statements.

*Producer Services.* Crude oil purchasers who buy from producers compete on the basis of competitive prices and highly responsive services. Through our team of crude oil purchasing representatives, we maintain ongoing relationships with producers in the United States and Canada. We believe that our ability to offer high-quality field and administrative services to producers is a key factor in our ability to maintain volumes of purchased crude oil and to obtain new volumes. Field services include efficient gathering capabilities, availability of trucks, willingness to construct gathering pipelines where economically justified, timely pickup of crude oil from tank batteries at the lease or production point, accurate measurement of crude oil volumes received, and effective management of pipeline deliveries. Accounting and other administrative services include securing division orders (statements from interest owners affirming the division of ownership in crude oil purchased by us), providing statements of the crude oil purchased each month, disbursing production proceeds to interest owners, and calculating and paying ad valorem and production taxes on behalf of interest owners. In order to compete effectively, we must maintain records of title and division order interests in an accurate and timely manner for purposes of making prompt and correct payment of crude oil production proceeds, together with the correct payment of all severance and production taxes associated with such proceeds.

*Liquefied Petroleum Gas and Other Petroleum Products.* We also market and store LPG and other petroleum products in the United States and Canada. These activities include:

- purchasing LPG (primarily propane and butane) from producers at gas plants and in bulk at major pipeline terminal points and storage locations;
- transporting the LPG via common carrier pipelines, railcars and trucks to our own terminals and third party facilities for subsequent resale to retailers and other wholesale customers; and
- exchanging product to other locations to maximize margins and /or to meet contract delivery requirements.

We purchase LPG from numerous producers and have established long-term, broad based relationships with LPG producers in our areas of operation. We purchase LPG directly from gas plants, major pipeline terminals, refineries and storage locations. Marketing activities for LPG typically consist of smaller volumes per transaction relative to crude oil.

*LPG Purchases.* We purchase LPG from producers, refiners, and other LPG marketing companies under contracts that range from immediate delivery to one year in term. In a typical producer's or refiner's operation, LPG that is produced at the gas plant or refinery is fractionated into various components including propane and butane and then purchased by us for movement via tank truck, railcar or pipeline.

In addition to purchasing LPG at gas plants or refineries, we also purchase LPG in bulk at major pipeline terminal points and storage facilities from major oil companies, large independent producers or other LPG marketing companies. We purchase LPG in bulk when we believe additional opportunities exist to realize margins further downstream in our LPG distribution chain. The opportunities to earn additional margins vary over time with changing market conditions. Accordingly, the margins associated with our bulk purchases will fluctuate from period to period.

*LPG Sales.* The marketing of LPG is complex and requires current detailed knowledge of LPG sources and end markets and a familiarity with a number of factors including the various modes and availability of transportation, area market prices and timing and costs of delivering LPG to customers.

We sell LPG primarily to industrial end users and retailers, and limited volumes to other marketers. Propane is sold to small independent retailers who then transport the product via bobtail truck to residential consumers for home heating and to some light industrial users such as forklift operators. Butane is used by refiners for gasoline blending and as a diluent for the movement of conventional heavy oil production. Butane demand for use as a heavy oil diluent has increased as indigenous supplies of Canadian condensate have declined.

We establish a margin for propane by transporting it in bulk, via various transportation modes, to terminals where we deliver the propane to our retailer customers for subsequent delivery to their individual heating customers. We also create margin by selling propane for future physical delivery to third party users, such as retailers and industrial users. Through these transactions, we seek to maintain a position that is substantially balanced between propane purchases and sales and future delivery obligations. From time to time, we enter into various types of sale and exchange transactions including floating price collar arrangements, financial swaps and crude oil and LPG-related futures contracts as hedging devices. Except for pre-defined inventory positions, our policy is generally to purchase only LPG for which we have a market, and to structure our sales contracts so that LPG spot price fluctuations do not materially affect the segment profit we receive. Margin is created on the butane purchased by delivering large volumes during the short refinery blending season through the use of our extensive leased railcar fleet and the use of our own storage facilities and third party storage facilities. We also create margin on butane by capturing the difference in price between condensate and butane when butane is used to replace condensate as a diluent for the movement of Canadian heavy oil production. Although we seek to maintain a position that is substantially balanced within our LPG activities, as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions, from time to time we experience net unbalanced positions for short periods of time. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for our core business, our policies provide that any net imbalance may not exceed 250,000 barrels. These activities are monitored independently by our risk management function and must take place within predefined limits and authorizations.

*LPG Exchanges.* We pursue exchange opportunities to enhance margins throughout the marketing process. When opportunities arise to increase our margin or to acquire a volume of LPG that more closely matches our physical delivery requirement or the preferences of our customers, we exchange physical LPG with third parties. These exchanges are effected through contracts called exchange or buy/sell agreements. Through an exchange agreement, we agree to buy LPG that differs in terms of geographic location, type of LPG or physical delivery schedule from LPG we have available for sale. Generally, we enter into exchanges to acquire LPG at locations that are closer to our end markets in order to meet the delivery specifications of our physical delivery contracts.

*Credit.* Our merchant activities involve the purchase of crude oil and LPG for resale and require significant extensions of credit by our suppliers of crude oil and LPG. In order to assure our ability to perform our obligations under crude oil purchase agreements, various credit arrangements are negotiated with our suppliers. These arrangements include open lines of credit directly with us and, to a lesser extent, standby letters of credit issued under our senior unsecured revolving credit facility.

When we sell crude oil and LPG, we must determine the amount, if any, of the line of credit to be extended to any given customer. We manage our exposure to credit risk through credit analysis, credit approvals, credit limits and monitoring procedures. If we determine that a customer should receive a credit line, we must then decide on the amount of credit that should be extended.

Because our typical crude oil sales transactions can involve tens of thousands of barrels of crude oil, the risk of nonpayment and nonperformance by customers is a major consideration in our business. We believe our sales are made to creditworthy entities or entities with adequate credit support. Generally, sales of crude oil are settled within 30 days of the month of delivery (in the case of foreign cargoes, typically 10 days after delivery), and pipeline, transportation and terminalling services also settle within 30 days from invoice for the provision of services.

We also have credit risk with respect to our sales of LPG; however, because our sales are typically in relatively small amounts to individual customers, we do not believe that we have material concentration of credit risk. Typically, we enter into annual contracts to sell LPG on a forward basis, as well as sell LPG on a current basis to local distributors and retailers. In certain cases our customers prepay for their purchases, in amounts ranging from approximately $2 per barrel to 100% of their contracted amounts. Generally, sales of LPG are settled within 30 days of the date of invoice.

***Terminalling and Storage Operations***

We own approximately 39 million barrels of active above-ground crude oil terminalling and storage assets. Approximately 15 million barrels of capacity are used in our GMT&S segment, and the remaining 24 million barrels are used in our Pipeline segment. Our storage and terminalling operations increase our margins in our business of purchasing and selling crude oil and also generate revenue through a combination of storage and throughput charges to third parties. Storage fees are generated when we lease tank capacity to third parties. Terminalling fees, also referred to as throughput fees, are generated when we receive crude oil from one connecting pipeline and redeliver crude oil to another connecting carrier in volumes that allow the refinery to receive its crude oil on a ratable basis throughout a delivery period. Both terminalling and storage fees are generally earned from:

- refiners and gatherers that segregate or custom blend crudes for refining feedstocks; and
- pipeline operators, refiners or traders that need segregated tankage for foreign cargoes.

The tankage that is used to support our arbitrage activities positions us to capture margins in a contango market (when the oil prices for future deliveries are higher than the current prices) or when the market switches from contango to backwardation (when the oil prices for future deliveries are lower than the current prices).

Our most significant terminalling and storage asset is our Cushing Terminal located at the Cushing Interchange. The Cushing Interchange is one of the largest wet-barrel trading hubs in the U.S. and the delivery point for crude oil futures contracts traded on the NYMEX. The Cushing Terminal has been designated by the NYMEX as an approved delivery location for crude oil delivered under the NYMEX light sweet crude oil futures contract. As the NYMEX delivery point and a cash market hub, the Cushing Interchange serves as a primary source of refinery feedstock for the Midwest refiners and plays an integral role in establishing and maintaining markets for many varieties of foreign and domestic crude oil. Our Cushing Terminal was constructed in 1993, with an initial tankage capacity of 2 million barrels, to capitalize on the crude oil supply and demand imbalance in the Midwest. The Cushing Terminal is also used to support and enhance the margins associated with our merchant activities relating to our lease gathering and bulk purchasing activities. See "—Gathering, Marketing, Terminalling and Storage Operations—Gathering and Marketing Operations—Bulk Purchases." Since 1999, we have completed five separate expansion phases, which increased the capacity of the Cushing Terminal to a total of approximately 7.4 million barrels. The Cushing Terminal now consists of fourteen 100,000-barrel tanks, four 150,000-barrel tanks and twenty 270,000-barrel tanks, all of which are used to store and terminal crude oil. The Cushing Terminal also includes a pipeline manifold and pumping system that has an estimated throughput capacity of over 1.0 million barrels per day. The Cushing Terminal is connected to the major pipelines and other terminals in the Cushing Interchange through pipelines that range in size from 10 inches to 24 inches in diameter.

The Cushing Terminal is designed to serve the needs of refiners in the Midwest (PADD II). In order to service an increase in volumes and varieties of foreign and domestic crude oil projected to be transported through the Cushing Interchange, we incorporated certain attributes into the original design of the Cushing Terminal including:

- multiple, smaller tanks to facilitate simultaneous handling of multiple crude varieties in accordance with normal pipeline batch sizes;
- dual header systems connecting most tanks to the main manifold system to facilitate efficient switching between crude grades with minimal contamination;

- bottom drawn sumps that enable each tank to be efficiently drained down to minimal remaining volumes to minimize crude oil contamination and maintain crude oil integrity during changes of service;
- mixer(s) on each tank to facilitate blending crude oil grades to refinery specifications; and
- a manifold and pump system that allows for receipts and deliveries with connecting carriers at their maximum operating capacity.

As a result of incorporating these attributes into the design of the Cushing Terminal, we believe we are favorably positioned to serve the needs of Midwest (PADD II) refiners to handle an increase in the number of varieties of crude oil transported through the Cushing Interchange. The pipeline manifold and pumping system of our Cushing Terminal is designed to support more than 10 million barrels of tank capacity. Our tankage in Cushing ranges in age from less than a year old to approximately 12 years old and the average age is approximately 5 years old. In contrast, we estimate that the average age of the remaining tanks in Cushing owned by third parties is in excess of 40 years. We believe that provides us with a long-term competitive advantage.

Our Cushing Terminal also incorporates numerous environmental and operational safeguards that distinguish it from all other facilities at the Cushing Interchange. Each tank is equipped with both primary and secondary floating roof seals, a secondary liner (the equivalent of a double bottom) with leak detection devices, dual zone overfill protection alarms and a foam dispersal system that, in the event of a fire, is fed by a fully automated fire water distribution system. Additionally, almost all terminal piping is aboveground for monitoring and inspection purposes and the facility is fully automated with real-time computer monitoring of operational data.

We also have a marine terminal in Mobile, Alabama (the “Mobile Terminal”) that consists of eighteen tanks ranging in size from 10,000 barrels to 225,000 barrels, with current useable capacity of 1.5 million barrels. Approximately 1.8 million barrels of additional storage capacity is available at our nearby Ten Mile Facility through a 36” pipeline connecting the two facilities. The Mobile Terminal is equipped with a ship/tanker dock, barge dock, truck-unloading facilities and various third party connections for crude movements to area refiners. Additionally, the Mobile Terminal serves as a source for imports of foreign crude oil to PADD II refiners through our Mississippi/Alabama pipeline system, which connects to the Capline System at our station in Liberty, Mississippi.

In 2005, we began construction of a 3.2 million barrel crude oil terminal at the St. James crude oil interchange in Louisiana, which is one of the three most liquid crude oil interchanges in the United States. We plan to build seven tanks ranging from 190,000 barrels to 625,000 barrels at the St. James Terminal, which is expected to be operational in mid-2007. The facility will also include a manifold and header system that will allow for receipts and deliveries with connecting pipelines at their maximum operating capacity.

