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## PART II

### Item 5. *Market for Registrant's Common Units, Related Unitholder Matters and Issuer Purchases of Equity Securities*

Our common units are listed and traded on the New York Stock Exchange ("NYSE") under the symbol "PAA." As of February 22, 2011, the closing market price for our common units was $63.79 per unit and there were approximately 125,000 record holders and beneficial owners (held in street name). As of February 22, 2011, there were 141,199,175 common units outstanding.

The following table sets forth high and low sales prices for our common units and the cash distributions declared per common unit for the periods indicated:

| | Common Unit Price Range | | Cash |
|---|---|---|---|
| | High | Low | Distributions [1] |
| **2010** | | | |
| 4th Quarter | $ 65.20 | $ 60.91 | $ 0.9575 |
| 3rd Quarter | $ 64.21 | $ 57.33 | $ 0.9500 |
| 2nd Quarter | $ 60.06 | $ 44.12 | $ 0.9425 |
| 1st Quarter | $ 57.11 | $ 49.82 | $ 0.9350 |
| **2009** | | | |
| 4th Quarter | $ 53.37 | $ 45.45 | $ 0.9275 |
| 3rd Quarter | $ 50.33 | $ 42.50 | $ 0.9200 |
| 2nd Quarter | $ 45.52 | $ 36.25 | $ 0.9050 |
| 1st Quarter | $ 40.98 | $ 34.00 | $ 0.9050 |

(1) Cash distributions for a quarter are declared and paid in the following calendar quarter. See the "Cash Distribution Policy" below for a discussion of our policy regarding distribution payments.

Our common units are used as a form of compensation to our employees. Additional information regarding our equity compensation plans is included in Part III of this report under Item 13. "Certain Relationships and Related Transactions, and Director Independence."

### Cash Distribution Policy

We will distribute all of our available cash to our unitholders within 45 days following the end of each quarter in the manner described below. Available cash generally means, for any quarter ending prior to liquidation, all cash on hand at the end of that quarter less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to:

- provide for the proper conduct of our business;
- comply with applicable law or any partnership debt instrument or other agreement; or
- provide funds for distributions to unitholders and the general partner in respect of any one or more of the next four quarters.

In addition to distributions on its 2% general partner interest, our general partner is entitled to receive incentive distributions if the amount we distribute with respect to any quarter exceeds levels specified in our partnership agreement. Under the quarterly incentive distribution provisions, our general partner is entitled, without duplication and except for the agreed upon adjustment discussed below, to 15% of amounts we distribute in excess of $0.450 per unit, 25% of the amounts we distribute in excess of $0.495 per unit and 50% of amounts we distribute in excess of $0.675 per unit.

In order to enhance our distribution coverage ratio and liquidity following a significant acquisition, our general partner may agree to reduce the amounts due to it as incentive distributions. Upon closing the acquisitions of Pacific Energy Partners LP ("Pacific") in November 2006, Rainbow Pipe Line Company, Ltd. ("Rainbow") in May 2008 and PAA Natural Gas Storage, LLC ("PNGS") in September 2009, our general partner agreed to reduce the amounts due to it as incentive distributions. The total reduction in incentive distributions related to the Pacific, Rainbow and PNGS acquisitions was $83 million as displayed on an annual basis in the following table (in millions):

| Acquisition | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|---|---|
| Pacific | $ 20 | $ 15 | $ 15 | $ 10 | $ 5 | $ 65 |
| Rainbow | — | 3 | 6 | 1 | — | 10 |
| PNGS | — | — | 1 | 5 | 2 | 8 |
| Total | $ 20 | $ 18 | $ 22 | $ 16 | $ 7 | $ 83 |

Following the distribution in February 2011 (as discussed below), the aggregate remaining incentive distribution reductions are approximately $5 million.

We paid $160 million to the general partner in incentive distributions in 2010. Additionally, on February 14, 2011, we paid a quarterly distribution of $0.9575 per unit applicable to the fourth quarter of 2010, of which approximately $46 million was paid to the general partner in incentive distributions. See Item 13. “Certain Relationships and Related Transactions, and Director Independence—Our General Partner.”

Under the terms of the agreements governing our debt, we are prohibited from declaring or paying any distribution to unitholders if a default or event of default (as defined in such agreements) exists. No such default has occurred. See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Facilities and Indentures.”

See Item 12. “Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters” for information regarding securities authorized for issuance under equity compensation plans.

**Issuer Purchases of Equity Securities**

We did not repurchase any of our common units during the fourth quarter of 2010, and we do not have any announced or existing plans to repurchase any of our common units other than potential repurchases consistent with past practice in providing units for relatively small vestings of phantom units under our long-term incentive plans (“LTIP”).

**Item 6.** ***Selected Financial Data***

The historical financial information below was derived from our audited consolidated financial statements as of December 31, 2010, 2009, 2008, 2007 and 2006 and for the years then ended. The selected financial data should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (in millions, except for per unit data) | | | | |
| **Statement of operations data:** | | | | | |
| Total revenues [1] | $ 25,893 | $ 18,520 | $ 30,061 | $ 20,394 | $ 22,445 |
| Income before cumulative effect of change in accounting principle [2] | $ 514 | $ 580 | $ 437 | $ 365 | $ 279 |
| Net income | $ 514 | $ 580 | $ 437 | $ 365 | $ 285 |
| Net income attributable to Plains | $ 505 | $ 579 | $ 437 | $ 365 | $ 285 |
| **Per unit data:** | | | | | |
| Basic net income before cumulative effect of change in accounting principle [2] | $ 2.41 | $ 3.34 | $ 2.66 | $ 2.47 | $ 2.85 |
| Basic net income after cumulative effect of change in accounting principle | $ 2.41 | $ 3.34 | $ 2.66 | $ 2.47 | $ 2.93 |
| Diluted net income before cumulative effect of change in accounting principle [2] | $ 2.40 | $ 3.32 | $ 2.64 | $ 2.45 | $ 2.82 |
| Diluted net income after cumulative effect of change in accounting principle | $ 2.40 | $ 3.32 | $ 2.64 | $ 2.45 | $ 2.90 |
| Declared distributions per limited partner unit [3] | $ 3.76 | $ 3.62 | $ 3.50 | $ 3.28 | $ 2.87 |
| **Balance sheet data (at end of period):** | | | | | |
| Total assets | $ 13,703 | $ 12,358 | $ 10,032 | $ 9,906 | $ 8,715 |
| Long-term debt | $ 4,631 | $ 4,142 | $ 3,259 | $ 2,624 | $ 2,626 |
| Total debt | $ 5,957 | $ 5,216 | $ 4,286 | $ 3,584 | $ 3,627 |
| Partners' capital | $ 4,573 | $ 4,159 | $ 3,552 | $ 3,424 | $ 2,977 |
| **Other data:** | | | | | |
| Net cash provided by (used in) operating activities | $ 259 | $ 365 | $ 857 | $ 796 | $ (276) |
| Net cash used in investing activities | $ (583) | $ (660) | $ (1,339) | $ (663) | $ (1,651) |
| Net cash provided by (used in) financing activities | $ 336 | $ 312 | $ 464 | $ (124) | $ 1,927 |
| Capital expenditures: | | | | | |
| Acquisitions | $ 407 | $ 393 | $ 735 | $ 125 | $ 3,021 |
| Internal growth projects | $ 355 | $ 364 | $ 491 | $ 525 | $ 332 |
| Maintenance | $ 93 | $ 81 | $ 81 | $ 50 | $ 28 |
| Investments in unconsolidated subsidiaries | $ — | $ 15 | $ 37 | $ 9 | $ 44 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| **Volumes** (4) (5) (6) | | | | | |
| Transportation segment (average daily volumes in thousands of barrels): | | | | | |
| Tariff activities | 2,889 | 2,836 | 2,851 | 2,712 | 2,106 |
| Trucking | 97 | 85 | 97 | 105 | 101 |
| Transportation segment total | 2,986 | 2,921 | 2,948 | 2,817 | 2,207 |
| Facilities segment: | | | | | |
| Crude oil, refined products and LPG storage (average monthly capacity in millions of barrels) | 61 | 56 | 53 | 46 | 25 |
| Natural gas storage (average monthly capacity in bcf) | 47 | 26 | 14 | 13 | 13 |
| LPG processing (average daily throughput in thousands of barrels) | 14 | 15 | 17 | 18 | 12 |
| Facilities segment total (average monthly capacity in millions of barrels) | 70 | 61 | 56 | 48 | 27 |
| Supply & Logistics segment (average daily volumes in thousands of barrels): | | | | | |
| Crude oil lease gathering purchases | 620 | 612 | 658 | 685 | 650 |
| LPG sales | 96 | 105 | 103 | 90 | 70 |
| Waterborne foreign crude oil imported | 68 | 55 | 80 | 71 | 63 |
| Supply & Logistics segment total | 784 | 772 | 841 | 846 | 783 |

(1) Includes gross presentation of buy/sell transactions for all periods prior to the second quarter of 2006. See Note 2 to our Consolidated Financial Statements for further discussion of buy/sell transactions.

(2) Due to the January 1, 2006 change in our method of accounting for unit-based payment transactions, we recognized a cumulative effect of change in accounting principle of approximately $6 million.

(3) Our general partner is entitled, directly or indirectly, to receive 2% proportional distributions, and also incentive distributions if the amount we distribute with respect to any quarter exceeds levels specified in our partnership agreement. See Note 5 to our Consolidated Financial Statements.

(4) Volumes associated with acquisitions represent total volumes for the number of days or months we actually owned the assets divided by the number of days or months in the year.