We also own LPG storage facilities located in Alto, Michigan; Schaefferstown, Pennsylvania; Tulsa, Oklahoma and Claremont, New Hampshire. The Alto facility is approximately 20 miles southeast of Grand Rapids. The Alto facility is capable of storing over 1.2 million barrels of LPG. The Schaefferstown facility is approximately 65 miles northwest of Philadelphia and is capable of storing over 0.5 million barrels of propane. The Tulsa facility consists of a 130-mile pipeline originating in Medford, Oklahoma. The Tulsa Terminal is capable of storing 19,000 barrels of propane and has two truck loading stations. The Claremont facility is on the Vermont border and has the capacity to store approximately 17,000 barrels of propane. In addition, the Claremont facility has three truck loading stations and four rail unloading stations. We believe these facilities will further support the expansion of our LPG business in Canada and the northern tier of the U.S. as we combine the facilities’ existing fee-based storage business with our wholesale propane marketing expertise. In addition, there may be opportunities to expand these facilities as LPG markets continue to develop in the region.

### *Crude Oil Volatility; Counter Cyclical Balance; Risk Management*

Crude oil prices have historically been very volatile and cyclical, with NYMEX benchmark prices ranging from a high of almost $71 per barrel (August 2005) to as low as $10 per barrel (March 1986) over the last 20 years. Segment profit from terminalling and storage activities is dependent on the crude oil throughput volume, capacity leased to third parties, capacity that we use for our own activities, and the level of other fees generated at our terminalling and storage facilities. Segment profit from our gathering and marketing activities is dependent on our ability to sell crude oil at a price in excess of our aggregate cost. Although margins may be affected during transitional periods, these operations are not directly affected by the absolute level of crude oil prices, but are affected by overall levels of supply and demand for crude oil and relative fluctuations in market related indices.

During periods when supply exceeds the demand for crude oil, the market for crude oil is often in contango, meaning that the price of crude oil for future deliveries is higher than current prices. A contango market has a generally negative impact on marketing margins, but is favorable to the storage business, because storage owners at major trading locations (such as the Cushing Interchange) can simultaneously purchase production at current prices for storage and sell at higher prices for future delivery.

When there is a higher demand than supply of crude oil in the near term, the market is backwardated, meaning that the price of crude oil for future deliveries is lower than current prices. A backwardated market has a positive impact on marketing margins because crude oil gatherers can capture a premium for prompt deliveries. In this environment, there is little incentive to store crude oil as current prices are above future delivery prices.

The periods between a backwardated market and a contango market are referred to as transition periods. Depending on the overall duration of these transition periods, how we have allocated our assets to particular strategies and the time length of our crude oil purchase and sale contracts and storage lease agreements, these transition periods may have either an adverse or beneficial affect on our aggregate segment profit. A prolonged transition from a backwardated market to a contango market, or vice versa (essentially a market that is neither in pronounced backwardation nor contango), represents the most difficult environment for our gathering, marketing, terminalling and storage activities. When the market is in contango, we will use our tankage to improve our gathering margins by storing crude oil we have purchased for delivery in future months that are selling at a higher price. In a backwardated market, we use less storage capacity but increased marketing margins provide an offset to this reduced cash flow. We believe that the combination of our terminalling and storage activities and gathering and marketing activities provides a counter-cyclical balance that has a stabilizing effect on our operations and cash flow. In addition, we supplement the counter-cyclical balance of our asset base with derivative hedging activities in an effort to maintain a base level of margin irrespective of whether a strong or weak market exists and, in certain circumstances, to realize incremental margin during volatile market conditions. References to counter-cyclical balance elsewhere in this report are referring to this relationship between our terminalling and storage activities and our gathering and marketing activities in transitioning crude oil markets.

As use of the financial markets for crude oil has increased by producers, refiners, utilities and trading entities, risk management strategies, including those involving price hedges using NYMEX and IPE futures contracts and derivatives, have become increasingly important in creating and maintaining margins. In order to hedge margins involving our physical assets and manage risks associated with our crude oil purchase and sale obligations and, in certain circumstances, to realize incremental margin during volatile market conditions, we use derivative instruments, including regulated futures and options transactions, as well as over-the-counter instruments. In analyzing our risk management activities, we draw a distinction between enterprise level risks and trading related risks. Enterprise level risks are those that underlie our core businesses and may be managed based on whether there is value in doing so. Conversely, trading related risks (the risks involved in trading in the hopes of generating an increased return) are not inherent in the core business; rather, those risks arise as a result of engaging in the trading activity. Our risk management policies and procedures are designed to monitor NYMEX, IPE and over-the-counter positions and physical volumes, grades, locations and delivery schedules to ensure that our hedging activities are implemented in accordance with such policies. We have a risk management function that has direct responsibility and authority for our risk policies, our trading controls and procedures and certain other aspects of corporate risk management. Our risk management function also approves all new risk management strategies through a formal process. With the exception of the controlled trading program discussed below, our approved strategies are intended to mitigate enterprise level risks that are inherent in our core businesses of crude oil gathering and marketing and storage.

Our policy is generally to purchase only crude oil for which we have a market, and to structure our sales contracts so that crude oil price fluctuations do not materially affect the segment profit we receive. Except for the controlled trading program discussed below, we do not acquire and hold crude oil futures contracts or other derivative products for the purpose of speculating on crude oil price changes as these activities could expose us to significant losses.

Although we seek to maintain a position that is substantially balanced within our crude oil lease purchase and LPG activities, we may experience net unbalanced positions for short periods of time as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for our core business, we engage in a controlled trading program for up to an aggregate of 500,000 barrels of crude oil. This controlled trading activity is monitored independently by our risk management function and must take place within predefined limits and authorizations.

Although the intent of our risk-management strategies is to hedge our margin, not all of our derivatives qualify for hedge accounting. In such instances, changes in the fair values of these derivatives will receive mark-to-market treatment in current earnings, and result in greater potential for earnings volatility.

**Geographic Data; Financial Information about Segments**

See Note 13 to our Consolidated Financial Statements.

**Natural Gas Storage Market Overview**

After treatment for impurities such as carbon dioxide and hydrogen sulfide and processing to separate heavier hydrocarbons from the gas stream, natural gas from one source generally is fungible with natural gas from any other source. Because of its fungibility and physical volatility, natural gas presents different logistical transportation challenges than crude oil; however, we believe the U.S. natural gas supply and demand situation will ultimately face storage challenges very similar to those that exist in the North American crude oil sector. We believe these factors will result in an increased need and an attractive valuation for natural gas storage facilities in order to balance market demands. From 1990 to 2004, domestic natural gas production grew approximately 5% while domestic natural gas consumption rose approximately 16%, resulting in a 160% increase in the domestic supply shortfall over that time period. In addition, significant excess domestic production capacity contractually withheld from the market by take-or-pay contracts between natural gas producers and purchasers in the late 1980s and early 1990s has since been eliminated. This trend of an increasing domestic supply shortfall is expected to continue. By 2030, the EIA estimates that the U.S. will require approximately 5.6 trillion cubic feet of annual net natural gas imports (or approximately 15 billion cubic feet per day) to meet its demand, nearly 1.6 times the 2004 annual shortfall.

The vast majority of the projected supply shortfall is expected to be met with imports of liquefied natural gas (LNG). According to the FERC as of January 2006, plans for 39 new LNG terminals in the United States and Bahamas have been announced, 18 of which are to be situated along the Gulf Coast. Of the 18 proposed Gulf Coast facilities, three are under construction, six have been approved by the appropriate regulatory agencies, eight have applied for approval and one has been announced.

Normal depletion of regional natural gas supplies will require additional storage capacity to pre-position natural gas supplies for seasonal usage. In addition, we believe that the growth of LNG as a supply source will also increase the demand for natural gas storage as a result of inconsistent surges and shortfalls in supply based on LNG tanker deliveries, similar in many respects to the issues associated with waterborne crude oil imports. LNG shipments are exposed to a number of risks related to natural disasters and geopolitical factors, including hurricanes, earthquakes, tsunamis, inclement weather, labor strikes and facility disruptions, which can impact supply, demand and transportation and storage logistics. These factors are in addition to the already dramatic impact of seasonality and regional weather issues on natural gas markets.

**Description of PAA/Vulcan Natural Gas Storage Assets**

We believe strategically located natural gas storage facilities with multi-cycle injection and withdrawal capabilities and access to critical transportation infrastructure will play an increasingly important role in balancing the markets and ensuring reliable delivery of natural gas to the customer during peak demand periods. Our Pine Prairie facility is expected to become partially operational in 2007 and fully operational in 2009, and we believe it is well positioned to benefit from these evolving market dynamics. The facility is located near Gulf Coast supply sources and near the existing Lake Charles LNG terminal, which is the largest LNG import facility in the United States. Of the aforementioned 18 proposed new Gulf Coast facilities, six are planned for the Louisiana Gulf Coast—two are under construction, two have been approved and another two have applied for approval.

When completed, our Pine Prairie facility is expected to be a 24 Bcf salt cavern storage facility designed for high deliverability operating characteristics and multi-cycle capabilities. The site is located approximately 50 miles from the Henry Hub, the delivery point for NYMEX natural gas futures contracts, and is currently intended to interconnect with seven major pipelines serving the Midwest and the East Coast. Three additional pipelines are also located in the vicinity and offer the potential for future interconnects. We believe the facility's operating characteristics and strategic location position Pine Prairie to support the commercial functions of power generators, pipelines, utilities, energy merchants and LNG re-gasification terminal operators and provide potential customers with superior flexibility in managing their price and volumetric risk and balancing their natural gas requirements.

Our Bluewater gas storage facility, which is located in Michigan, is a depleted reservoir facility with an approximate 24 Bcf of capacity and is also strategically positioned. Natural gas storage facilities in the northern tier of the U.S. are traditionally used to meet seasonal demand and are typically cycled once or twice during a given year. Natural gas is injected during the summer months in order to provide for adequate deliverability during the peak demand winter months. Michigan is a very active market for natural gas storage as it meets nearly 75% of its peak winter demand from storage withdrawals. The Bluewater facility has direct interconnects to four major pipelines and has indirect access to another four pipelines as well as to Dawn, a major natural gas market hub in Canada.

We believe that our expertise in hydrocarbon storage, our strategically located assets, our financial strength and our commercial experience will enable us to play a meaningful role in meeting the challenges and capitalizing on the opportunities associated with the evolution of the U.S. natural gas storage markets.

Our investment in PAA/Vulcan is accounted for under the equity method of accounting. This investment is reflected in other long-term assets in our consolidated balance sheet and we do not consolidate any part of the assets or liabilities of PAA/Vulcan. Our share of net income or loss is reflected as one line item on the income statement and will increase or decrease, as applicable, the carrying value of our investment on the balance sheet. Distributions to the Partnership will reduce the carrying value of our investment and will be reflected on our cash flow statement. Due to the lead-time associated with constructing the Pine Prairie facility and the anticipated terms of the construction financing arrangements, we do not expect our ownership in PAA/Vulcan to have a meaningful impact on the income statement nor do we expect to receive cash distributions from PAA/Vulcan until 2009 or 2010.

### Customers

Marathon Petroleum Company LLC, and its predecessor Marathon Ashland Petroleum (“MAP”), accounted for 11%, 10% and 12% of our revenues in 2005, 2004, and 2003, respectively. BP Oil Supply Company also accounted for 14% of our revenues in 2005 and 10% of our revenues in 2004. No other customers accounted for 10% or more of our revenues during 2005, 2004 or 2003. The majority of the revenues from MAP and BP Oil Supply Company pertain to our gathering, marketing, terminalling and storage operations. We believe that the loss of these customers would have only a short-term impact on our operating results. There can be no assurance, however, that we would be able to identify and access a replacement market at comparable margins.

### Competition

Competition among pipelines is based primarily on transportation charges, access to producing areas and demand for the crude oil by end users. We believe that high capital requirements, environmental considerations and the difficulty in acquiring rights-of-way and related permits make it unlikely that competing pipeline systems comparable in size and scope to our pipeline systems will be built in the foreseeable future. However, to the extent there are already third party owned pipelines or owners with joint venture pipelines with excess capacity in the vicinity of our operations, we will be exposed to significant competition based on the incremental cost of moving an incremental barrel of crude oil.

We also face competition in our gathering, marketing, terminalling and storage operations. Our competitors include other crude oil pipeline companies, the major integrated oil companies, their marketing affiliates and independent gatherers, brokers and marketers of widely varying sizes, financial resources and experience. Some of these competitors have capital resources many times greater than ours, and control greater supplies of crude oil.

### Regulation

Our operations are subject to extensive regulations. We estimate that we are subject to regulatory oversight by over 70 federal, state, provincial and local departments and agencies, many of which are authorized by statute to issue and have issued laws and regulations binding on the oil pipeline industry, related businesses and individual participants. The failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on our operations increases our cost of doing business and, consequently, affects our profitability. However, except for certain exemptions that apply to smaller companies, we do not believe that we are affected in a significantly different manner by these laws and regulations than are our competitors. Following is a discussion of certain laws and regulations affecting us. However, due to the myriad of complex federal, state, provincial and local regulations that may affect us, directly or indirectly, you should not rely on such discussion as an exhaustive review of all regulatory considerations affecting our operations.

### *Pipeline and Storage Regulation*

A substantial portion of our petroleum pipelines and storage tanks in the United States are subject to regulation by the U.S. Department of Transportation's ("DOT") Office of Pipeline Safety with respect to the design, installation, testing, construction, operation, replacement and management of pipeline and tank facilities. Comparable regulation exists in some states in which we conduct intrastate common carrier or private pipeline operations, as well as in Canada under the National Energy Board ("NEB") and provincial agencies. In addition, we must permit access to and copying of records, and must make certain reports available and provide information as required by the Secretary of Transportation. Federal pipeline safety rules also require pipeline operators to develop and maintain a written qualification program for individuals performing covered tasks on pipeline facilities.

In 2001, the DOT adopted the initial pipeline integrity management rule, which required operators of jurisdictional pipelines transporting hazardous liquids to develop and follow an integrity management program that provides for continual assessment of the integrity of all pipeline segments that could affect so-called "high consequence areas," including high population areas, areas that are sources of drinking water, ecological resource areas that are unusually sensitive to environmental damage from a pipeline release, and commercially navigable waterways. In December 2003, the DOT issued a final rule requiring natural gas pipeline operators to develop similar integrity management programs for gas transmission pipelines located in high consequence areas. Segments of our pipelines transporting hazardous liquids and/or natural gas in high consequence areas are subject to these DOT rules and therefore obligate us to evaluate pipeline conditions by means of periodic internal inspection, pressure testing, or other equally effective assessment means, and to correct identified anomalies. If, as a result of our evaluation process, we determine that there is a need to provide further protection to high consequence areas, then we will be required to implement additional spill prevention, mitigation and risk control measures for our pipelines. The DOT rules also require us to evaluate and, as necessary, improve our management and analysis processes for integrating available integrity related data relating to our pipeline segments and to remediate potential problems found as a result of the required assessment and evaluation process. Costs associated with this program were approximately $4.7 million in 2005 and approximately $5 million in 2004. Based on currently available information, our preliminary estimate for 2006 is approximately $10.0 million. The relative increase in program cost over the last few years is primarily attributable to pipeline segments acquired in 2004 and 2003 (including the Link assets), which are subject to the new rules and for which assessment commenced in 2004. Certain of these costs are recurring in nature and thus will impact future periods. We will continue to refine our estimates as information from our assessments is collected. Our estimates do not include the potential costs associated with assets to be acquired in the future. Although we believe that our pipeline operations are in substantial compliance with currently applicable regulatory requirements, we cannot predict the potential costs associated with additional, future regulation.

The DOT is currently considering expanding the scope of its pipeline regulation to include certain gathering pipeline systems that are not currently subject to regulation. This expanded scope could include the establishment of additional pipeline integrity management programs for these newly regulated pipelines. We do not currently know what, if any, impact this will have on our operating expenses. However, we cannot assure you that future costs related to the potential programs will not be material.

During 2006, we are expanding an internal review process started in 2004 in which we are reviewing various aspects of our pipeline and gathering systems that are not subject to the DOT pipeline integrity management rule. The purpose of this process is to review the surrounding environment, condition and operating history of these pipelines and gathering assets to determine if such assets warrant additional investment or replacement. Accordingly, we could be required (as a result of additional DOT regulation) or we may elect (as a result of our own internal initiatives) to spend substantial sums to ensure the integrity of and upgrade our pipeline systems to maintain environmental compliance, and in some cases, we may take pipelines out of service if we believe the cost of upgrades will exceed the value of the pipelines. We cannot provide any assurance as to the ultimate amount or timing of future pipeline integrity expenditures for environmental compliance.

States are largely preempted by federal law from regulating pipeline safety but may assume responsibility for enforcing federal intrastate pipeline regulations and inspection of intrastate pipelines. In practice, states vary considerably in their authority and capacity to address pipeline safety. We do not anticipate any significant problems in complying with applicable state laws and regulations in those states in which we operate.

The DOT has adopted API 653 as the standard for the inspection, repair, alteration and reconstruction of existing crude oil storage tanks subject to DOT jurisdiction (approximately 77% of our 39 million barrels are subject to DOT jurisdiction). API 653 requires regularly scheduled inspection and repair of tanks remaining in service. Full compliance is required by 2009. Costs associated with this program were approximately $4.4 million and $3 million in 2005 and 2004, respectively. Based on currently available information, we anticipate we will spend an approximate average of $10.0 million per year from 2006 through 2009 in connection with API 653 compliance activities. Such amounts incorporate the costs associated with the assets acquired in 2004 and 2003. Our estimates do not include the potential costs associated with assets to be acquired in the future. In some cases, we may take storage tanks out of service if we believe the cost of upgrades will exceed the value of the storage tanks. We will continue to refine our estimates as information from our assessments is collected.

We have instituted security measures and procedures, in accordance with DOT guidelines, to enhance the protection of certain of our facilities from terrorist attack. We cannot assure you that these security measures would fully protect our facilities from a concentrated attack. See "—Operational Hazards and Insurance."

In Canada, the NEB and provincial agencies such as the Alberta Energy and Utilities Board and the Saskatchewan Industry and Resources have promulgated regulations similar to U.S. pipeline integrity management rules and API 653 standards. In addition, we expect to incur compliance costs under other regulations related to pipeline and storage tank integrity, such as operator competency programs, regulatory upgrades to our operating and maintenance systems and environmental upgrades of buried sump tanks. We spent approximately $4.9 million in 2005 and $4.1 million in 2004 on compliance activities. Our preliminary estimate for 2006 is approximately $5.0 million. Certain of these costs are recurring in nature and thus will impact future periods. We will continue to refine our estimates as information from our assessments is collected. Our estimates do not include the potential costs associated with assets to be acquired in the future. Although we believe that our pipeline operations are in substantial compliance with currently applicable regulatory requirements, we cannot predict the potential costs associated with additional, future regulation.

Asset acquisitions are an integral part of our business strategy. As we acquire additional assets, we may be required to incur additional costs in order to ensure that the acquired assets comply with the regulatory standards in the U.S. and Canada.

### *Transportation Regulation*

*General Interstate Regulation.* Our interstate common carrier pipeline operations are subject to rate regulation by the FERC under the Interstate Commerce Act. The Interstate Commerce Act requires that tariff rates for petroleum pipelines, which include both crude oil pipelines and refined product pipelines, be just and reasonable and non-discriminatory.

*State Regulation.* Our intrastate pipeline transportation activities are subject to various state laws and regulations, as well as orders of state regulatory bodies.

*Canadian Regulation.* Our Canadian pipeline assets are subject to regulation by the NEB and by provincial agencies. With respect to a pipeline over which it has jurisdiction, each of these agencies has the power, upon application by a third party, to determine the rates we are allowed to charge for transportation on, and set other terms of access to, such pipeline. In such circumstances, if the relevant regulatory agency determines that the applicable terms and conditions of service are not just and reasonable, the agency can amend the offending provisions of an existing transportation contract.

*Energy Policy Act of 1992 and Subsequent Developments.* In October 1992, Congress passed the Energy Policy Act of 1992 ("EPAct"), which among other things, required the FERC to issue rules establishing a simplified and generally applicable ratemaking methodology for petroleum pipelines and to streamline procedures in petroleum pipeline proceedings. The FERC responded to this mandate by issuing several orders, including Order No. 561. Beginning January 1, 1995, Order No. 561 enables petroleum pipelines to change their rates within prescribed ceiling levels that are tied to an inflation index. Specifically, the indexing methodology allows a pipeline to increase its rates annually by a percentage equal to the change in the producer price index for finished goods ("PPI-FG") to the new ceiling level. Rate increases made pursuant to the indexing methodology are subject to protest, but such protests must show that the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline's increase in costs. If the PPI-FG falls and the indexing methodology results in a reduced ceiling level that is lower than a pipeline's filed rate, Order No. 561 requires the pipeline to reduce its rate to comply with the lower ceiling unless doing so would reduce a rate "grandfathered" by EPAct (see below) below the grandfathered level. A pipeline must, as a general rule, utilize the indexing methodology to change its rates. The FERC, however, retained cost-of-service ratemaking, market based rates, and settlement as alternatives to the indexing approach, which alternatives may be used in certain specified circumstances. The FERC is currently reviewing its indexing methodology. If the FERC continues its policy of using the PPI-FG, changes in the PPI-FG might not fully reflect actual increases in the costs associated with the pipelines subject to indexing, thus hampering our ability to recover cost increases.

The EPAct deemed petroleum pipeline rates in effect for the 365-day period ending on the date of enactment of EPAct that had not been subject to complaint, protest or investigation during that 365-day period to be just and reasonable under the Interstate Commerce Act. Generally, complaints against such "grandfathered" rates may only be pursued if the complainant can show that a substantial change has occurred since the enactment of EPAct in either the economic circumstances of the oil pipeline, or in the nature of the services provided, that were a basis for the rate. EPAct places no such limit on challenges to a provision of an oil pipeline tariff as unduly discriminatory or preferential.

On July 20, 2004, the United States Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") issued its opinion in *BP West Coast Products, LLC v. FERC,* which upheld FERC's determination that the rates of an interstate petroleum products pipeline, SFPP, L.P. ("SFPP"), were grandfathered rates under EPAct and that SFPP's shippers had not demonstrated substantially changed circumstances that would justify modification of those rates. The court also vacated the portion of the FERC's decision applying the *Lakehead* policy, under which the FERC allowed a regulated entity organized as a master limited partnership to include in its cost-of-service an income tax allowance to the extent that entity's unitholders were corporations subject to income tax. On May 4, 2005, the FERC adopted a policy statement in Docket No. PL05-5 ("Policy Statement"), stating that it would permit entities owning public utility assets, including oil pipelines, to include an income tax allowance in such utilities' cost-of-service rates to reflect the actual or potential income tax liability attributable to their public utility income, regardless of the form of ownership. Pursuant to the Policy Statement, a tax pass-through entity seeking such an income tax allowance would have to establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as pass-through entities, such as master limited partnerships ("MLPs"), it still entails rate risk due to the case-by-case review requirement. The new tax allowance policy has been appealed to the D.C. Circuit. As a result, the ultimate outcome of these proceedings is not certain and could result in changes to the FERC's treatment of income tax allowances in cost of service. How the policy statement on income tax allowances is applied in practice to pipelines owned by MLPs, and whether it is ultimately upheld or modified on judicial review, could affect the rates of FERC regulated pipelines.

Additionally, in *BP West Coast*, the court remanded to the FERC the issue of whether SFPP's revised cost-of-service without a tax allowance would qualify as a substantially changed circumstance that would justify modification of SFPP's rates. The FERC determined in the SFPP case that its policy statement on income tax allowances does not represent a change from its pre-EPAct policy and therefore cannot be a basis for finding rates not to be grandfathered. It is not clear what impact, if any, this determination will have on our rates or on the rates of other FERC-jurisdictional pipelines organized as tax pass-through entities. Moreover, we have no way of knowing whether the FERC's determination on this issue will withstand further FERC or judicial review. Further, we have no way of knowing what effect, if any, action by the FERC and/or the D.C. Circuit might have on our rates should they be challenged.

*Our Pipelines.* The FERC generally has not investigated rates on its own initiative when those rates have not been the subject of a protest or complaint by a shipper. Substantially all of our segment profit on transportation is produced by rates that are either grandfathered or set by agreement with one or more shippers.

### ***Trucking Regulation***

We operate a fleet of trucks to transport crude oil and oilfield materials as a private, contract and common carrier. We are licensed to perform both intrastate and interstate motor carrier services. As a motor carrier, we are subject to certain safety regulations issued by the DOT. The trucking regulations cover, among other things, driver operations, maintaining log books, truck manifest preparations, the placement of safety placards on the trucks and trailer vehicles, drug and alcohol testing, safety of operation and equipment, and many other aspects of truck operations. We are also subject to the Occupational Safety and Health Act, as amended ("OSHA"), with respect to our trucking operations.

Our trucking assets in Canada are subject to regulation by both federal and provincial transportation agencies in the provinces in which they are operated. These regulatory agencies do not set freight rates, but do establish and administer rules and regulations relating to other matters including equipment and driver licensing, equipment inspection, hazardous materials and safety.