(5) In September 2009, we acquired the remaining 50% indirect interest in PNGS, which resulted in our 100% ownership of the natural gas storage business and related operating entities. Natural gas storage volumes for January 2006 through August 2009 are netted to our 50% interest in PNGS. Beginning in September 2009, volumes represent our 100% interest in PNGS. See Note 3 to our Consolidated Financial Statements for additional discussion regarding the PNGS acquisition.

(6) Facilities total is calculated as the sum of: (i) crude oil, refined products and liquefied petroleum gas and other natural gas-related petroleum products ("LPG") storage capacity; (ii) natural gas storage capacity divided by 6 to account for the 6:1 mcf of gas to crude British thermal unit ("Btu") equivalent ratio and further divided by 1,000 to convert to monthly volumes in millions; and (iii) LPG processing volumes multiplied by the number of days in the year and divided by the number of months in the year.

**Item 7.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

**Introduction**

The following discussion is intended to provide investors with an understanding of our financial condition and results of our operations and should be read in conjunction with our historical consolidated financial statements and accompanying notes.

Our discussion and analysis includes the following:

- Executive Summary
  - Company Overview
  - Overview of Operating Results, Capital Spending and Significant Activities
- Acquisitions and Internal Growth Projects
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements
- Results of Operations
- Outlook
- Liquidity and Capital Resources

**Executive Summary**

***Company Overview***

We provide transportation, storage, terminalling and supply and logistics services with respect to crude oil, refined products and LPG. Through our general partner interest and majority equity ownership position in PAA Natural Gas Storage, L.P. (NYSE: PNG), we also engage in the development and operation of natural gas storage facilities. We were formed in 1998, and our operations are conducted directly and indirectly through our operating subsidiaries and are managed through three operating segments: (i) Transportation, (ii) Facilities and (iii) Supply and Logistics. See "—Results of Operations—Analysis of Operating Segments" for further discussion.

***Overview of Operating Results, Capital Spending and Significant Activities***

During 2010, our net income attributable to Plains was $505 million, which was a $74 million year-over-year decrease as compared to that recognized during 2009. The major items impacting comparability between periods are:

- The unfavorable results experienced within our supply and logistics segment, which were impacted by:
  - lower LPG margins;
  - our derivative activities; and
  - less favorable crude oil quality differentials and market structure.

- The negative impact to all segments resulting from our equity compensation expense that increased by approximately $30 million during 2010 compared to 2009.

- The favorable results experienced within:
  - our facilities segment, which primarily resulted from expansions in our asset base through acquisitions and our ongoing internal growth projects; and
  - our transportation segment, which primarily reflects impacts of favorable foreign currency exchange rates, increased tariff rates and other various net favorable effects.

- The negative impact of increased depreciation and amortization expense and interest expense associated with our expanded asset base and related financing costs.

See the "Results of Operations" section below for further discussion and analysis of our operating segments.

Other key items impacting 2010 include (i) the completion of debt and equity offerings for net proceeds of approximately $692 million, (ii) the completion of PNG's initial public offering ("IPO") for net proceeds of $268 million received from the sale of 13,478,000 PNG common units and (iii) approximately $509 million of net borrowings under our credit facilities, including $260 million of borrowings under PNG's credit facility that was entered into in conjunction with the IPO. These net proceeds were used for (i) the repayment of our $175 million, 6.25% senior notes, (ii) funding of our ongoing expansion capital program and acquisitions (as further discussed in the following sections) and (iii) other general partnership purposes.

**Acquisitions and Internal Growth Projects**

We completed a number of acquisitions and capital expansion projects in 2010, 2009 and 2008 that have impacted our results of operations. The following table summarizes our capital expenditures for acquisitions, internal growth projects, maintenance capital and investments in unconsolidated entities for the periods indicated (in millions):

| | For the Year Ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Acquisition capital [(1)] | $ 407 | $ 393 | $ 735 |
| Internal growth projects | 355 | 364 | 491 |
| Maintenance capital | 93 | 81 | 81 |
| Investment in unconsolidated entities [(1)] | — | 15 | 37 |
| | $ 855 | $ 853 | $ 1,344 |

(1) Initial investments in unconsolidated entities are included within "Acquisition capital," whereas additional subsequent investments in unconsolidated entities are recognized within "Investment in unconsolidated entities."

***Acquisitions***

Acquisitions are financed using a combination of equity and debt, including borrowings under our credit facilities and the issuance of senior notes. Businesses acquired impact our results of operations commencing on the effective date of each acquisition. Our acquisition and capital expansion activities are discussed further in "—Liquidity and Capital Resources" and in Note 3 to our Consolidated Financial Statements. Information regarding acquisitions completed in 2010, 2009 and 2008 is set forth in the table below (in millions):

| Acquisition | Effective Date | Acquisition Price | Operating Segment |
|---|---|---|---|
| Nexen Holdings U.S.A. Inc. | 12/30/2010 | $ 229 | Supply & Logistics and Transportation |
| Other | Various | 178 | Transportation and Facilities |
| 2010 Total | | $ 407 | |
| PNGS | 09/03/2009 | $ 215 | Facilities |
| Other | Various | 178 | Transportation and Facilities |
| 2009 Total | | $ 393 | |
| Rainbow | 05/01/2008 | $ 687 | Transportation |
| Other | Various | 48 | Facilities |
| 2008 Total | | $ 735 | |

***Internal Growth Projects***

Our 2010 projects included the construction and expansion of pipeline systems and storage and terminal facilities. The following table summarizes our 2010, 2009 and 2008 projects (in millions):

| Projects | 2010 | 2009 | 2008 |
|---|---|---|---|
| PNGS [(1)] [(2)] | $ 85 | $ 26 | $ — |
| Cushing - Phases VII and VIII | 25 | 25 | — |
| Cushing - Phases IX through XI [(1)] | 21 | — | — |
| St. James - Phases I through IV [(1)] | 21 | 73 | 44 |
| Patoka tankage - Phases I through III | 20 | 22 | 56 |
| Edmonton land | 17 | — | — |
| West Texas gathering lines | 15 | — | — |
| Pier 400 [(1)] | 11 | 18 | 10 |
| Wichita Falls tanks | 9 | — | — |
| Nipisi storage and truck terminal | 6 | 18 | — |
| Kerrobert pumping project | 1 | 33 | 9 |
| Rangeland tankage | — | 36 | 12 |
| Paulsboro tankage | — | 11 | 30 |
| Salt Lake City expansion | — | 8 | 154 |
| Fort Laramie tank expansion | — | 2 | 20 |
| Other projects [(3)] | 124 | 92 | 156 |
| Total | $ 355 | $ 364 | $ 491 |

(1) These projects will continue into 2011. See "—Liquidity and Capital Resources—Capital Expenditures and Distributions Paid to Our Unitholders, General Partner and Noncontrolling Interests—2011 Capital Expansion Projects."

(2) Expenditures shown for 2009 for PNGS include only those expenditures made subsequent to the acquisition in September 2009 of the remaining 50% interest in PNGS.

(3) Primarily consists of pipeline connections, upgrades and truck stations, and new tank construction and refurbishing.

## Critical Accounting Policies and Estimates

### *Critical Accounting Policies*

We have adopted various accounting policies to prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). These critical accounting policies are discussed in Note 2 to our Consolidated Financial Statements.

### *Critical Accounting Estimates*

The preparation of financial statements in conformity with GAAP and rules and regulations of the United States Securities and Exchange Commission ("SEC") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of the financial statements. Such estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Although we believe these estimates are reasonable, actual results could differ from these estimates. On a regular basis, we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting for our (i) purchase and sales accruals, (ii) fair value of assets and liabilities acquired and identification of associated goodwill and intangible assets, (iii) fair value of derivatives, (iv) accruals and contingent liabilities, including our equity compensation plan accruals, (v) property and equipment and depreciation expense and (vi) allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements. These areas are key components of our results of operations and are based on complex rules which require us to make judgments and estimates, so we consider these to be our critical accounting policies. Such critical accounting estimates are discussed further as follows:

*Purchase and Sales Accruals.* We routinely make accruals based on estimates for certain components of our revenues and cost of sales due to the timing of compiling billing information, receiving third-party information and reconciling our records with those of third parties. Where applicable, these accruals are based on nominated volumes expected to be purchased, transported and subsequently sold. Uncertainties involved in these estimates include levels of production at the wellhead, access to certain qualities of crude oil, pipeline capacities and delivery times, utilization of truck fleets to transport volumes to their destinations, weather, market conditions and other forces beyond our control. These estimates are generally associated with a portion of the last month of each reporting period. For the year ended December 31, 2010, we estimate that approximately 3% of both annual revenues and cost of sales were recorded using purchase and sales estimates. Accordingly, a 10% variance from this estimate would impact annual revenues, cost of sales, operating income and net income attributable to Plains line items by approximately 1% or less on an annual basis. Although the resolution of these uncertainties has not historically had a material impact on our reported results of operations or financial condition, because of the high volume, low margin nature of our business, we cannot provide assurance that actual amounts will not vary significantly from estimated amounts. Variances from estimates are reflected in the period actual results become known, typically in the month following the estimate.

*Fair Value of Assets and Liabilities Acquired and Identification of Associated Goodwill and Intangible Assets.* In accordance with Financial Accounting Standards Board ("FASB") guidance regarding business combinations, with each acquisition, we allocate the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. If the initial accounting for the business combination is incomplete when the combination occurs, an estimate will be recorded. Any subsequent adjustments to this estimate, if material, will be recognized retroactive to the date of acquisition. With exception to our equity method investments, we also expense the transaction costs as incurred in connection with each acquisition. In addition, we are required to recognize intangible assets separately from goodwill. Intangible assets with finite lives are amortized over their estimated useful life as determined by management. Goodwill and intangible assets with indefinite lives are not amortized but instead are periodically assessed for impairment.