### ***Cross Border Regulation***

As a result of our Canadian acquisitions and cross border activities, including importation of crude oil into the United States, we are subject to a variety of legal requirements pertaining to such activities including export/import license requirements, tariffs, Canadian and U.S. customs and taxes and requirements relating to toxic substances. U.S. legal requirements relating to these activities include regulations adopted pursuant to the Short Supply Controls of the Export Administration Act, the North American Free Trade Agreement and the Toxic Substances Control Act. Violations of these license, tariff and tax reporting requirements or failure to provide certifications relating to toxic substances could result in the imposition of significant administrative, civil and criminal penalties. Furthermore, the failure to comply with U.S., Canadian, state, provincial and local tax requirements could lead to the imposition of additional taxes, interest and penalties.

***Natural Gas Storage Regulation***

*Interstate Regulation.* The interstate storage facilities that we have an investment in are or will be subject to rate regulation by the FERC under the Natural Gas Act. The Natural Gas Act requires that tariff rates for gas storage facilities be just and reasonable and non-discriminatory. The FERC has authority to regulate rates and charges for natural gas transported and stored for U.S. interstate commerce or sold by a natural gas company via interstate commerce for resale. The FERC has granted market-based rate authority under its existing regulations to PAA/Vulcan's Pine Prairie Energy Center, which is under construction in Louisiana. The FERC also has authority over the construction and operation of U.S. transportation and storage facilities and related facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. Absent an exemption granted by the FERC, FERC regulations restrict access to U.S. interstate natural gas storage customer data by marketing and other energy affiliates, and place certain conditions on services provided by the U.S. storage facility operators to their affiliated gas marketing entities. These regulations affect the activities of non-regulated affiliates of PAA/Vulcan.

*State Regulation.* The intrastate storage facilities that we have an investment in are subject to regulation by the Michigan Public Service Commission. The Michigan State Public Service Commission has authority to regulate rates and charges for natural gas transported and stored within Michigan. The Michigan Public Service Commission also has authority over the construction and operation of transportation and storage facilities and related facilities used in the transportation, storage and sale of natural gas within Michigan, including the extension, enlargement or abandonment of such facilities.

**Environmental, Health and Safety Regulation**

***General***

Our operations involving the storage, treatment, processing, and transportation of liquid hydrocarbons including crude oil are subject to stringent federal, state, provincial and local laws and regulations governing the discharge of materials into the environment or otherwise relating to protection of the environment. As with the industry generally, compliance with these laws and regulations increases our overall cost of business, including our capital costs to construct, maintain and upgrade equipment and facilities. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties, the imposition of investigatory and remedial liabilities, and even the issuance of injunctions that may restrict or prohibit our operations. Environmental laws and regulations are subject to change, and we cannot provide any assurance that compliance with current and future laws and regulations will not have a material effect on our results of operations or earnings. A discharge of hazardous liquids into the environment could, to the extent such event is not insured, subject us to substantial expense, including both the cost to comply with applicable laws and regulations and any claims made by neighboring landowners and other third parties for personal injury and property damage.

***Water***

The U.S. Oil Pollution Act ("OPA") subjects owners of facilities to strict, joint and potentially unlimited liability for containment and removal costs, natural resource damages, and certain other consequences of an oil spill, where such spill is into navigable waters, along shorelines or in the exclusive economic zone of the U.S. The OPA establishes a liability limit of $350 million for onshore facilities. However, a party cannot take advantage of this liability limit if the spill is caused by gross negligence or willful misconduct, resulted from a violation of a federal safety, construction, or operating regulation, or if there is a failure to report a spill or cooperate in the cleanup. We believe that we are in substantial compliance with applicable OPA requirements. Analogous state and Canadian federal and provincial laws also impose requirements relating to the prevention of oil spills and the remediation of areas affected by spills when they occur. We believe that we are in substantial compliance with all such state and Canadian requirements.

The U.S. Clean Water Act and analogous state and Canadian federal and provincial laws impose restrictions and strict controls regarding the discharge of pollutants into navigable waters of the United States and Canada, as well as state and provincial waters. See Note 10 to our Consolidated Financial Statements. Permits must be obtained to discharge pollutants into these waters. The Clean Water Act imposes substantial potential liability for the removal and remediation of pollutants. Although we can give no assurances, we believe that compliance with existing permits and compliance with foreseeable new permit requirements will not have a material adverse effect on our financial condition or results of operations.

Some states and all provinces maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions. We believe that we are in substantial compliance with any such applicable state requirements.

In addition to the costs described above we could also be required to spend substantial sums to ensure the integrity of and upgrade our pipeline systems as a result of oil spills, and in some cases, we may take pipelines out of service if we believe the cost of upgrades will exceed the value of the pipelines. We cannot provide any assurance as to the ultimate amount or timing of future pipeline integrity expenditures for environmental compliance.

***Air Emissions***

Our operations are subject to the U.S. Clean Air Act and comparable state and provincial laws. Under these laws, permits may be required before construction can commence on a new source of potentially significant air emissions and operating permits may be required for sources already constructed. We may be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with obtaining or maintaining permits and approvals for sources of air emissions. Although we believe that our operations are in substantial compliance with these laws in those areas in which we operate, we can provide no assurance that future compliance obligations will not have a material adverse effect on our financial condition or results of operations.

Canada is a participant in the Kyoto Protocol of the United Nations Framework Convention on Climate Change. The Kyoto Protocol requires Canada to reduce its emissions of carbon dioxide and other “greenhouse gases” to six percent below 1990 levels by 2012. As a result, it is possible that already stringent air emissions regulations applicable to our operations in Canada will be replaced with even stricter requirements prior to 2012. We are currently monitoring the impact on our operations of proposed changes in regulations that will be necessary as a result of Canada’s participation in the Kyoto Protocol.

***Solid Waste***

We generate wastes, including hazardous wastes, that are subject to the requirements of the federal Resource Conservation and Recovery Act (“RCRA”) and comparable state and provincial laws. We are not required to comply with a substantial portion of the RCRA requirements because our operations generate primarily oil and gas wastes, which currently are excluded from consideration as RCRA hazardous wastes. However, it is possible that in the future oil and gas wastes may be included as RCRA hazardous wastes, in which event our wastes as well as the wastes of our competitors in the oil and gas industry will be subject to more rigorous and costly disposal requirements, resulting in additional capital expenditures or operating expenses for us and the industry in general.

***Hazardous Substances***

The federal Comprehensive Environmental Response, Compensation and Liability Act, as amended (“CERCLA”), also known as “Superfund,” and comparable state and provincial laws impose liability, without regard to fault or the legality of the original act, on certain classes of persons that contributed to the release of a “hazardous substance” into the environment. These persons include the owner or operator of the site or sites where the release occurred and companies that disposed of, or arranged for the disposal of, the hazardous substances found at the site. Under CERCLA, such persons may be subject to strict, joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. In the course of our ordinary operations, we may generate waste that falls within

CERCLA's definition of a "hazardous substance," in which event we may be held jointly and severally liable under CERCLA for all or part of the costs required to clean up sites at which such hazardous substances have been released into the environment.

### *OSHA*

We are subject to the requirements of OSHA, and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that certain information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with OSHA requirements, including general industry standards, record-keeping requirements and monitoring of occupational exposure to regulated substances. OSHA has also been given jurisdiction over enforcement of legislation designed to protect employees who provide evidence in fraud cases from retaliation by their employer.

Similar regulatory requirements exist in Canada under the federal and provincial Occupational Health and Safety Acts and related regulations. The agencies with jurisdiction under these regulations are empowered to enforce them through inspection, audit, incident investigation or public or employee complaint. Additionally, recent legislation directly ties corporate accountability to the Criminal Code of Canada. This legislation enables occupational health and safety ("OH&S") regulators to prosecute organizations and individuals criminally for violations of the regulations. We believe that our operations are in substantial compliance with applicable OH&S requirements.

### *Endangered Species Act*

The federal Endangered Species Act ("ESA") restricts activities that may affect endangered species or their habitats. Although certain of our facilities are in areas that may be designated as habitat for endangered species, we believe that we are in substantial compliance with the ESA. However, the discovery of previously unidentified endangered species could cause us to incur additional costs or operation restrictions or bans in the affected area, which costs, restrictions, or bans could have a material adverse effect on our financial condition or results of operations. Similar regulation (the Species Risk Act) applies to our Canadian operations.

### *Hazardous Materials Transportation Requirements*

The DOT regulations affecting pipeline safety require pipeline operators to implement measures designed to reduce the environmental impact of oil discharge from onshore oil pipelines. These regulations require operators to maintain comprehensive spill response plans, including extensive spill response training for pipeline personnel. In addition, DOT regulations contain detailed specifications for pipeline operation and maintenance. We believe our operations are in substantial compliance with such regulations. See "—Regulation—Pipeline and Storage Regulation."

### *Environmental Remediation*

We currently own or lease properties where hazardous liquids, including hydrocarbons, are being or have been handled. These properties and the hazardous liquids or associated generated wastes disposed thereon may be subject to CERCLA, RCRA and analogous state and Canadian federal and provincial laws. Under such laws, we could be required to remove or remediate hazardous liquids or associated generated wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial operations to prevent future contamination.

We maintain insurance of various types with varying levels of coverage that we consider adequate under the circumstances to cover our operations and properties. The insurance policies are subject to deductibles and retention levels that we consider reasonable and not excessive. Consistent with insurance coverage generally available in the industry, in certain circumstances our insurance policies provide limited coverage for losses or liabilities relating to gradual pollution, with broader coverage for sudden and accidental occurrences.

In addition, we have entered into indemnification agreements with various counterparties in conjunction with several of our acquisitions. Allocation of environmental liability is an issue negotiated in connection with each of our acquisition transactions. In each case, we make an assessment of potential environmental exposure based on available information. Based on that assessment and relevant economic and risk factors, we determine whether to negotiate an indemnity, what the terms of any indemnity should be (for example, minimum thresholds or caps on exposure) and whether to obtain insurance, if available. In some cases, we have received contractual protections in the form of environmental indemnifications from several predecessor operators for properties acquired by us that are contaminated as a result of historical operations. These contractual indemnifications typically are subject to specific monetary requirements that must be satisfied before indemnification will apply and have term and total dollar limits.

The acquisitions we completed in 2005, 2004 and 2003 include a variety of provisions dealing with the allocation of responsibility for environmental costs that range from no or limited indemnities from the sellers to indemnification from sellers with defined limitations on their maximum exposure. We have not obtained insurance for any of the conditions related to our 2005 and 2003 acquisitions, and only in limited circumstances for our 2004 acquisitions.

For instance, in connection with the purchase of assets from Link in 2004, we identified a number of environmental liabilities for which we received a purchase price reduction from Link. A substantial portion of these environmental liabilities are associated with the former Texas New Mexico ("TNM") pipeline assets. On the effective date of the acquisition, we and TNM entered into a cost-sharing agreement whereby, on a tiered basis, we agreed to bear $11 million of the first $20 million of pre-May 1999 environmental issues. We also agreed to bear the first $25,000 per site for new sites which were not identified at the time we entered into the agreement (capped at 100 sites). TNM agreed to pay all costs in excess of $20 million (excluding the deductible for new sites). TNM's obligations are guaranteed by Shell Oil Products ("SOP"). In connection with the Link acquisition, we recorded a reserve for environmental liabilities of approximately $20.0 million.

In connection with the acquisition of certain crude oil transmission and gathering assets from SOP in 2002, SOP purchased an environmental insurance policy covering known and unknown environmental matters associated with operations prior to closing. We are a named beneficiary under the policy, which has a $100,000 deductible per site, an aggregate coverage limit of $70 million, and expires in 2012. SOP made a claim against the policy; however, we do not believe that the claim substantially reduced our coverage under the policy.

In connection with our 1999 acquisition of Scurlock Permian LLC from MAP, we were indemnified by MAP for any environmental liabilities attributable to Scurlock's business or properties which occurred prior to the date of the closing of the acquisition. Other than with respect to liabilities associated with two Superfund sites at which it is alleged that Scurlock deposited waste oils, this indemnity has expired or was terminated by agreement.

Other assets we have acquired or will acquire in the future may have environmental remediation liabilities for which we are not indemnified.