Impairment testing entails estimating future net cash flows relating to the asset, based on management's estimate of future revenues, future cash flows and market conditions including pricing, demand, competition, operating costs and other factors. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items as customer relationships, contracts, and industry expertise, involves professional judgment and is ultimately based on acquisition models and management's assessment of the value of the assets acquired and, to the extent available, third party assessments. Uncertainties associated with these estimates include changes in production decline rates, production interruptions, fluctuations in refinery capacity or product slates, economic obsolescence factors in the area and potential future sources of cash flow. Although the resolution of these uncertainties has not historically had a material impact on our results of operations or financial condition, we cannot provide assurance that actual amounts will not vary significantly from estimated amounts. We perform our goodwill impairment test annually (as of June 30) and when events or changes in circumstances indicate that the carrying value may not be recoverable.

We also compare our market capitalization to our book equity on a quarterly basis, to determine if there may be an indicator of impairment. As of December 31, 2010, our market capitalization exceeded the book value of our equity; therefore, since there were no events or changes in circumstances indicating impairment issues, we determined that it was not necessary to perform our goodwill impairment test as of December 31, 2010. We will continue to monitor the market and any changes in circumstances to determine if a triggering event occurs and will perform a goodwill impairment analysis if deemed necessary. We did not have any goodwill impairments in 2010, 2009 or 2008. See Note 2 to our Consolidated Financial Statements for a further discussion of goodwill.

*Fair Value of Derivatives.* Our derivatives are reported at fair value as either assets or liabilities with changes in fair value recognized in either earnings or accumulated other comprehensive income (“AOCI”). The fair value of a derivative at a particular period end does not reflect the end results of a particular transaction, and will most likely not reflect the realized gain or loss at the conclusion of a transaction. We reflect estimates for these items based on our internal records and information from third parties. For our derivatives that are not exchange traded, the estimates we use are based on indicative broker quotations or an internal valuation model. Our valuation models utilize market observable inputs such as price, volatility, correlation and other factors and may not be reflective of the price at which they can be settled due to the lack of a liquid market. Less than 1% of total annual revenues are based on estimates derived from internal valuation models. Although the resolution of these uncertainties has not historically had a material impact on our results of operations or financial condition, we cannot provide assurance that actual amounts will not vary significantly from estimated amounts.

*Accruals and Contingent Liabilities.* We record accruals or liabilities including, but not limited to, environmental remediation and governmental penalties, asset retirement obligations, equity compensation plan accruals (as further discussed below) and potential legal claims. Accruals are made when our assessment indicates that it is probable that a liability has occurred and the amount of liability can be reasonably estimated. Our estimates 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 environmental 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. Our estimates for contingent liability accruals are increased or decreased as additional information is obtained or resolution is achieved. A variance of 5% in our aggregate estimate for the accruals and contingent liabilities discussed above would have an impact on earnings of up to approximately $12 million. Although the resolution of these uncertainties has not historically had a material impact on our results of operations or financial condition, we cannot provide assurance that actual amounts will not vary significantly from estimated amounts.

*Equity Compensation Plan Accruals.* We accrue compensation expense for outstanding equity compensation awards. Under GAAP, we are required to estimate the fair value of our outstanding equity awards and recognize that fair value as compensation expense over the service period. For equity awards that contain a performance condition, the fair value of the equity award is recognized as compensation expense only if the attainment of the performance condition is considered probable. Uncertainties involved in this estimate include the actual unit price at time of vesting, whether or not a performance condition will be attained and the continued employment of personnel with outstanding equity awards.

We recognized total compensation expense of approximately $98 million, $68 million and $24 million in 2010, 2009 and 2008, respectively, related to equity awards granted under our various equity compensation plans. We cannot provide assurance that the actual fair value of our equity compensation awards will not vary significantly from estimated amounts. See Note 10 to our Consolidated Financial Statements.

*Property and Equipment and Depreciation Expense.* We compute depreciation using the straight-line method based on estimated useful lives. These estimates are based on various factors including condition, manufacturing specifications, technological advances and historical data concerning useful lives of similar assets. Uncertainties that impact these estimates include changes in laws and regulations relating to restoration and abandonment requirements, economic conditions and supply and demand in the area. When assets are put into service, we make estimates with respect to useful lives and salvage values that we believe are reasonable. However, subsequent events could cause us to change our estimates, thus impacting the future calculation of depreciation and amortization. During 2010, we conducted a review to assess the useful lives of our property and equipment. See Note 2 to our Consolidated Financial Statements.

We periodically evaluate property and equipment for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. The evaluation is highly dependent on the underlying assumptions of related cash flows. We consider the fair value estimate used to calculate impairment of property and equipment a critical accounting estimate. In determining the existence of an impairment of carrying value, we make a number of subjective assumptions as to:

- whether there is an event or circumstance that may be indicative of an impairment;
- the grouping of assets;
- the intention of “holding” versus “selling” an asset;
- the forecast of undiscounted expected future cash flow over the asset’s estimated useful life; and
- if an impairment exists, the fair value of the asset or asset group.

During 2010, we recognized impairments of approximately $13 million for assets taken out of service. Impairments of less than $1 million and approximately $5 million were recognized during 2009 and 2008, respectively, and were predominantly related to assets that were taken out of service. These assets did not support spending the capital necessary to continue service and we utilized other assets to handle these activities.

*Allowance for Doubtful Accounts.* We perform credit evaluations of our customers and grant credit based on past payment history, financial conditions and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions. Our history of bad debt losses has been minimal and generally limited to specific customer circumstances; however, credit risks can change suddenly and without notice. See Note 2 to our Consolidated Financial Statements for additional discussion.

**Recent Accounting Pronouncements**

See Note 2 to our Consolidated Financial Statements for information regarding the effect of recent accounting pronouncements on our financial statements.

**Results of Operations**

***Analysis of Operating Segments***

We manage our operations through three operating segments: (i) Transportation, (ii) Facilities and (iii) Supply and Logistics. Our Chief Operating Decision Maker (our Chief Executive Officer) evaluates such segment performance based on a variety of measures including segment profit, segment volumes, segment profit per barrel and maintenance capital investment. See Note 15 to our Consolidated Financial Statements for a definition of segment profit (including an explanation of why this is a performance measure) and a reconciliation of segment profit to net income attributable to Plains.

Our segment analysis involves an element of judgment relating to the allocations between segments. In connection with its operations, the supply and logistics segment secures transportation and facilities services from the Partnership’s other two segments as well as third-party service providers under month-to-month and multi-year arrangements. Intersegment transportation service rates are conducted at posted tariff rates, rates similar to those charged to third parties or rates that we believe approximate market rates. Facilities segment services are also obtained at rates generally consistent with rates charged to third parties for similar services; however, certain terminalling and storage rates are discounted to our supply and logistics segment to reflect the fact that these services may be canceled on short notice to enable the facilities segment to provide services to third parties. Intersegment activities are eliminated in consolidation and we believe that the estimates with respect to these rates are reasonable. Also, our segment operating and general and administrative expenses reflect direct costs attributable to each segment; however, we also allocate certain operating expense and general and administrative overhead expenses between segments based on management’s assessment of the business activities for the period. The proportional allocations by segment require judgment by management and may be adjusted in the future based on the business activities that exist during each period. We believe that the estimates with respect to these allocations are reasonable.

***Non-GAAP Financial Measures***

To supplement our financial information presented in accordance with GAAP, management uses additional measures that are known as "non-GAAP financial measures" in its evaluation of past performance and prospects for the future. The primary measures used by management are adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") and distributable cash flow ("DCF").

Management believes that the presentation of such additional financial measures provides useful information to investors regarding our performance and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) provide additional information about our core operating performance and ability to generate and distribute cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions and (iii) present measurements that investors, rating agencies and debt holders have indicated are useful in assessing us and our results of operations. These measures may exclude, for example, (i) charges for obligations that are expected to be settled with the issuance of equity instruments, (ii) the mark-to-market of derivative instruments that are related to underlying activities in another period (or the reversal of such adjustments from a prior period), (iii) items that are not indicative of our core operating results and business outlook and/or (iv) other items that we believe should be excluded in understanding our core operating performance. We have defined all such items hereinafter as "Selected Items Impacting Comparability." These additional financial measures are reconciled from the most directly comparable measures as reported in accordance within GAAP, and should be viewed in addition to, and not in lieu of, our consolidated financial statements and footnotes.

The following table sets forth an overview of our consolidated financial results calculated in accordance with GAAP:

| | For the Twelve Months Ended December 31, | | | Favorable/(Unfavorable) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2010-2009 | | 2009-2008 | |
| | 2010 | 2009 | 2008 | $ | % | $ | % |
| | (In millions, except per unit data) | | | | | | |
| Transportation segment profit | $ 516 | $ 477 | $ 445 | $ 39 | 8% | $ 32 | 7% |
| Facilities segment profit | 270 | 208 | 153 | 62 | 30% | 55 | 36% |
| Supply & Logistics segment profit | 240 | 345 | 221 | (105) | (30)% | 124 | 56% |
| Total segment profit | 1,026 | 1,030 | 819 | (4) | (0)% | 211 | 26% |
| Depreciation and amortization | (256) | (236) | (211) | (20) | (8)% | (25) | (12)% |
| Interest expense | (248) | (224) | (196) | (24) | (11)% | (28) | (14)% |
| Other income/(expense), net | (9) | 16 | 33 | (25) | (156)% | (17) | (52)% |
| Income tax benefit/(expense) | 1 | (6) | (8) | 7 | 117% | 2 | 25% |
| Net income | 514 | 580 | 437 | (66) | (11)% | 143 | 33% |
| Less: Net income attributable to noncontrolling interests | (9) | (1) | — | (8) | (800)% | (1) | N/A |
| Net income attributable to Plains | $ 505 | $ 579 | $ 437 | $ (74) | (13)% | $ 142 | 32% |
| | | | | | | | |
| Net income attributable to Plains: | | | | | | | |
| Earnings per basic limited partner unit | $ 2.41 | $ 3.34 | $ 2.66 | $ (0.93) | (28)% | $ 0.68 | 26% |
| Earnings per diluted limited partner unit | $ 2.40 | $ 3.32 | $ 2.64 | $ (0.92) | (28)% | $ 0.68 | 26% |
| Basic weighted average units outstanding | 137 | 130 | 120 | 7 | 5% | 10 | 8% |
| Diluted weighted average units outstanding | 138 | 131 | 121 | 7 | 5% | 10 | 8% |

The following table sets forth additional non-GAAP financial measures that are reconciled from the most directly comparable measures as reported in accordance with GAAP:

| | For the Twelve Months Ended December 31, | | | Favorable/(Unfavorable) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2010-2009 | | 2009-2008 | |
| | 2010 | 2009 | 2008 | $ | % | $ | % |
| | (In millions, except per unit data) | | | | | | |
| Net income | $ 514 | $ 580 | $ 437 | $ (66) | (11)% | $ 143 | 33% |
| Add: | | | | | | | |
| Depreciation and amortization | 256 | 236 | 211 | (20) | (8)% | (25) | (12)% |
| Income tax (benefit)/expense | (1) | 6 | 8 | 7 | 117% | 2 | 25% |
| Interest expense | 248 | 224 | 196 | (24) | (11)% | (28) | (14)% |
| EBITDA | $ 1,017 | $ 1,046 | $ 852 | $ (29) | (3)% | $ 194 | 23% |
| | | | | | | | |
| **Selected Items Impacting Comparability - Income/(Loss):** | | | | | | | |
| Inventory valuation adjustments net of gains/(losses) from related derivative activities [1] | $ — | $ 24 | $ (11) | $ (24) | (100)% | $ 35 | 318% |
| Gains/(losses) from other derivative activities [1] | (14) | 34 | 7 | (48) | (141)% | 27 | (386)% |
| Equity compensation expense [2] | (67) | (50) | (21) | (17) | 34% | (29) | (138)% |
| Gains on Rainbow acquisition-related foreign currency and linefill hedges [3] | — | — | 11 | — | 0% | (11) | 100% |
| Net gain/(loss) on foreign currency revaluation [4] | — | 12 | (21) | (12) | (100)% | 33 | 157% |
| Other[5] | (8) | 4 | — | (12) | (300)% | 4 | 0% |
| Selected Items Impacting Comparability | $ (89) | $ 24 | $ (35) | $ (113) | (471)% | $ 59 | 169% |
| | | | | | | | |
| EBITDA | $ 1,017 | $ 1,046 | $ 852 | $ (29) | (3)% | $ 194 | 23% |
| Selected Items Impacting Comparability | 89 | (24) | 35 | 113 | 471% | (59) | (169)% |
| Adjusted EBITDA | $ 1,106 | $ 1,022 | $ 887 | $ 84 | 8% | $ 135 | 15% |
| | | | | | | | |
| Adjusted EBITDA | $ 1,106 | $ 1,022 | $ 887 | $ 84 | 8% | $ 135 | 15% |
| Interest expense | (248) | (224) | (196) | (24) | (11)% | (28) | (14)% |
| Maintenance capital | (93) | (81) | (81) | (12) | (15)% | — | 0% |
| Current income tax (expense)/benefit | 1 | (15) | (9) | 16 | 107% | (6) | (67)% |
| Equity earnings in unconsolidated entities, net of distributions | 6 | (8) | (4) | 14 | 175% | (4) | (100)% |
| Distributions to noncontrolling interests [6] | (15) | (2) | — | (13) | (650)% | (2) | N/A |
| DCF | $ 757 | $ 692 | $ 597 | $ 65 | 9% | $ 95 | (16)% |

(1) Includes mark-to-market gains and losses resulting from derivative instruments that are related to underlying activities in future periods or the reversal of mark-to-market gains and losses from the prior period. When applicable, inventory valuation adjustments are presented with related derivative activity. See Note 6 to our Consolidated Financial Statements for a comprehensive discussion regarding our derivatives and hedging activities.

(2) Our total equity compensation expense includes expense associated with awards that will or may be settled in units and awards that will or may be settled in cash. The awards that will or may be settled in units are included in our diluted earnings per unit calculation when the applicable performance criteria have been met. We consider the compensation expense associated with these awards as a selected item impacting comparability as the dilutive impact of the outstanding awards are included in our diluted earnings per unit calculation and the majority of the awards are expected to be settled in units. The compensation expense associated with these awards is shown in the table above. The portion of compensation expense associated with awards that are certain to be settled in cash are not considered a selected item impacting comparability. The equity compensation expense attributable to the awards not considered a selected item impacting comparability is approximately $31 million, $18 million and $3 million for the twelve-month periods ended December 31, 2010, 2009 and 2008, respectively. See Note 10 to our Consolidated Financial Statements for a comprehensive discussion regarding our Equity Compensation Plans.

(3) Represents a gain on the foreign currency hedge and commodity price risk hedge that we entered into in connection with the Rainbow acquisition. We classified this gain as a selected item impacting comparability as it was specific to this acquisition and not indicative of our core operating activities. See Note 3 to our Consolidated Financial Statements for further discussion regarding the Rainbow acquisition.

(4) During 2009 and 2008, there were significant fluctuations in the value of the Canadian dollar (“CAD”) to the U.S. dollar (“USD”), resulting in gains and losses that were not related to our core operating results of such periods and were thus classified as selected items impacting comparability. See Note 6 to our Consolidated Financial Statements for further discussion regarding our currency exchange rate risk hedging activities.

(5) Other includes (i) a net loss on the early repayment of senior notes of $6 million and $4 million for 2010 and 2009, respectively, (ii) PNGS contingent consideration fair value adjustment of $2 million and $1 million for 2010 and 2009, respectively and (iii) a net gain on the purchase of the remaining 50% interest in PNGS of $9 million in 2009.

(6) Includes distributions that pertain to the current quarter’s net income and are to be paid in the subsequent quarter.

**Transportation Segment**

Our transportation segment operations generally consist of fee-based activities associated with transporting crude oil and refined products on pipelines, gathering systems, trucks and barges. The transportation segment generates revenue through a combination of tariffs, third-party leases of pipeline capacity and transportation fees.

The following table sets forth our operating results from our transportation segment for the periods indicated:

| Operating Results [1] (in millions, except per barrel amounts) | Year Ended December 31, 2010 | 2009 | 2008 | Favorable/(Unfavorable) 2010-2009 $ | 2010-2009 % | 2009-2008 $ | 2009-2008 % |
|---|---|---|---|---|---|---|---|
| Revenues [1] | | | | | | | |
| Tariff activities | $ 937 | $ 867 | $ 800 | $ 70 | 8% | $ 67 | 8% |
| Trucking | 108 | 94 | 127 | 14 | 15% | (33) | (26)% |
| Total transportation revenues | 1,045 | 961 | 927 | 84 | 9% | 34 | 4% |
| Cost and Expenses [1] | | | | | | | |
| Trucking costs | (73) | (63) | (88) | (10) | (16)% | 25 | 28% |
| Field operating costs (excluding equity compensation expense) | (346) | (333) | (331) | (13) | (4)% | (2) | (1)% |
| Equity compensation expense - operations [2] | (12) | (9) | (1) | (3) | (33)% | (8) | (800)% |
| Segment general and administrative expenses (excluding equity compensation expense) | (65) | (61) | (56) | (4) | (7)% | (5) | (9)% |
| Equity compensation expense - general and administrative [2] | (36) | (25) | (11) | (11) | (44)% | (14) | (127)% |
| Equity earnings in unconsolidated entities | 3 | 7 | 5 | (4) | (57)% | 2 | 40% |
| Segment profit | $ 516 | $ 477 | $ 445 | $ 39 | 8% | $ 32 | 7% |
| Maintenance capital | $ 67 | $ 57 | $ 54 | $ (10) | (18)% | $ (3) | (6)% |
| Segment profit per barrel | $ 0.47 | $ 0.45 | $ 0.41 | $ 0.02 | 4% | $ 0.04 | 10% |

| Average Daily Volumes (in thousands of barrels per day) [3] | Year Ended December 31, 2010 | 2009 | 2008 | Favorable/(Unfavorable) 2010-2009 Volumes | % | 2009-2008 Volumes | % |
|---|---|---|---|---|---|---|---|
| Tariff activities | | | | | | | |
| All American | 39 | 40 | 45 | (1) | (3)% | (5) | (11)% |
| Basin | 378 | 394 | 377 | (16) | (4)% | 17 | 5% |
| Capline | 223 | 193 | 219 | 30 | 16% | (26) | (12)% |
| Line 63/Line 2000 | 109 | 131 | 147 | (22) | (17)% | (16) | (11)% |
| Salt Lake City Area Systems | 135 | 131 | 93 | 4 | 3% | 38 | 41% |
| Permian Basin Area Systems | 371 | 368 | 372 | 3 | 1% | (4) | (1)% |
| Manito | 61 | 63 | 70 | (2) | (3)% | (7) | (10)% |
| Rainbow | 187 | 183 | 129 | 4 | 2% | 54 | 42% |
| Rangeland | 52 | 53 | 58 | (1) | (2)% | (5) | (9)% |
| Refined products | 116 | 100 | 109 | 16 | 16% | (9) | (8)% |
| Other | 1,218 | 1,180 | 1,232 | 38 | 3% | (52) | (4)% |
| Tariff activities total | 2,889 | 2,836 | 2,851 | 53 | 2% | (15) | (1)% |
| Trucking | 97 | 85 | 97 | 12 | 14% | (12) | (12)% |
| Transportation segment total | 2,986 | 2,921 | 2,948 | 65 | 2% | (27) | (1)% |

(1) Revenues and costs and expenses include intersegment amounts.