*Environmental.* We have in the past experienced and in the future likely will experience releases of crude oil into the environment from our pipeline and storage operations. We also may discover environmental impacts from past releases that were previously unidentified. Although we maintain an inspection program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any such environmental releases from our assets may substantially affect our business. As we expand our pipeline assets through acquisitions, we typically improve on (decrease) the rate of releases from such assets as we implement our standards and procedures, remove selected assets from service and spend capital to upgrade the assets. In the immediate post-acquisition period, however, the inclusion of additional miles of pipe in our operation may result in an increase in the absolute number of releases company-wide compared to prior periods. We have, in fact, experienced such an increase in connection with the Link acquisition, which added approximately 7,000 miles of pipeline to our operations. As a result, we have also received an increased number of requests for information from governmental agencies with respect to such releases of crude oil (such as EPA requests under Clean Water Act Section 308), commensurate with the scale and scope of our pipeline operations. See Item 3. "Legal Proceedings."

At December 31, 2005, our reserve for environmental liabilities totaled approximately $22.4 million (approximately $14.6 million of this reserve is related to liabilities assumed as part of the Link acquisition). Approximately $14.4 million of our environmental reserve is classified as current and $8.0 million is classified as long-term. At December 31, 2005, we have recorded receivables totaling approximately $14.2 million for amounts recoverable under insurance and from third parties under indemnification agreements.

In some cases, the actual cash expenditures may not occur for three to five years. Our estimates used in these reserves are based on all known facts at the time and our assessment of the ultimate outcome. Among the many uncertainties that impact our estimates are the necessary regulatory approvals for, and potential modification of, our remediation plans, the limited amount of data available upon initial assessment of the impact of soil or water contamination, changes in costs associated with environmental remediation services and equipment and the possibility of existing legal claims giving rise to additional claims. Therefore, although we believe that the reserve is adequate, no assurances can be made that any costs incurred in excess of this reserve or outside of the indemnifications would not have a material adverse effect on our financial condition, results of operations, or cash flows.

### Operational Hazards and Insurance

Pipelines, terminals, trucks or other facilities or equipment may experience damage as a result of an accident or natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. Since we and our predecessors commenced midstream crude oil activities in the early 1990s, we have maintained insurance of various types and varying levels of coverage that we consider adequate under the circumstances to cover our operations and properties. The insurance policies are subject to deductibles and retention levels that we consider reasonable and not excessive. However, such insurance does not cover every potential risk associated with operating pipelines, terminals and other facilities, including the potential loss of significant revenues. Consistent with insurance coverage generally available to the industry, in certain circumstances our insurance policies provide limited coverage for losses or liabilities relating to gradual pollution, with broader coverage for sudden and accidental occurrences. Over the last several years, our operations have expanded significantly, with total assets increasing over 550% since the end of 1998. At the same time that the scale and scope of our business activities have expanded, the breadth and depth of the available insurance markets have contracted. The overall cost of such insurance as well as the deductibles and overall retention levels that we maintain have increased. Some of this may be attributable to the events of September 11, 2001, which adversely impacted the availability and costs of certain types of coverage. Certain aspects of these conditions may be further exacerbated by the hurricanes along the Gulf Coast during 2005, which we anticipate may also have an adverse effect on the availability and cost of coverage. As a result, we have elected to self insure more activities against certain of these operating hazards and expect this trend will continue in the future. Due to the events of September 11, 2001, insurers have excluded acts of terrorism and sabotage from our insurance policies. On certain of our key assets, we have elected to purchase a separate insurance policy for acts of terrorism and sabotage.

Since the terrorist attacks, the United States Government has issued numerous warnings that energy assets, including our nation’s pipeline infrastructure, may be future targets of terrorist organizations. These developments expose our operations and assets to increased risks. We have instituted security measures and procedures in conformity with DOT guidance. We will institute, as appropriate, additional security measures or procedures indicated by the DOT or the Transportation Safety Administration. However, we cannot assure you that these or any other security measures would protect our facilities from a concentrated attack. Any future terrorist attacks on our facilities, those of our customers and, in some cases, those of our competitors, could have a material adverse effect on our business, whether insured or not.

The occurrence of a significant event not fully insured, indemnified or reserved against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our operations and financial condition. We believe we are adequately insured for public liability and property damage to others with respect to our operations. We believe that our levels of coverage and retention are generally consistent with those of similarly situated companies in our industry. With respect to all of our coverage, no assurance can be given that we will be able to maintain adequate insurance in the future at rates we consider reasonable, or that we have established adequate reserves to the extent that such risks are not insured.

### Title to Properties and Rights-of-Way

We believe that we have satisfactory title to all of our assets. Although title to such properties is subject to encumbrances in certain cases, such as customary interests generally retained in connection with acquisition of real property, liens related to environmental liabilities associated with historical operations, liens for current taxes and other burdens and minor easements, restrictions and other encumbrances to which the underlying properties were subject at the time of acquisition by our predecessor or us, we believe that none of these burdens will materially detract from the value of such properties or from our interest therein or will materially interfere with their use in the operation of our business.

Substantially all of our pipelines are constructed on rights-of-way granted by the apparent record owners of such property and, in some instances, such rights-of-way are revocable at the election of the grantor. In many instances, lands over which rights-of-way have been obtained are subject to prior liens that have not been subordinated to the right-of-way grants. In some cases, not all of the apparent record owners have joined in the right-of-way grants, but in substantially all such cases, signatures of the owners of majority interests have been obtained. We have obtained permits from public authorities to cross over or under, or to lay facilities in or along water courses, county roads, municipal streets and state highways, and in some instances, such permits are revocable at the election of the grantor. We have also obtained permits from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor's election. In some cases, property for pipeline purposes was purchased in fee. All of the pump stations are located on property owned in fee or property under leases. In certain states and under certain circumstances, we have the right of eminent domain to acquire rights-of-way and lands necessary for our common carrier pipelines.

Some of the leases, easements, rights-of-way, permits and licenses transferred to us, upon our formation in 1998 and in connection with acquisitions we have made since that time, required the consent of the grantor to transfer such rights, which in certain instances is a governmental entity. We believe that we have obtained such third party consents, permits and authorizations as are sufficient for the transfer to us of the assets necessary for us to operate our business in all material respects as described in this report. With respect to any consents, permits or authorizations that have not yet been obtained, we believe that such consents, permits or authorizations will be obtained within a reasonable period, or that the failure to obtain such consents, permits or authorizations will have no material adverse effect on the operation of our business.

### Employees

To carry out our operations, our general partner or its affiliates (including PMC (Nova Scotia) Company) employed approximately 2,000 employees at December 31, 2005. None of the employees of our general partner were represented by labor unions, and our general partner considers its employee relations to be good.

### Summary of Tax Considerations

The tax consequences of ownership of common units depends in part on the owner's individual tax circumstances. However, the following is a brief summary of material tax consequences of owning and disposing of common units.

#### *Partnership Status; Cash Distributions*

We are treated for federal income tax purposes as a partnership based upon our meeting certain requirements imposed by the Internal Revenue Code (the "Code"), which we must meet each year. The owners of common units are considered partners in the Partnership so long as they do not loan their common units to others to cover short sales or otherwise dispose of those units. Accordingly, we pay no federal income taxes, and a common unitholder is required to report on the unitholder's federal income tax return the unitholder's share of our income, gains, losses and deductions. In general, cash distributions to a common unitholder are taxable only if, and to the extent that, they exceed the tax basis in the common units held.

#### *Partnership Allocations*

In general, our income and loss is allocated to the general partner and the unitholders for each taxable year in accordance with their respective percentage interests in the Partnership (including, with respect to the general partner, its incentive distribution right), as determined annually and prorated on a monthly basis and subsequently apportioned among the general partner and the unitholders of record as of the opening of the first business day of the month to which they relate, even though unitholders may dispose of their units during the month in question. A unitholder is required to take into account, in determining federal income tax liability, the unitholder's share of income generated by us for each taxable year of the Partnership ending within or with the unitholder's taxable year, even if cash distributions are not made to the unitholder. As a consequence, a unitholder's share of our taxable income (and possibly the income tax payable by the unitholder with respect to such income) may exceed the cash actually distributed to the unitholder by us. At any time incentive distributions are made to the general partner, gross income will be allocated to the recipient to the extent of those distributions.

### *Basis of Common Units*

A unitholder's initial tax basis for a common unit is generally the amount paid for the common unit. A unitholder's basis is generally increased by the unitholder's share of our income and decreased, but not below zero, by the unitholder's share of our losses and distributions.

### *Limitations on Deductibility of Partnership Losses*

In the case of taxpayers subject to the passive loss rules (generally, individuals and closely held corporations), any partnership losses are only available to offset future income generated by us and cannot be used to offset income from other activities, including passive activities or investments. Any losses unused by virtue of the passive loss rules may be fully deducted if the unitholder disposes of all of the unitholder's common units in a taxable transaction with an unrelated party.

### *Section 754 Election*

We have made the election provided for by Section 754 of the Code, which will generally result in a unitholder being allocated income and deductions calculated by reference to the portion of the unitholder's purchase price attributable to each asset of the Partnership.

### *Disposition of Common Units*

A unitholder who sells common units will recognize gain or loss equal to the difference between the amount realized and the adjusted tax basis of those common units. A unitholder may not be able to trace basis to particular common units for this purpose. Thus, distributions of cash from us to a unitholder in excess of the income allocated to the unitholder will, in effect, become taxable income if the unitholder sells the common units at a price greater than the unitholder's adjusted tax basis even if the price is less than the unitholder's original cost. Moreover, a portion of the amount realized (whether or not representing gain) will be ordinary income.

### *Foreign, State, Local and Other Tax Considerations*

In addition to federal income taxes, unitholders will likely be subject to other taxes, such as foreign, state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which a unitholder resides or in which we do business or own property. We own property and conduct business in Canada as well as in most states in the United States. A unitholder may be required to file Canadian federal income tax returns and to pay Canadian federal and provincial income taxes, as well as to file state income tax returns and to pay taxes in various states. A unitholder may be subject to penalties for failure to comply with such requirements. In certain states, tax losses may not produce a tax benefit in the year incurred (if, for example, we have no income from sources within that state) and also may not be available to offset income in subsequent taxable years. Some states may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Withholding, the amount of which may be more or less than a particular unitholder's income tax liability owed to the state, may not relieve the nonresident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us.

*It is the responsibility of each prospective unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, including the Canadian provinces and Canada, of the unitholder's investment in us. Further, it is the responsibility of each unitholder to file all U.S. federal, Canadian, state, provincial and local tax returns that may be required of the unitholder.*

### *Ownership of Common Units by Tax-Exempt Organizations and Certain Other Investors*

An investment in common units by tax-exempt organizations (including IRAs and other retirement plans) and foreign persons raises issues unique to such persons. Virtually all of our income allocated to a unitholder that is a tax-exempt organization is unrelated business taxable income and, thus, is taxable to such a unitholder. A unitholder who is a nonresident alien, foreign corporation or other foreign person is regarded as being engaged in a trade or business in the United States as a result of ownership of a common unit and, thus, is required to file federal income tax returns and to pay tax on the unitholder's share of our taxable income. Finally, distributions to foreign unitholders are subject to federal income tax withholding.

## Available Information

We make available, free of charge on our Internet website (http://www.paalp.com), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission.

## Item 1A. *Risk Factors*

### Risks Related to Our Business

***Our trading policies cannot eliminate all price risks. In addition, any non-compliance with our trading policies could result in significant financial losses.***

Generally, it is our policy that we establish a margin for crude oil purchased by selling crude oil for physical delivery to third party users, such as independent refiners or major oil companies, or by entering into a future delivery obligation under futures contracts on the NYMEX, IPE and over-the-counter. Through these transactions, we seek to maintain a position that is substantially balanced between purchases, on the one hand, and sales or future delivery obligations, on the other hand. Our policy is generally not to acquire and hold crude oil, futures contracts or derivative products for the purpose of speculating on price changes. These policies and practices cannot, however, eliminate all price risks. For example, any event that disrupts our anticipated physical supply of crude oil could expose us to risk of loss resulting from price changes. We are also exposed to basis risk when crude oil is purchased against one pricing index and sold against a different index. Moreover, we are exposed to some risks that are not hedged, including price risks on certain of our inventory, such as pipeline linefill, which must be maintained in order to transport crude oil on our pipelines. In addition, we engage in a controlled trading program for up to an aggregate of 500,000 barrels of crude oil. Although this activity is monitored independently by our risk management function, it exposes us to price risks within predefined limits and authorizations.

In addition, our trading operations involve the risk of non-compliance with our trading policies. For example, we discovered in November 1999 that our trading policy was violated by one of our former employees, which resulted in aggregate losses of approximately $181.0 million. We have taken steps within our organization to enhance our processes and procedures to detect future unauthorized trading. We cannot assure you, however, that these steps will detect and prevent all violations of our trading policies and procedures, particularly if deception or other intentional misconduct is involved.