(2) The equity compensation expense presented within the reconciliation to segment profit above includes the portion of the equity compensation expense represented by outstanding awards under the LTIP Plans that, pursuant to the terms of the award, will be settled in cash only and have no impact on diluted units. The equity compensation expense presented within the "Selected Items Impacting Comparability" section of the table as shown within the "Results of Operations-*Non-GAAP Financial Measures"* discussion above excludes this portion of the equity compensation expense. See Note 10 to our Consolidated Financial Statements for additional discussion regarding our equity compensation plans.

(3) Volumes associated with acquisitions represent total volumes for the number of days we actually owned the assets divided by the number of days in the period.

Tariffs and other fees on our pipeline systems vary by receipt point and delivery point. The segment profit generated by our tariff and other fee-related activities depends on the volumes transported on the pipeline and the level of the tariff and other fees charged as well as the fixed and variable field costs of operating the pipeline. Segment profit from our pipeline capacity leases generally reflects a negotiated amount.

Transportation segment profit and segment profit per barrel were impacted by the following for the periods indicated:

*Operating Revenues and Volumes.* As noted in the table above, our total transportation segment revenues, net of trucking costs, increased year-over-year for each comparative period presented. Our volumes increased during 2010 compared to 2009 and declined slightly during 2009 compared to 2008. The most noteworthy favorable volume variance for 2010 compared to 2009 is primarily the increase of volumes on our Capline pipeline system that resulted from the additional 21% undivided joint interest that we purchased in this pipeline system during December 2009. Volumes were further favorably impacted by increased trucking volumes related to increased short-haul shipments and the addition of a heavy oil truck terminal at Nipisi, Alberta.

Revenues, net of trucking costs, for the years ended December 31, 2010, 2009 and 2008 were positively impacted by the net effect of a number of factors including:

- Foreign Exchange Impact — Revenues and expenses from our Canadian based subsidiaries, which use the Canadian dollar as their functional currency, are translated at the prevailing average exchange rates for each month. The average CAD to USD exchange rates for 2010, 2009 and 2008 were $1.03 CAD: $1.00 USD, $1.14 CAD: $1.00 USD and $1.07 CAD: $1.00 USD, respectively. Therefore, revenues from our Canadian pipeline systems and trucking operations were favorably impacted for 2010 compared to 2009 by approximately $24 million due to the appreciation of the Canadian dollar relative to the U.S. dollar. In turn, such revenues for 2009 compared to 2008 were unfavorably impacted by approximately $11 million due to the depreciation of the Canadian dollar relative to the U.S. dollar.

- Rate Increases — Revenues were favorably impacted by increasing tariff rates on our intrastate and Canadian pipelines as well as on our pipelines regulated by the Federal Energy Regulatory Commission.

- Loss Allowance Revenue — As is common in the industry, our tariffs incorporate a loss allowance factor that is intended to, among other things, offset losses due to evaporation, measurement and other losses in transit. We value the variance of allowance volumes to actual losses at the estimated net realizable value (including the impact of gains and losses from derivative-related activities) at the time the variance occurred and the result is recorded as either an increase or decrease to tariff revenues. Loss allowance revenues increased by approximately $9 million for 2010 compared to 2009 and $22 million for 2009 compared to 2008. These increases were primarily due to a higher average realized price per barrel during each of the comparative periods (including the impact of gains from derivative activities).

- Trucking Business Activity — Trucking revenues, net of costs, increased by approximately $4 million for 2010 compared to 2009 primarily due to volume increases from increased short-haul shipments and the addition of a heavy oil truck terminal at Nipisi, Alberta during December 2009, partially offset by higher fuel costs. In contrast, trucking revenues, net of costs, decreased by approximately $8 million for 2009 compared to 2008 primarily due to volume decreases resulting from decreased demand, as well as an effort to eliminate lower margin activities. Such unfavorable variances were partially offset by lower fuel costs.

- Rainbow Acquisition — The Rainbow acquisition, completed in May 2008, contributed approximately $16 million of incremental revenue to 2009 compared to 2008.

- Salt Lake City Area Expansion — During the fourth quarter of 2008, we completed a 94-mile expansion of our Salt Lake Area system. Incremental revenues from completion of the Salt Lake City Area expansion added approximately $7 million to revenues in 2009 relative to 2008 associated with volume increases.

*Costs and Expenses.* In general, our overall transportation costs and expenses have remained relatively consistent on a per barrel basis during 2010, 2009 and 2008. Included in these results are the impacts of foreign exchange rates, which had an unfavorable impact of approximately $10 million in 2010 as compared to 2009 and a favorable impact of approximately $5 million in 2009 as compared to 2008. In addition, our equity compensation expense increased in 2010 compared to 2009. A significant component of this increase is associated with the determination that a PAA distribution level of $4.00 per limited partner ("LP") unit is probable of occurring. A majority of our equity compensation awards contain performance conditions contingent upon achieving certain distribution levels. For awards with performance conditions (such as distribution targets), expense is accrued over the service period only if the performance condition is considered to be probable of occurring. When awards with performance conditions that were previously considered improbable become probable (such as a $4.00 distribution per LP unit becoming probable), we incur additional expense in the period that our probability assessment changes. This is necessary to bring the accrued liability associated with these awards up to the level it would be as if we had been accruing for these awards since the grant date. During 2009, equity compensation expense increased by $22 million as compared to 2008 primarily due to an increase in PAA unit price for 2009 relative to 2008. At the end of 2009, our unit price was $52.85 per common unit as compared to $34.69 per common unit at the end of 2008, which increases the fair value of our outstanding liability classified LTIPs. In addition to probability and price fluctuations, our equity compensation expense is impacted by additional equity compensation grants and forfeitures during each period (including the Class B grants and forfeitures). See Note 10 to our Consolidated Financial Statements for additional information on our equity compensation plans.

- *Maintenance Capital.* Maintenance capital consists of capital investments for the replacement of partially or fully depreciated assets in order to maintain the service capability, level of production and/or functionality of our existing assets. The increase in maintenance capital in 2010 compared to 2009 is primarily due to increased spending on various pipeline integrity projects as well as timing of repairs between years.

**Facilities Segment**

Our facilities segment operations generally consist of fee-based activities associated with providing storage, terminalling and throughput services for crude oil, refined products, natural gas and LPG, as well as LPG fractionation and isomerization services. The facilities segment generates revenue through a combination of month-to-month and multi-year leases and processing arrangements.

The following table sets forth our operating results from our facilities segment for the periods indicated:

| Operating Results [1] (in millions, except per barrel amounts) | For the Year Ended December 31, 2010 | 2009 | 2008 | Favorable/(Unfavorable) 2010-2009 $ | % | 2009-2008 $ | % |
|---|---|---|---|---|---|---|---|
| Storage and terminalling revenues [1] | $ 490 | $ 362 | $ 270 | $ 128 | 35% | $ 92 | 34% |
| Storage related costs (natural gas related) | (23) | (5) | — | (18) | (360)% | (5) | N/A |
| Field operating costs (excluding equity compensation expense) | (140) | (120) | (104) | (20) | (17)% | (16) | (15)% |
| Equity compensation expense - operations [2] | (2) | (1) | — | (1) | (100)% | (1) | N/A |
| Segment general and administrative expenses (excluding equity compensation expense) | (39) | (26) | (18) | (13) | (50)% | (8) | (44)% |
| Equity compensation expense - general and administrative [2] | (16) | (10) | (4) | (6) | (60)% | (6) | (150)% |
| Equity earnings in unconsolidated entities | — | 8 | 9 | (8) | (100)% | (1) | (11)% |
| Segment profit | $ 270 | $ 208 | $ 153 | $ 62 | 30% | $ 55 | 36% |
| Maintenance capital | $ 17 | $ 16 | $ 23 | $ (1) | (6)% | $ 7 | 30% |
| Segment profit per barrel | $ 0.32 | $ 0.29 | $ 0.23 | $ 0.03 | 10% | $ 0.06 | 26% |

| Volumes [3] [4] [5] | For the Year Ended December 31, 2010 | 2009 | 2008 | Favorable/(Unfavorable) 2010-2009 Volumes | % | 2009-2008 Volumes | % |
|---|---|---|---|---|---|---|---|
| Crude oil, refined products and LPG storage (average monthly capacity in millions of barrels) | 61 | 56 | 53 | 5 | 9% | 3 | 6% |
| Natural gas storage (average monthly capacity in billions of cubic feet) | 47 | 26 | 14 | 21 | 81% | 12 | 86% |
| LPG processing (average throughput in thousands of barrels per day) | 14 | 15 | 17 | (1) | (7)% | (2) | (12)% |
| Facilities segment total (average monthly capacity in millions of barrels) | 70 | 61 | 56 | 9 | 15% | 5 | 9% |

(1) Includes intersegment amounts.

(2) The equity compensation expense presented within the reconciliation to segment profit above includes the portion of the equity compensation expense represented by outstanding awards under the LTIP Plans that, pursuant to the terms of the award, will be settled in cash only and have no impact on diluted units. The equity compensation expense presented within the "Selected Items Impacting Comparability" section of the table as shown within the "Results of Operations-*Non-GAAP Financial Measures"* discussion above excludes this portion of the equity compensation expense. See Note 10 to our Consolidated Financial Statements for additional discussion regarding our equity compensation plans.

(3) Volumes associated with acquisitions represent total volumes for the number of months we actually owned the assets divided by the number of months in the period.

(4) In September 2009, we acquired the remaining 50% indirect interest in PNGS, which resulted in our 100% ownership of the natural gas storage business and related operating entities. Therefore, natural gas storage volumes for January 2008 through August 2009 are netted to our 50% interest in PNGS. Beginning in September 2009, volumes represent our 100% interest in PNGS. See Note 3 to our Consolidated Financial Statements for additional discussion regarding the PNGS acquisition.

(5) Facilities total calculated as the sum of: (i) crude oil, refined products and LPG storage capacity; (ii) natural gas capacity divided by 6 to account for the 6:1 mcf of gas to crude Btu equivalent ratio and further divided by 1,000 to convert to monthly volumes in millions; and (iii) LPG processing volumes multiplied by the number of days in the year and divided by the number of months in the year.

Facilities segment profit and segment profit per barrel were impacted by the following for the periods indicated:

*Operating Revenues and Volumes.* As noted in the table above, our facilities segment revenues (less storage related costs) and volumes increased year-over-year for each comparative year presented. Revenues and volumes for the comparative periods were positively impacted primarily by the net effect of factors discussed below:

- Acquisitions — Revenues and volumes for 2010 compared to 2009 were impacted by the PNGS acquisition, which closed during the third quarter of 2009. This acquisition and ongoing expansion activities at PNG contributed approximately $58 million of additional net revenue and approximately 22 billion cubic feet (“Bcf”) of additional natural gas storage capacity for the year ended December 31, 2010. This net revenue amount includes the applicable storage related costs that are primarily due to increased volume of leased assets. Revenues were also favorably impacted by the acquisition of a natural gas processing business, which closed during the second quarter of 2009. This acquisition contributed approximately $9 million in additional revenue for the year ended December 31, 2010.

  Revenues and volumes for 2009 compared to 2008 were impacted by the PNGS acquisition and the acquisition of a natural gas processing business as mentioned above. Revenues and volumes for 2009 compared to 2008 were also impacted by the San Pedro acquisition, which closed during the fourth quarter of 2008. Such acquisitions contributed approximately $36 million in additional revenue for the year ended December 31, 2009.

- Expansion Projects — Expansion projects that were completed in phases throughout recent years also favorably impacted revenues and volumes. These expansion projects, which were completed at some of our major terminal locations, increased revenues by a combined $14 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 and by a combined $31 million for the year ended December 31, 2009 compared to the year ended December 31, 2008. Aggregate volumes at these facilities increased by approximately 5 million barrels for 2010 compared to 2009 and by approximately 5 million barrels for 2009 compared to 2008.

- Leased Tankage — Revenues for the year ended December 31, 2010 and December 31, 2009 also increased as a result of general escalations on existing leases.

*Costs and Expenses.* In general, our overall facilities costs and expenses have remained relatively constant on a per barrel basis during 2010, 2009 and 2008. We have experienced a small increase in field operating costs and general and administrative costs on a per barrel basis and the absolute amount of expense has increased for 2010 compared to 2009 and 2009 compared to 2008 primarily due to (i) continued growth through additional tankage placed into service over the last few years at some of our major terminal locations and (ii) acquisitions such as the PNGS and natural gas processing acquisitions completed in the second and third quarters of 2009. Our equity compensation expense increased for the comparative periods presented. See a discussion regarding such increases within the Transportation Segment above. Also, see Note 10 to our Consolidated Financial Statements for additional information on our equity compensation plans.

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*Equity Earnings in Unconsolidated Entities*. Equity earnings in unconsolidated entities decreased during 2010 compared to 2009 due to the PNGS acquisition in September 2009 that increased our interest from 50% to 100%. See Note 3 to our Consolidated Financial Statements for additional discussion regarding this acquisition.

*Maintenance Capital.* The decrease in maintenance capital from 2009 compared to 2008 is primarily due to a decrease in API 653 repairs required to meet our May 2009 compliance deadline.

**Supply and Logistics Segment**

Our revenues from supply and logistics activities reflect the sale of gathered and bulk-purchased crude oil, refined products and LPG volumes. These revenues also include the sale of additional barrels exchanged through buy/sell arrangements entered into to supplement the margins of the gathered and bulk-purchased volumes. We do not anticipate that future changes in revenues will be a primary driver of segment profit. Generally, we expect our segment profit to increase or decrease directionally with increases or decreases in our supply and logistics segment volumes (which consist of (i) lease gathered crude oil purchase volumes, (ii) LPG sales volumes and (iii) waterborne foreign crude oil imported) as well as the overall volatility and strength or weakness of market conditions and the allocation of our assets among our various risk management strategies. In addition, the execution of our risk management strategies in conjunction with our assets can provide upside in certain markets. Although we believe that the combination of our lease gathered business and our risk management activities provides a balance that provides general stability in our margins, these margins are not fixed and will vary from period to period.

The following table sets forth our operating results from our supply and logistics segment for the periods indicated:

| Operating Results [1] (in millions, except per barrel amounts) | For the Year Ended December 31, 2010 | 2009 | 2008 | Favorable/(Unfavorable) 2010-2009 Revenues | % | 2009-2008 Revenues | % |
|---|---|---|---|---|---|---|---|
| Revenues | $ 24,990 | $ 17,759 | $ 29,350 | $ 7,231 | 41% | $ (11,591) | (39)% |
| Purchases and related costs [2] | (24,448) | (17,141) | (28,873) | (7,307) | (43)% | 11,732 | 41% |
| Field operating costs (excluding equity compensation expense) | (195) | (183) | (185) | (12) | (7)% | 2 | 1% |
| Equity compensation expense - operations [3] | (3) | (1) | — | (2) | (200)% | (1) | N/A |
| Segment general and administrative expenses (excluding equity compensation expense) | (75) | (67) | (63) | (8) | (12)% | (4) | (6)% |
| Equity compensation expense - general and administrative [3] | (29) | (22) | (8) | (7) | (32)% | (14) | (175)% |
| Segment profit | $ 240 | $ 345 | $ 221 | $ (105) | (30)% | $ 124 | 56% |
| Maintenance capital | $ 9 | $ 8 | $ 4 | $ (1) | (13)% | $ (4) | (100)% |
| Segment profit per barrel | $ 0.84 | $ 1.22 | $ 0.72 | $ (0.38) | (31)% | $ 0.50 | 69% |

| Average Daily Volumes [4] (in thousands of barrels per day) | For the Year Ended December 31, 2010 | 2009 | 2008 | Favorable (Unfavorable) 2010-2009 Volume | % | 2009-2008 Volume | % |
|---|---|---|---|---|---|---|---|
| Crude oil lease gathering purchases | 620 | 612 | 658 | 8 | 1% | (46) | (7)% |
| LPG sales | 96 | 105 | 103 | (9) | (9)% | 2 | 2% |
| Waterborne foreign crude oil imported | 68 | 55 | 80 | 13 | 24% | (25) | (31)% |
| Supply & Logistics segment total | 784 | 772 | 841 | 12 | 2% | (69) | (8)% |

(1) Revenues and costs include intersegment amounts.

(2) Purchases and related costs include interest expense (related to hedged inventory purchases) of approximately $17 million, $11 million and $21 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(3) The equity compensation expense presented within the reconciliation to segment profit above includes the portion of the equity compensation expense represented by outstanding awards under the LTIP Plans that, pursuant to the terms of the award,

will be settled in cash only and have no impact on diluted units. The equity compensation expense presented within the "Selected Items Impacting Comparability" section of the table as shown within the "Results of Operations-*Non-GAAP Financial Measures"* discussion above excludes this portion of the equity compensation expense. See Note 10 to our Consolidated Financial Statements for additional discussion regarding our equity compensation plans.

(4) Calculated based on crude oil lease gathered volumes, LPG sales volumes and waterborne foreign crude oil imported volumes.

The New York Mercantile Exchange ("NYMEX") benchmark price of crude oil ranged from approximately $64 to $92 per barrel, $33 to $82 per barrel and $32 to $147 per barrel during 2010, 2009 and 2008, respectively. Because the commodities that we buy and sell are generally indexed to the same pricing indices for both the purchase and sale, the absolute amount of revenues and costs related to purchases will fluctuate with market prices. However, the margins related to those purchases and sales will not necessarily have a corresponding increase or decrease.

Generally, we expect a base level of earnings from our supply and logistics segment that may be optimized and enhanced when there is a high level of market volatility, favorable basis differentials and/or a steep contango or backwardated market structure. A contango market is favorable to our commercial strategies that are associated with storage as it allows us to simultaneously purchase production at current prices for storage and sell at higher prices for future delivery. A backwardated market can have a positive impact on our lease gathering margins because crude oil gatherers can capture a premium for prompt deliveries. However, in a backwardated market, there is little incentive to store crude oil as current prices are above future delivery prices. Our supply and logistics segment operating results are further impacted by foreign currency translation adjustments as certain of our subsidiaries are based in Canada and use the Canadian dollar as their functional currency. Revenues and expenses are translated at average exchange rates prevailing for each month and comparison between periods may be impacted by changes in the average exchange rates. Also, our LPG marketing operations are weather-sensitive, particularly during the approximate five-month peak heating season of November through March, and temperature differences from year-to-year may have a significant effect on financial performance.