***The nature of our business and assets exposes us to significant compliance costs and liabilities. Our asset base has more than doubled within the last two years. We have experienced a corresponding increase in the relative number of releases of crude oil to the environment. Substantial expenditures may be required to maintain the integrity of aged and aging pipelines at acceptable levels.***

Our operations involving the storage, treatment, processing, and transportation of liquid hydrocarbons, including crude oil, are subject to stringent federal, state, and local laws and regulations governing the discharge of materials into the environment. Our segment operations are also subject to laws and regulations relating to protection of the environment, operational safety and related matters. Compliance with all of these laws and regulations increases our overall cost of doing business, including our capital costs to construct, maintain and upgrade equipment and facilities. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties, the imposition of investigatory and remedial liabilities, the issuance of injunctions that may restrict or prohibit our operations, or claims of damages to property or persons resulting from our operations.

Today we own more than twice the miles of pipeline we owned two years ago. As we have expanded our pipeline assets, we have observed a corresponding increase in the number of releases of crude oil to the environment. These releases expose us to potentially substantial expense, including clean-up and remediation costs, fines and penalties, and third party claims for personal injury or property damage.

We currently spend substantial amounts to comply with DOT-mandated pipeline integrity rules. The DOT is currently in the process of expanding the scope of its pipeline regulation to include the establishment of additional pipeline integrity management programs for certain gathering pipeline systems that are not currently subject to regulation. We do not currently know what, if any, impact this will have on our operating expenses.

During 2006, we are expanding an internal review process started in 2004 in which we are reviewing various aspects of our pipeline and gathering systems that are not subject to the DOT pipeline integrity management rules. The purpose of this process is to review the surrounding environment, condition and operating history of these pipeline and gathering assets to determine if such assets warrant additional investment or replacement. Accordingly, we could be required (as a result of additional DOT regulation) or we may elect (as a result of our own internal initiatives) to spend substantial sums to ensure the integrity of and upgrade our pipeline systems to maintain environmental compliance, and in some cases, we may take pipelines out of service if we believe the cost of upgrades will exceed the value of the pipelines. We cannot provide any assurance as to the ultimate amount or timing of future pipeline integrity expenditures for environmental compliance.

***Loss of credit rating or the ability to receive open credit could negatively affect our ability to capitalize on a volatile market***

We believe that, because of our strategic asset base and complementary business model, we will continue to benefit from swings in market prices and shifts in market structure during periods of volatility in the crude oil market. Our ability to capture that benefit, however, is subject to numerous risks and uncertainties, including our maintaining an attractive credit rating and continuing to receive open credit from our suppliers and trade counter-parties.

***The level of our profitability is dependent upon an adequate supply of crude oil from fields located offshore and onshore California. Production from these offshore fields has experienced substantial production declines since 1995.***

A significant portion of our segment profit is derived from pipeline transportation margins associated with the Santa Ynez and Point Arguello fields located offshore California. We expect that there will continue to be natural production declines from each of these fields as the underlying reservoirs are depleted. We estimate that a 5,000 barrel per day decline in volumes shipped from these fields would result in a decrease in annual pipeline segment profit of approximately $3.5 million. In addition, any significant production disruption from the Santa Ynez field due to production problems, transportation problems or other reasons could have a material adverse effect on our business.

***The profitability of our pipeline and gathering, marketing, terminalling and storage operations depends on the volume of crude oil shipped, purchased and gathered.***

Third party shippers generally do not have long-term contractual commitments to ship crude oil on our pipelines. A decision by a shipper to substantially reduce or cease to ship volumes of crude oil on our pipelines could cause a significant decline in our revenues. For example, we estimate that an average 20,000 barrel per day variance in the Basin Pipeline System within the current operating window, equivalent to an approximate 7% volume variance on that system, would change annualized segment profit by approximately $1.4 million. In addition, we estimate that an average 10,000 barrel per day variance on the Capline Pipeline System, equivalent to an approximate 8% volume variance on that system, would change annualized segment profit by approximately $1.3 million.

To maintain the volumes of crude oil we purchase in connection with our gathering, marketing, terminalling and storage operations, we must continue to contract for new supplies of crude oil to offset volumes lost because of natural declines in crude oil production from depleting wells or volumes lost to competitors. Replacement of lost volumes of crude oil is particularly difficult in an environment where production is low and competition to gather available production is intense. Generally, because producers experience inconveniences in switching crude oil purchasers, such as delays in receipt of proceeds while awaiting the preparation of new division orders, producers typically do not change purchasers on the basis of minor variations in price. Thus, we may experience difficulty acquiring crude oil at the wellhead in areas where relationships already exist between producers and other gatherers and purchasers of crude oil. We estimate that a 15,000 barrel per day decrease in barrels gathered by us would have an approximate $4.0 million per year negative impact on segment profit. This impact assumes a reasonable margin throughout various market conditions. Actual margins vary based on the location of the crude oil, the strength or weakness of the market and the grade or quality of crude oil. We estimate that a $0.01 variance in the average segment profit per barrel would have an approximate $2.5 million annual effect on segment profit.

***The success of our business strategy to increase and optimize throughput on our pipeline and gathering assets is dependent upon our securing additional supplies of crude oil.***

Our operating results are dependent upon securing additional supplies of crude oil from increased production by oil companies and aggressive lease gathering efforts. The ability of producers to increase production is dependent on the prevailing market price of oil, the exploration and production budgets of the major and independent oil companies, the depletion rate of existing reservoirs, the success of new wells drilled, environmental concerns, regulatory initiatives and other matters beyond our control. There can be no assurance that production of crude oil will rise to sufficient levels to cause an increase in the throughput on our pipeline and gathering assets.

***Fluctuations in demand can negatively affect our operating results.***

Demand for crude oil is dependent upon the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, governmental regulation or technological advances in fuel economy and energy generation devices, all of which could reduce demand. Demand also depends on the ability and willingness of shippers having access to our transportation assets to satisfy their demand by deliveries through those assets.

Fluctuations in demand for crude oil, such as caused by refinery downtime or shutdown, can have a negative effect on our operating results. Specifically, reduced demand in an area serviced by our transmission systems will negatively affect the throughput on such systems. Although the negative impact may be mitigated or overcome by our ability to capture differentials created by demand fluctuations, this ability is dependent on location and grade of crude oil, and thus is unpredictable.

***If we do not make acquisitions on economically acceptable terms our future growth may be limited.***

Our ability to grow depends in part on our ability to make acquisitions that result in an increase in adjusted operating surplus per unit. If we are unable to make such accretive acquisitions either because we are (i) unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them, (ii) unable to raise financing for such acquisitions on economically acceptable terms or (iii) outbid by competitors, our future growth will be limited. In particular, competition for midstream assets and businesses has intensified substantially and as a consequence such assets and businesses have become more costly. As a result, we may not be able to complete the number or size of acquisitions that we have targeted internally or to continue to grow as quickly as we have historically.

***Our acquisition strategy requires access to new capital. Tightened capital markets or other factors that increase our cost of capital could impair our ability to grow.***

We continuously consider and enter into discussions regarding potential acquisitions. These transactions can be effected quickly, may occur at any time and may be significant in size relative to our existing assets and operations. Any material acquisition will require access to capital. Any limitations on our access to capital or increase in the cost of that capital could significantly impair our ability to execute our acquisition strategy. Our ability to maintain our targeted credit profile, including maintaining our credit ratings, could affect our cost of capital as well as our ability to execute our acquisition strategy.

***Our acquisition strategy involves risks that may adversely affect our business.***

Any acquisition involves potential risks, including:

- performance from the acquired assets and businesses that is below the forecasts we used in evaluating the acquisition;
- a significant increase in our indebtedness and working capital requirements;
- the inability to timely and effectively integrate the operations of recently acquired businesses or assets;
- the incurrence of substantial unforeseen environmental and other liabilities arising out of the acquired businesses or assets, including liabilities arising from the operation of the acquired businesses or assets prior to our acquisition;
- risks associated with operating in lines of business that are distinct and separate from our historical operations

- customer or key employee loss from the acquired businesses; and
- the diversion of management's attention from other business concerns.

Any of these factors could adversely affect our ability to achieve anticipated levels of cash flows from our acquisitions, realize other anticipated benefits and our ability to pay distributions or meet our debt service requirements.

***Our pipeline assets are subject to federal, state and provincial regulation.***

Our domestic interstate common carrier pipelines are subject to regulation by the FERC under the Interstate Commerce Act. The Interstate Commerce Act requires that tariff rates for petroleum pipelines be just and reasonable and non-discriminatory. We are also subject to the Pipeline Safety Regulations of the DOT. Our intrastate pipeline transportation activities are subject to various state laws and regulations as well as orders of regulatory bodies. Such laws and regulations are subject to change and interpretation by the relevant governmental agency. Any such change or interpretation adverse to us could have a material adverse effect on us.

Similarly, our Canadian pipeline assets are subject to regulation by the NEB and by provincial agencies. With respect to a pipeline over which it has jurisdiction, each of these Canadian agencies has the power to determine the rates we are allowed to charge for transportation on such pipeline. The extent to which regulatory agencies can override existing transportation contracts has not been fully decided.

***Rate regulation or a successful challenge to the rates we charge on our domestic interstate pipeline system may reduce the amount of cash we generate.***

The EPAct, among other things, deems "just and reasonable" within the meaning of the Interstate Commerce Act any oil pipeline rate in effect for the 365-day period ending on the date of the enactment of EPAct if the rate in effect was not subject to protest, investigation, or complaint during such 365-day period. (That is, the EPAct "grandfathers" any such rates.) EPAct further protects any rate meeting this requirement from complaint unless the complainant can show that a substantial change occurred after the enactment of EPAct in the economic circumstances of the oil pipeline which were the basis for the rate or in the nature of the services provided which were a basis for the rate. This grandfathering protection does not apply, under certain specified circumstances, when the person filing the complaint was under a contractual prohibition against the filing of a complaint.

For our domestic interstate common carrier pipelines subject to FERC regulation under the Interstate Commerce Act, shippers may protest our pipeline tariff filings, and the FERC may investigate new or changed tariff rates. Further, other than for rates set under market-based rate authority and for rates that remain grandfathered under EPAct, the FERC may order refunds of amounts collected under rates that were in excess of a just and reasonable level when taking into consideration the pipeline system's cost of service. In addition, shippers may challenge the lawfulness of tariff rates that have become final and effective. The FERC may also investigate such rates absent shipper complaint. The FERC's ratemaking methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs.

The potential for a challenge to the status of our grandfathered rates under EPAct (by showing a substantial change in circumstances) or a challenge to our indexed rates creates the risk that the FERC might find some of our rates to be in excess of a just and reasonable level—that is, a level justified by our cost of service. In such an event, the FERC could order us to reduce any such rates and could require the payment of reparations to complaining shippers for up to two years prior to the complaint.

***We face competition in our pipeline and gathering, marketing, terminalling and storage activities.***

Our competitors include other crude oil pipelines, the major integrated oil companies, their marketing affiliates, and independent gatherers, brokers and marketers of widely varying sizes, financial resources and experience. Some of these competitors have capital resources many times greater than ours and control greater supplies of crude oil.

***We are exposed to the credit risk of our customers in the ordinary course of our gathering and marketing activities.***

There can be no assurance that we have adequately assessed the credit worthiness of our existing or future counterparties or that there will not be an unanticipated deterioration in their credit worthiness, which could have an adverse impact on us.

In those cases in which we provide division order services for crude oil purchased at the wellhead, we may be responsible for distribution of proceeds to all parties. In other cases, we pay all of or a portion of the production proceeds to an operator who distributes these proceeds to the various interest owners. These arrangements expose us to operator credit risk, and there can be no assurance that we will not experience losses in dealings with other parties.

***Our pipeline systems are dependent upon their interconnections with other crude oil pipelines to reach end markets.***

In many cases, the crude oil carried on our pipeline system must be routed onto third party pipelines to reach the refinery or other end market. Reduced throughput on these interconnecting pipelines as a result of testing, line repair, reduced operating pressures or other causes could result in reduced throughput on our pipeline systems that would adversely affect our profitability.

***We may in the future encounter increased costs and lack of availability of insurance.***

Over the last several years, as the scale and scope of our business activities has expanded, the breadth and depth of available insurance markets has contracted. Some of this may be attributable to the events of September 11, 2001, which adversely impacted the availability and costs of certain types of coverage. We anticipate that the effects of hurricanes along the Gulf Coast during 2005 may also have an adverse effect on the availability and cost of coverage. We can give no assurance that we will be able to maintain adequate insurance in the future at rates we consider reasonable. The occurrence of a significant event not fully insured could materially and adversely affect our operations and financial condition.