*Operating Revenues and Volumes*. Revenues, net of purchases and related costs, decreased by approximately $76 million or 12% in 2010 compared to 2009 despite our relatively consistent volumetric activity primarily due to (i) decreased LPG margins and (ii) our derivative activities. LPG margins for 2010 were negatively impacted by lower demand. In addition, 2009 margins were higher than expected due to the liquidation of lower valued inventory following a write-down of inventory values during 2008. As for our derivative activities, we recognized net mark-to-market losses of approximately $17 million during 2010. The 2010 period was also unfavorably impacted compared to 2009 by (i) less favorable crude oil quality differentials and (ii) a less favorable market structure. These unfavorable variances were partially offset by improved margins within our lease gathering activities.

Revenues, net of purchases and related costs, increased by approximately $141 million or 30% in 2009 compared to 2008. The primary reasons for the stronger performance in 2009 were (i) strong crude oil contango margins in the first four months of the year (during this period the contango market was as wide as $8.49 per barrel); (ii) strong LPG margins in the fourth quarter of the year due to strong crop drying demand in the quarter and colder than normal weather the latter half of the quarter; (iii) the negative impacts of Hurricanes Gustav and Ike in 2008; and (iv) derivative activities, net of inventory valuation adjustments, were a net gain of $62 million in 2009 compared to a net loss of $7 million in 2008. The derivative gains in 2009 are generally offset by future physical positions that are not included in the mark-to-market calculation for various reasons including that they qualify for the normal purchase and normal sale scope exception under FASB guidance. These items more than offset a lower net margin from our lease gathering activities, which was primarily due to lower volumes as we eliminated some of our less profitable purchases.

*Field Operating Costs.* Field operating costs (excluding equity compensation expenses) increased in 2010 compared to 2009 primarily due to an increase in truck-hauled lease volumes which resulted in increased driver commissions, transport fuel costs and third party trucking fees. Additionally, transport fuel costs were negatively impacted in 2010 by higher diesel fuel prices.

*General and Administrative Expenses.* General and administrative expenses (excluding equity compensation expenses as discussed below) increased in 2010 compared to 2009 and in 2009 compared to 2008 primarily due to increased salary and benefit costs consistent with the overall growth of the segment and changes in allocation methodology among segments.

*Equity Compensation Expense.* Equity compensation expense increased for the comparative periods presented. See a discussion regarding such increases within the Transportation Segment above. Also, see Note 10 to our Consolidated Financial Statements for additional information on our equity compensation plans.

*Maintenance Capital.* The increase in maintenance capital for the year ended December 31, 2009 compared to the year ended December 31, 2008 is primarily due to truck and trailer fleet replacements and rebuilds.

**Other Income and Expenses**

***Depreciation and Amortization***

Depreciation and amortization expense was $256 million for the year ended December 31, 2010 compared to $236 million and $211 million for the years ended December 31, 2009 and 2008, respectively. The increases in 2010, 2009 and 2008 related primarily to an increased amount of depreciable assets stemming from our acquisition activities and internal growth projects. The increase in depreciation expense in 2010 was partially offset by a $23 million reduction related to the extension of the depreciable lives of several of our crude oil and other storage facilities and pipeline systems. The extension of depreciable lives is based on an internal review to assess the useful lives of our property and equipment and to adjust those lives, if appropriate, to reflect current expectations given actual experience and current technology. Amortization of debt issue costs was $7 million, $6 million and $4 million in 2010, 2009 and 2008, respectively.

Included in depreciation expense for the years ended December 31, 2010, 2009 and 2008 is a net loss of approximately $13 million, a net loss of approximately $1 million and a net gain of approximately $1 million, respectively, recognized upon disposition of certain inactive assets and impairments for assets taken out of service.

***Interest Expense***

Interest expense was $248 million for the year ended December 31, 2010, compared to $224 million and $196 million for the years ended December 31, 2009 and 2008, respectively. Interest expense is primarily impacted by:

- our weighted average debt balances;
- the level and maturity of fixed rate debt and interest rates associated therewith;
- market interest rates and our interest rate hedging activities on floating rate debt; and
- interest capitalized on capital projects.

The following table summarizes the components impacting the interest expense variance for the years ended December 31, 2010 and 2009 (in millions, except for percentages):

| | $ | Average LIBOR Rate | Weighted Average Interest Rate [(1)] |
|---|---|---|---|
| Interest expense for the year ended December 31, 2008 | $ 196 | 2.7% | 5.9% |
| Impact of retirement of senior notes [(2)] | (7) | | |
| Impact of issuance of senior notes [(3)] | 53 | | |
| Impact of decreased borrowings under credit facilities [(4)] | (15) | | |
| Impact of decreased capitalized interest | 2 | | |
| Other | (5) | | |
| Interest expense for the year ended December 31, 2009 | $ 224 | 0.3% | 6.0% |
| Impact of retirement of senior notes [(5)] | (21) | | |
| Impact of issuance of senior notes [(6)] | 48 | | |
| Other | (3) | | |
| Interest expense for the year ended December 31, 2010 | $ 248 | 0.3% | 5.3% |

(1) Excludes commitment and other fees.

(2) In August 2009, our outstanding $175 million 4.75% senior notes due 2009 matured and were paid. In October 2009, we redeemed our outstanding $250 million 7.13% senior notes due 2014.

(3) In April, July and September 2009 we completed the issuances of $350 million of 8.75% senior notes due 2019, $500 million of 4.25% senior notes due 2012 and $500 million of 5.75% senior notes due 2020, respectively. A fluctuating portion of the 4.25% senior notes due 2012 is utilized to fund hedged inventory and would be classified as short-term debt if such activities were funded through our credit facilities. Interest costs attributable to borrowings for inventory stored in a contango market are included in “Purchases and related costs” in our supply and logistics segment profits as we consider interest on these borrowings a direct cost to storing the inventory. The costs applicable to the portion of the $500 million of 4.25% senior notes that was recognized within purchases and related costs was approximately $4 million and $1 million for the years ended December 31, 2010 and 2009, respectively.

(4) The change primarily reflects varying borrowing requirements for inventory-related borrowings and other working capital items and changes in London Interbank Offered Rate (“LIBOR”). As further discussed below, we utilized a portion of our $500 million 4.25% senior notes due 2012 in 2009 to fund our hedged inventory requirements. Therefore, we were able to reduce our short-term debt borrowing since such activities were not solely funded on our credit facilities.

(5) In September 2010, we redeemed our outstanding $175 million 6.25% senior notes due 2015.

(6) In July 2010, we completed the issuance of $400 million of 3.95% senior notes due 2015.

Interest costs attributable to borrowings for inventory stored in a contango market are included in purchases and related costs in our supply and logistics segment profit as we consider interest on these borrowings a direct cost to storing the inventory. These borrowings are primarily under our senior secured hedged inventory facility. These costs were approximately $17 million, $11 million and $21 million for the years ended December 31, 2010, 2009 and 2008, respectively.

***Other Income, Net***

Other income, net for the year ended December 31, 2010, primarily included (i) a loss of approximately $6 million recognized in connection with the early redemption of our $175 million 6.25% senior notes, (ii) the revaluation of contingent consideration related to our PNGS acquisition of approximately $2 million and (iii) a net loss of approximately $2 million related to the foreign currency revaluation of a CAD-denominated interest receivable associated with an intercompany note and the impact of related foreign currency hedges.

Other income, net for the year ended December 31, 2009, primarily included (i) a net gain of approximately $9 million recognized in connection with the PNGS acquisition (see Note 3 to our Consolidated Financial Statements for further discussion), (ii) a net gain of approximately $11 million related to the foreign currency revaluation of a CAD-denominated interest receivable associated with an intercompany note and the impact of related foreign currency hedges and (iii) a loss of approximately $4 million recognized in conjunction with the early redemption of our $250 million 7.13% senior notes.

***Income Tax Expense***

Our income tax expense/benefit decreased by $7 million from an expense of $6 million in 2009 to a benefit of $1 million in 2010. In the years prior to 2010, our Canadian operations were operated through a combination of corporate entities subject to Canadian federal and provincial taxes and a limited partnership which was treated as a flow-through entity for tax purposes. The fluctuations in income tax expense for each of the three years in the period ended December 31, 2010, has primarily been driven by the level of taxable earnings in our entities subject to Canadian federal and provincial taxes. We restructured our Canadian investment on January 1, 2011 and as of this date, all of our Canadian operations are conducted within corporate entities and are subject to Canadian federal and provincial taxes. As a result of this change, we expect that our income tax expense will increase in 2011 as compared to historical periods. See Note 7 to our Consolidated Financial Statements for further discussion.

**Outlook**

During 2008 and 2009, worldwide financial markets were extremely volatile and the global economy substantially weakened. The U.S. government and governments around the world took significant actions in response, including an attempt to provide liquidity and stability to the financial markets by providing government assistance to some of the largest financial institutions in the world. Although it appears that these collective actions have been successful in stabilizing the financial markets, we continue to maintain a cautious outlook for the overall economic environment. Certain data points observed in 2010 and recently signal improvements in the health of the economy have started to occur, while other data points indicate that we have yet to begin a sustainable recovery. For example, one indicator of the strength and velocity of the economy that also has an influence on our business is energy consumption. U.S. demand for petroleum has increased slightly from an average of 18.7 million barrels per day during 2009 to an average of 19.1 million barrels per day for the twelve months ended October 2010; however, it remains approximately 8% below the levels experienced during the 2005 to 2007 time period. Natural gas demand, which in 2009 had declined approximately 2% relative to 2008, has increased from an average of 62.6 Bcf per day in 2009 to an average of 64.9 Bcf per day for the twelve months ended October 2010.