***Marine transportation of crude oil has inherent operating risks.***

Our gathering and marketing operations include purchasing crude oil that is carried on third party tankers. Our water borne cargoes of crude oil are at risk of being damaged or lost because of events such as marine disaster, bad weather, mechanical failures, grounding or collision, fire, explosion, environmental accidents, piracy, terrorism and political instability. Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenues from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates and damage to our reputation and customer relationships generally. While certain of these risks may be covered under our insurance program, any of these circumstances or events could increase our costs or lower our revenues, which could result in a reduction in the market price of our equity or debt securities.

In instances in which cargoes are purchased FOB (title transfers when the oil is loaded onto a vessel chartered by the purchaser) the contract to purchase is typically made prior to the vessel being chartered. In such circumstances we take the risk of higher than anticipated charter costs. We are also exposed to increased transit time and unanticipated demurrage charges, which involve extra payment to the owner of a vessel for delays in offloading, circumstances that we may not control.

***Maritime claimants could arrest the vessels carrying our cargoes.***

Crew members, suppliers of goods and services to a vessel, other shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of a vessel carrying a cargo of our oil could substantially delay our shipment.

In addition, in some jurisdictions, under the “sister ship” theory of liability, a claimant may arrest both the vessel that is subject to the claimant’s maritime lien and any “associated” vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert “sister ship” liability against one vessel carrying our cargo for claims relating to a vessel with which we have no relation.

***The terms of our indebtedness may limit our ability to borrow additional funds or capitalize on business opportunities.***

As of December 31, 2005, our total outstanding long-term debt was approximately $951.7 million. Various limitations in our debt instruments may reduce our ability to incur additional debt, to engage in some transactions and to capitalize on business opportunities. Any subsequent refinancing of our current indebtedness or any new indebtedness could have similar or greater restrictions.

***Changes in currency exchange rates could adversely affect our operating results.***

Because we conduct operations in Canada, we are exposed to currency fluctuations and exchange rate risks that may adversely affect our results of operations.

## Risks Related to Our Investment in the Natural Gas Storage Business

***Our facilities are new and have limited operating history.***

Although we believe that our operating facilities are designed substantially to meet our contractual obligations with respect to injection and withdrawal volumes and specifications, the facilities are new and have a limited operating history. If we fail to receive or deliver natural gas at contracted rates, or cannot deliver natural gas consistent with contractual quality specifications, we could incur significant costs to maintain compliance with our contracts.

***We have no history operating natural gas storage facilities.***

Although many aspects of the natural gas storage industry are similar in many respects to our crude oil gathering, marketing, terminalling and storage operations, our current management does not have any experience in operating natural gas storage facilities. There are significant risks and costs inherent in our efforts to undertake entering into natural gas storage operations, including the risk that our new line of business may not be profitable and that we might not be able to operate the natural gas storage business or implement our operating policies and strategies successfully.

The devotion of capital, management time and other resources to natural gas storage operations could adversely affect our existing business. Entering into the natural gas storage industry may require substantial changes, including acquisition costs, capital development expenditures, adding management and employees who possess the skills we believe we will need to operate a natural gas storage business, and realigning our current organization to reflect this new line of business. Entering into the natural gas storage industry will require an investment in personnel and assets and the assumption of risks that may be greater than we have previously assumed.

***Federal, state or local regulatory measures could adversely affect our business.***

Our natural gas storage operations are subject to federal, state and local regulation. Specifically, our natural gas storage facilities and related assets are or will be subject to regulation by the FERC or the Michigan Public Service Commission. Our facilities essentially have market-based rate authority from such agencies. Any loss of market-based rate authority could have an adverse impact on our revenues associated with providing storage services. In addition, failure to comply with applicable regulations under the Natural Gas Act, and certain other state laws could result in the imposition of administrative, civil and criminal remedies.

***Our gas storage business depends on third party pipelines to transport natural gas.***

We depend on third party pipelines to move natural gas for our customers to and from our facilities. Any interruption of service on the pipelines or lateral connections or adverse change in the terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport natural gas to and from our facilities, and could have a corresponding material adverse effect on our storage revenues. In addition, the rates charged by the interconnected pipeline for transportation to and from our facilities could affect the utilization and value of our storage services. Significant changes in the rates charged by the pipeline or the rates charged by other pipelines with which the interconnected pipelines compete could also have a material adverse effect on our storage revenues.

***We encounter competition from a variety of sources.***

We compete with other storage providers, including local distribution companies (“LDCs”), utilities and affiliates of LDCs and utilities. Certain major pipeline companies have existing storage facilities connected to their systems that compete with certain of our facilities. Construction of new capacity could have an adverse impact on our competitive position.

***Expanding our business by constructing new storage facilities subjects us to construction risks; there is no guarantee that Pine Prairie will be developed in the expected time frame or at the expected cost or generate the expected returns.***

One of the ways we intend to grow our business is through the construction and development of new storage facilities or additions to our existing facilities. The construction of additional storage facilities or new pipeline interconnects involves numerous regulatory, environmental, political and legal uncertainties beyond our control, and requires the expenditure of significant amounts of capital. As we undertake these projects, they may be completed behind schedule or over the budgeted cost. Because of continuing increased demand for materials, equipment and services in the wake of Hurricanes Katrina and Rita, there could be shortages and cost increases associated with construction projects. Moreover, our revenues will not increase immediately upon the expenditure of funds on a particular project. We may also construct facilities in anticipation of market growth that may never materialize. For example, Pine Prairie is currently under development and there is no guarantee that it will be fully developed in the expected time frame or at the expected cost or generate the expected returns.

***We may not be able to retain existing customers or acquire new customers, which would reduce our revenues and limit our future profitability.***

The renewal or replacement of existing contracts with our customers at rates sufficient to maintain or exceed current or anticipated revenues and cash flows depends on a number of factors beyond our control, including competition from other storage providers and the supply of and demand for natural gas in the markets we serve. The inability to renew or replace our current contracts as they expire and to respond appropriately to changing market conditions could have a negative effect on our profitability.

***Third parties' obligations under storage agreements may be suspended in some circumstances.***

Some third parties' obligations under their agreements with us may be permanently or temporarily reduced upon the occurrence of certain events, some of which are beyond our control, including force majeure. Force majeure events include (but are not limited to) revolutions, wars, acts of enemies, embargoes, import or export restrictions, strikes, lockouts, fires, storms, floods, acts of God, explosions and mechanical or physical failures of our equipment or facilities or the equipment or facilities of third parties.

***The nature of our investment in natural gas storage assets and business could expose us to significant compliance costs and liabilities.***

Our operations involving the storage of natural gas are subject to stringent federal, state and local laws and regulations governing the discharge of materials into the environment. Our natural gas storage operations are also subject to laws and regulations otherwise relating to protection of the environment, operational safety and related matters. Compliance with all of these laws and regulations increases our overall cost of business, including our capital costs to construct, maintain and upgrade equipment and facilities. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of injunctions that may restrict or prohibit our operations or even claims of damages to property or persons resulting from our operations. The laws and regulations applicable to our operations are subject to change, and we cannot provide any assurance that compliance with current and future laws and regulations will not have a material effect on our results of operations or earnings. A discharge of hazardous materials into the environment could, to the extent such event is not insured, subject us to substantial expense, including both the cost to comply with applicable laws and regulations and liability to private parties for personal injury or property damage.

***Joint venture structures can create operational difficulties.***

Our natural gas storage operations are conducted through PAA/Vulcan, a joint venture between us and a subsidiary of Vulcan Capital, with each of us owning 50%. The board of directors of PAA/Vulcan, which includes an equal number of representatives from us and Vulcan Gas Storage, will be responsible for providing strategic direction and policy making, and we are responsible for the day-to-day operations.

As with any such joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major matters, potentially adversely affecting the business and operations of the joint ventures and in turn our business and operations.

**Risks Inherent in an Investment in Plains All American Pipeline, L.P.**

***Cost reimbursements due to our general partner may be substantial and will reduce our cash available for distribution to unitholders.***

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates, including officers and directors of the general partner, for all expenses incurred on our behalf. The reimbursement of expenses and the payment of fees could adversely affect our ability to make distributions. The general partner has sole discretion to determine the amount of these expenses. In addition, our general partner and its affiliates may provide us services for which we will be charged reasonable fees as determined by the general partner.

***Cash distributions are not guaranteed and may fluctuate with our performance and the establishment of financial reserves.***

Because distributions on the common units are dependent on the amount of cash we generate, distributions may fluctuate based on our performance. The actual amount of cash that is available to be distributed each quarter will depend on numerous factors, some of which are beyond our control and the control of the general partner. Cash distributions are dependent primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. Therefore, cash distributions might be made during periods when we record losses and might not be made during periods when we record profits.

***Unitholders may not be able to remove our general partner even if they wish to do so.***

Our general partner manages and operates Plains All American Pipeline, L.P. Unlike the holders of common stock in a corporation, unitholders will have only limited voting rights on matters affecting our business. Unitholders have no right to elect the general partner or the directors of the general partner on an annual or other continuing basis.

In addition, the following provisions of our partnership agreement may discourage a person or group from attempting to remove our general partner or otherwise change our management:

- generally, if a person acquires 20% or more of any class of units then outstanding other than from our general partner or its affiliates, the units owned by such person cannot be voted on any matter; and
- limitations upon the ability of unitholders to call meetings or to acquire information about our operations, as well as other limitations upon the unitholders’ ability to influence the manner or direction of management.

As a result of these provisions, the price at which the common units will trade may be lower because of the absence or reduction of a takeover premium in the trading price.

***We may issue additional common units without unitholder approval, which would dilute a unitholder’s existing ownership interests.***

Our general partner may cause us to issue an unlimited number of common units, without unitholder approval. We may also issue at any time an unlimited number of equity securities ranking junior or senior to the common units without unitholder approval. The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

- an existing unitholder’s proportionate ownership interest in Plains All American Pipeline, L.P. will decrease;
- the amount of cash available for distribution on each unit may decrease;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

***Our general partner has a limited call right that may require unitholders to sell their units at an undesirable time or price.***

If at any time our general partner and its affiliates own 80% or more of the common units, the general partner will have the right, but not the obligation, which it may assign to any of its affiliates, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price generally equal to the then current market price of the common units. As a result, unitholders may be required to sell their common units at a time when they may not desire to sell them or at a price that is less than the price they would like to receive. They may also incur a tax liability upon a sale of their common units.

***Unitholders may not have limited liability if a court finds that unitholder actions constitute control of our business.***

Under Delaware law, a unitholder could be held liable for our obligations to the same extent as a general partner if a court determined that the right of unitholders to remove our general partner or to take other action under our partnership agreement constituted participation in the "control" of our business.

Our general partner generally has unlimited liability for our obligations, such as our debts and environmental liabilities, except for those contractual obligations that are expressly made without recourse to our general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution.

***Conflicts of interest could arise among our general partner and us or the unitholders.***

These conflicts may include the following:

- we do not have any employees and we rely solely on employees of the general partner or, in the case of Plains Marketing Canada, employees of PMC (Nova Scotia) Company;
- under our partnership agreement, we reimburse the general partner for the costs of managing and for operating the partnership;
- the amount of cash expenditures, borrowings and reserves in any quarter may affect available cash to pay quarterly distributions to unitholders;
- the general partner tries to avoid being liable for partnership obligations. The general partner is permitted to protect its assets in this manner by our partnership agreement. Under our partnership agreement the general partner would not breach its fiduciary duty by avoiding liability for partnership obligations even if we can obtain more favorable terms without limiting the general partner's liability; under our partnership agreement, the general partner may pay its affiliates for any services rendered on terms fair and reasonable to us. The general partner may also enter into additional contracts with any of its affiliates on behalf of us. Agreements or contracts between us and our general partner (and its affiliates) are not necessarily the result of arms length negotiations; and
- the general partner would not breach our partnership agreement by exercising its call rights to purchase limited partnership interests or by assigning its call rights to one of its affiliates or to us.

**Risks Related to an Investment in Our Debt Securities**

***The right to receive payments on our outstanding debt securities and subsidiary guarantees is unsecured and will be effectively subordinated to our existing and future secured indebtedness as well as to any existing and future indebtedness of our subsidiaries that do not guarantee the notes.***

Our debt securities are effectively subordinated to claims of our secured creditors and the guarantees are effectively subordinated to the claims of our secured creditors as well as the secured creditors of our subsidiary guarantors. Although substantially all of our subsidiaries, other than PAA Finance Corp., the co-issuer of our debt securities, have guaranteed such debt securities, the guarantees are subject to release under certain circumstances, and we may have subsidiaries that are not guarantors. In that case, the debt securities would be effectively subordinated to the claims of all creditors, including trade creditors and tort claimants, of our subsidiaries that are not guarantors. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of a subsidiary that is not a guarantor, creditors of that subsidiary would generally have the right to be paid in full before any distribution is made to us or the holders of the debt securities.

***Our leverage may limit our ability to borrow additional funds, comply with the terms of our indebtedness or capitalize on business opportunities.***

Our leverage is significant in relation to our partners' capital. At December 31, 2005, our total outstanding long-term debt and short-term debt under our revolving credit facility were approximately $1.1 billion. We will be prohibited from making cash distributions during an event of default under any of our indebtedness. Various limitations in our credit facilities may reduce our ability to incur additional debt, to engage in some transactions and to capitalize on business opportunities. Any subsequent refinancing of our current indebtedness or any new indebtedness could have similar or greater restrictions.

Our leverage could have important consequences to investors in our debt securities. We will require substantial cash flow to meet our principal and interest obligations with respect to the notes and our other consolidated indebtedness. Our ability to make scheduled payments, to refinance our obligations with respect to our indebtedness or our ability to obtain additional financing in the future will depend on our financial and operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. We believe that we will have sufficient cash flow from operations and available borrowings under our bank credit facility to service our indebtedness, although the principal amount of the notes will likely need to be refinanced at maturity in whole or in part. However, a significant downturn in the hydrocarbon industry or other development adversely affecting our cash flow could materially impair our ability to service our indebtedness. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to refinance all or portion of our debt or sell assets. We can give no assurance that we would be able to refinance our existing indebtedness or sell assets on terms that are commercially reasonable. In addition, if one or more rating agencies were to lower our debt ratings, we could be required by some of our counterparties to post additional collateral, which would reduce our available liquidity and cash flow.

Our leverage may adversely affect our ability to fund future working capital, capital expenditures and other general partnership requirements, future acquisition, construction or development activities, or to otherwise fully realize the value of our assets and opportunities because of the need to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness or to comply with any restrictive terms of our indebtedness. Our leverage may also make our results of operations more susceptible to adverse economic and industry conditions by limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate and may place us at a competitive disadvantage as compared to our competitors that have less debt.

***A court may use fraudulent conveyance considerations to avoid or subordinate the subsidiary guarantees.***

Various applicable fraudulent conveyance laws have been enacted for the protection of creditors. A court may use fraudulent conveyance laws to subordinate or avoid the subsidiary guarantees of our debt securities issued by any of our subsidiary guarantors. It is also possible that under certain circumstances a court could hold that the direct obligations of a subsidiary guaranteeing our debt securities could be superior to the obligations under that guarantee.

A court could avoid or subordinate the guarantee of our debt securities by any of our subsidiaries in favor of that subsidiary's other debts or liabilities to the extent that the court determined either of the following were true at the time the subsidiary issued the guarantee:

- that subsidiary incurred the guarantee with the intent to hinder, delay or defraud any of its present or future creditors or that subsidiary contemplated insolvency with a design to favor one or more creditors to the total or partial exclusion of others; or
- that subsidiary did not receive fair consideration or reasonable equivalent value for issuing the guarantee and, at the time it issued the guarantee, that subsidiary:
    - — was insolvent or rendered insolvent by reason of the issuance of the guarantee;
    - — was engaged or about to engage in a business or transaction for which the remaining assets of that subsidiary constituted unreasonably small capital; or
    - — intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured.

The measure of insolvency for purposes of the foregoing will vary depending upon the law of the relevant jurisdiction. Generally, however, an entity would be considered insolvent for purposes of the foregoing if the sum of its debts, including contingent liabilities, were greater than the fair saleable value of all of its assets at a fair valuation, or if the present fair saleable value of its assets were less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and matured.

Among other things, a legal challenge of a subsidiary's guarantee of our debt securities on fraudulent conveyance grounds may focus on the benefits, if any, realized by that subsidiary as a result of our issuance of our debt securities. To the extent a subsidiary's guarantee of our debt securities is avoided as a result of fraudulent conveyance or held unenforceable for any other reason, the holders of our debt securities would cease to have any claim in respect of that guarantee.

***The ability to transfer our debt securities may be limited by the absence of a trading market.***

We do not currently intend to apply for listing of our debt securities on any securities exchange or stock market. The liquidity of any market for our debt securities will depend on the number of holders of those debt securities, the interest of securities dealers in making a market in those debt securities and other factors. Accordingly, we can give no assurance as to the development or liquidity of any market for the debt securities.

***We have a holding company structure in which our subsidiaries conduct our operations and own our operating assets.***

We are a holding company, and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the ownership interests in our subsidiaries. As a result, our ability to make required payments on our debt securities depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, credit facilities and applicable state partnership laws and other laws and regulations. Pursuant to the credit facilities, we may be required to establish cash reserves for the future payment of principal and interest on the amounts outstanding under our credit facilities. If we are unable to obtain the funds necessary to pay the principal amount at maturity of the debt securities, or to repurchase the debt securities upon the occurrence of a change of control, we may be required to adopt one or more alternatives, such as a refinancing of the debt securities. We cannot assure you that we would be able to refinance the debt securities.

***We do not have the same flexibility as other types of organizations to accumulate cash, which may limit cash available to service our debt securities or to repay them at maturity.***

Unlike a corporation, our partnership agreement requires us to distribute, on a quarterly basis, 100% of our available cash to our unitholders of record and our general partner. Available cash is generally all of our cash receipts adjusted for cash distributions and net changes to reserves. Our general partner will determine the amount and timing of such distributions and has broad discretion to establish and make additions to our reserves or the reserves of our operating partnerships in amounts the general partner determines in its reasonable discretion to be necessary or appropriate:

- to provide for the proper conduct of our business and the businesses of our operating partnerships (including reserves for future capital expenditures and for our anticipated future credit needs);
- to provide funds for distributions to our unitholders and the general partner for any one or more of the next four calendar quarters; or
- to comply with applicable law or any of our loan or other agreements.

Although our payment obligations to our unitholders are subordinate to our payment obligations to debtholders, the value of our units will decrease in direct correlation with decreases in the amount we distribute per unit. Accordingly, if we experience a liquidity problem in the future, we may not be able to issue equity to recapitalize.

## Tax Risks to Common Unitholders

***Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by individual states. If the IRS were to treat us as a corporation or if we become subject to entity-level taxation for state tax purposes, it would reduce the amount of cash available for distribution to our unitholders.***

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to our unitholders would generally be taxed again to them as corporate distributions, and no income, gains, losses, deductions or credits would flow through to them. Because a tax would be imposed upon us as a corporation, the cash available for distribution to our unitholders would be substantially reduced. Treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of the common units. Moreover, treatment of us as a corporation could materially and adversely affect our ability to make cash distributions to our unitholders or to make payments on our debt securities.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, the cash available for distribution to our unitholders would be reduced. Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution and the target distribution levels will be adjusted to reflect the impact of that law on us.

***If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution or debt service.***

We have not requested a ruling from the IRS with respect to any matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take. A court may not concur with our counsel's conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for common units and the price at which they trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will be borne by us and directly or indirectly by the unitholders and the general partner because the costs will reduce our cash available for distribution or debt service.

***Our unitholders may be required to pay taxes even if they do not receive any cash distributions from us.***

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, they will be required to pay any federal income taxes and, in some cases, state and local income taxes on their share of our taxable income even if they do not receive any cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from their share of our taxable income.

***Tax gain or loss on disposition of common units could be different than expected.***

If our unitholders sell their common units, they will recognize gain or loss equal to the difference between the amount realized and their tax basis in those common units. Prior distributions in excess of the total net taxable income allocated to a unitholder for a common unit, which decreased the unitholder's tax basis in that common unit, will, in effect, become taxable income to the unitholder if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price the unitholder receives is less than the unitholder's original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to the unitholder. Should the IRS successfully contest some positions we take, the unitholder could recognize more gain on the sale of units than would be the case under those positions, without the benefit of decreased income in prior years. Also, if a unitholder sells units, the unitholder may incur a tax liability in excess of the amount of cash received from the sale.

***Tax-exempt entities and foreign persons face unique tax issues from owning our common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as individual retirement accounts (IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income.

***We treat each purchaser of common units as having the same tax benefits without regard to the actual units purchased. The IRS may challenge this treatment, which could adversely affect the value of the units.***

Because we cannot match transferors and transferees of common units and because of other reasons, we have adopted depreciation and amortization positions that do not conform with all aspects of the Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain from a unitholder's sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to a unitholder's tax return.

***Our unitholders will likely be subject to foreign, state and local taxes and return filing requirements in jurisdictions where they do not live as a result of an investment in our units.***

In addition to federal income taxes, our unitholders will likely be subject to other taxes, including foreign taxes, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property and in which they do not reside. We own property and conduct business in Canada and in most states in the United States. Unitholders may be required to file Canadian federal income tax returns and to pay Canadian federal and provincial income taxes and to file state and local income tax returns and pay state and local income taxes in many or all of the jurisdictions in which we do business or own property. Further, unitholders may be subject to penalties for failure to comply with those requirements. It is our unitholders' responsibility to file all United States federal, state, local and foreign tax returns. Our counsel has not rendered an opinion on the foreign, state or local tax consequences of an investment in the common units.

## Item 1B. *Unresolved Staff Comments*

None.

## Item 3. *Legal Proceedings*

*Export License Matter.* In our gathering and marketing activities, we import and export crude oil from and to Canada. Exports of crude oil are subject to the "short supply" controls of the Export Administration Regulations ("EAR") and must be licensed by the Bureau of Industry and Security (the "BIS") of the U.S. Commerce Department. In 2002, we determined that we may have violated the terms of our licenses with respect to the quantity of crude oil exported and the end-users in Canada. Export of crude oil except as authorized by license is a violation of the EAR. In October 2002, we submitted to the BIS an initial notification of voluntary disclosure. The BIS subsequently informed us that we could continue to export while previous exports were under review. We applied for and received several new licenses allowing for export volumes and end users that more accurately reflect our anticipated business and customer needs. We also conducted reviews of new and existing contracts and implemented new procedures and practices in order to monitor compliance with applicable laws regarding the export of crude oil to Canada. As a result, we subsequently submitted additional information to the BIS in October 2003 and May 2004. In August 2004, we received a request from the BIS for additional information. We have responded to this and subsequent requests, and continue to cooperate fully with BIS officials. At this time, we have received neither a warning letter nor a charging letter, which could involve the imposition of penalties, and no indication of what penalties the BIS might assess. As a result, we cannot reasonably estimate the ultimate impact of this matter.

*Pipeline Releases.* In December 2004 and January 2005, we experienced two unrelated releases of crude oil that reached rivers located near the sites where the releases originated. In late December 2004, one of our pipelines in West Texas experienced a rupture that resulted in the release of approximately 4,500 barrels of crude oil, a portion of which reached a remote location of the Pecos River. In early January 2005, an overflow from a temporary storage tank located in East Texas resulted in the release of approximately 1,200 barrels of crude oil, a portion of which reached the Sabine River. In both cases, emergency response personnel under the supervision of a unified command structure consisting of representatives of Plains Pipeline, the U.S. Environmental Protection Agency, the Texas Commission on Environmental Quality and the Texas Railroad Commission conducted clean-up operations at each site. Approximately 4,200 barrels and 980 barrels were recovered from the two respective sites. The unrecovered oil was removed or otherwise addressed by us in the course of site remediation. Aggregate costs associated with the releases, including estimated remediation costs, are estimated to be approximately $4.5 million to $5.0 million. In cooperation with the appropriate state and federal environmental authorities, we have substantially completed our work with respect to site restoration, subject to some ongoing remediation at the Pecos River site. We have been informed by EPA that it has referred these two crude oil releases, as well as several other smaller releases, to the U.S. Department of Justice for further investigation in connection with a possible civil penalty enforcement action under the Federal Clean Water Act.

*Other.* We, in the ordinary course of business, are a claimant and/or a defendant in various other legal proceedings. We do not believe that the outcome of these other legal proceedings, individually and in the aggregate, will have a materially adverse effect on our financial condition, results of operations or cash flows.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of unitholders during the fourth quarter of 2005.