Although we have seen a slight increase in U.S. energy consumption (i.e., demand), we believe the U.S. economy will remain relatively weak and that the pace of an economic recovery will be slow. We expect that the U.S. economy will ultimately rebound and energy demand will return to a growth profile; however, uncertainty around the timing of these events remains and the potential exists for further weakness in the economy or capital markets. Our business strategy is designed to manage a volatile environment and we believe that our asset base strategically positions us to benefit from certain of these developments.

On the supply side of our business, we are currently experiencing favorable fundamentals related to increasing crude oil production as well as changing crude oil flows, which has led to increased demand for our services across our operating segments. We believe that the continued development of major resource plays and the impact such production will have on the liquids distribution system will create additional opportunities for us to optimize the use of our existing assets as well as develop additional infrastructure to meet the needs of our customers.

There can be no assurance that these opportunities will come to fruition or that we will not be negatively affected by potential volatility or challenging capital markets conditions, or that our acquisition and expansion efforts will be successful. See Item 1A. “Risk Factors - Risks Related to Our Business.”

**Liquidity and Capital Resources**

***General***

The primary sources of liquidity are our cash flow from operations as further discussed below in the section entitled "—Cash Flow from Operations" and borrowings under our credit facilities. Our primary cash requirements include, but are not limited to (i) ordinary course of business uses, such as the payment of amounts related to the purchase of crude oil and other products and other expenses, interest payments on our outstanding debt and distributions to our unitholders and General Partner, (ii) maintenance and expansion activities, (iii) acquisitions of assets or businesses and (iv) repayment of principal on our long-term debt. We generally expect to fund our short-term cash requirements through our primary sources of liquidity. In addition, we generally expect to fund our long-term needs, such as those resulting from expansion activities or acquisitions, through a variety of sources (either separately or in combination), which may include cash flows from operations, borrowings under our credit facilities, and/or the issuance of additional equity or debt securities. As of December 31, 2010, we had a working capital surplus of approximately $166 million, including cash and cash equivalents of $36 million and restricted cash of $20 million. We had approximately $877 million of liquidity available to meet our ongoing operational, investing and finance needs as of December 31, 2010 as noted below (in millions):

| | As of December 31, 2010 |
|---|---|
| Availability under PAA senior unsecured revolving credit facility | $ 701 |
| Availability under PAA senior secured hedged inventory facility | — |
| Availability under PNG senior unsecured revolving credit facility [1] | 140 |
| Cash and cash equivalents | 36 |
| Total | $ 877 |

(1) In April 2010, PNG entered into a three year, $400 million senior unsecured revolving credit facility that matures in May 2013. Borrowing capacity under this facility may be limited from time to time due to covenant limitations. See Note 4 to our Consolidated Financial Statements for additional discussion of this credit facility and the *"Noncontrolling Interests in a Subsidiary"* section of Note 5 for additional discussion regarding PNG.

We entered into a number of transactions in the first quarter of 2011 that impacted our liquidity. In January 2011, we expanded our liquidity through a $600 million senior note offering and by entering into a $500 million 364-day senior unsecured credit facility (See "—Credit Facilities and Indentures" below). In addition, we redeemed our 7.75% senior notes that were maturing in 2012 for approximately $222 million. PNG also completed the $746 million acquisition of SG Resources Mississippi, LLC ("the Southern Pines Acquisition") and issued approximately 17.4 million PNG common units to third parties for net proceeds of approximately $370 million (See Notes 3 and 5 of our Consolidated Financial Statements). The net impact of these transactions increased our liquidity by approximately $500 million. Giving effect to these transactions, our available liquidity as of December 31, 2010 of approximately $877 million would have increased to approximately $1.4 billion.

We believe that we have and will continue to have the ability to access our credit facilities, which we use to meet our short-term cash needs. We believe that our financial position remains strong and we have sufficient liquidity; however, extended disruptions in the financial markets and/or energy price volatility that adversely affect our business may have a materially adverse effect on our financial condition, results of operations or cash flows. Also, see Item 1A. "Risk Factors" for further discussion regarding such risks that may impact our liquidity and capital resources. Usage of the credit facilities is subject to ongoing compliance with covenants. We are currently in compliance with all covenants.

Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which includes provisions regarding the use of derivative financial instruments. The scope and applicability of these provisions is not entirely clear and regulations implementing all the various aspects of the Dodd-Frank Act have not yet been issued. Our current assessment is that we may have additional documentation requirements. We will continue to monitor the final rules and regulations as they develop.

***Cash Flow from Operations***

The primary drivers of cash flow from our operations are (i) the collection of amounts related to the sale of crude oil and other products, the transportation of crude oil and other products for a fee, and storage and terminalling services provided for a fee and (ii) the payment of amounts related to the purchase of crude oil and other products and other expenses, principally field operating costs, general and administrative expenses and interest expense. The cash settlement from the purchase and sale of crude oil during any particular month typically occurs within thirty days from the end of the month, except (i) in the months that we store the purchased crude oil and hedge it by selling it forward for delivery in a subsequent month because of contango market conditions or (ii) in months in which we increase our share of linefill or long-term inventory. In addition, our cash flow from operations may be impacted by the timing of settlement of our derivative activities. Gains and losses from settled instruments that qualify as effective cash flow hedges are deferred in AOCI, but may impact operating cash flow in the period settled.

The storage of crude oil in periods of a contango market, when the price of crude oil for future deliveries is higher than current prices, can have a material impact on our cash flows from operating activities. In the month we pay for the stored crude oil, we borrow under our credit facilities (or pay from cash on hand) to pay for the crude oil, which negatively impacts our operating cash flow. Conversely, cash flow from operating activities increases during the period in which we collect the cash from the sale of the stored crude oil. Similarly, the level of LPG and other product inventory stored and held for resale at period end affects our cash flow from operating activities.

In periods when the market is not in contango, we typically sell our crude oil during the same month in which we purchase it and we do not rely on borrowings under our credit facilities to pay for the crude oil. During such market conditions, our accounts payable and accounts receivable generally move in tandem as we make payments and receive payments for the purchase and sale of crude oil in the same month, which is the month following such activity. In periods during which we build inventory or linefill, regardless of market structure, we may rely on our credit facilities to pay for the inventory or linefill.

Net cash flow provided by operating activities for the twelve months ended December 31, 2010 was approximately $259 million. The cash provided by operating activities reflects cash generated by our recurring operations, and is also significantly impacted in periods when we are increasing or decreasing the amount of inventory in storage as discussed above. During 2010, we increased the amount of our inventory. The increase in inventory was due to both increased volumes and prices and was primarily related to (i) our crude oil contango market storage activities and (ii) our LPG activities. The net increased levels of inventory were financed through borrowings under our credit facilities as well as through our $500 million senior notes that are being used to supplement capital available from our hedged inventory facility resulting in a negative impact to our operating cash flow for the period.

Net cash flows provided by operating activities for the twelve months ended December 31, 2009 and 2008 were approximately $365 million and $857 million, respectively. During 2009, we increased the amount of our inventory. The increase was due to both increased volumes and prices and was primarily related to our crude oil storage activities. The net increased levels of inventory were financed through borrowings under our credit facilities and senior notes issuances resulting in a negative impact to our operating cash flow for the period. During 2008, we also increased the amount of our inventory; however, these volumetric increases were offset by lower prices for our inventory stored at the end of the year compared to prior years. The net proceeds received during the year were used to repay borrowings under our credit facilities and favorably impacted our cash flow from operating activities.

***Credit Facilities and Indentures***

*PAA Senior Unsecured Revolving Credit Facility.* At December 31, 2010, we had approximately $701 million of available borrowing capacity under our $1.6 billion committed revolving credit facility. Of the capacity we utilized at December 31, 2010, approximately $75 million was associated with outstanding letters of credit and the remainder was borrowed. The majority of these borrowings relate to funding short term inventory purchases of LPG and crude oil. This credit facility has a maturity date of July 2012, contains no material adverse change language, and can be expanded to $2.0 billion, subject to additional lender commitments.

*PAA Senior Secured Hedged Inventory Facility.* In October 2010, we renewed our 364-day committed hedged inventory credit facility, which matures in October 2011. The facility has a borrowing capacity of $500 million, which may be increased to $1.2 billion, subject to obtaining additional lender commitments. This facility is a committed working capital facility, which is used to finance (i) the purchase of hedged crude oil inventory for storage activities and (ii) foreign import activities. Borrowings under the hedged inventory facility are collateralized by the inventory purchased under the facility and the associated accounts receivable, and will be repaid with the proceeds from the sale of such inventory. At December 31, 2010, we had no availability under our $500 million committed hedged inventory facility.

*PNG Senior Unsecured Revolving Credit Facility.* In April 2010, our consolidated subsidiary PNG entered into a three year, $400 million senior unsecured revolving credit facility that matures in May 2013. This credit facility, which bears interest based on LIBOR plus an applicable margin (as defined by the credit agreement), may be expanded to $600 million, subject to additional lender commitments and with approval of the administrative agent for the credit facility. At December 31, 2010, borrowings of approximately $260 million were outstanding under this facility. This credit facility restricts, among other things, PNG's ability to make distributions of available cash to unitholders if any default or event of default, as defined in the credit agreement, exists or would result therefrom. In addition, the credit facility contains certain financial and other restrictive covenants.

*PAA 364-Day Credit Agreement.* In January 2011, we entered into a 364-day senior unsecured credit facility with an aggregate borrowing capacity of $500 million. This credit facility has a maximum debt coverage ratio of 4.75 to 1.00 (5.50 to 1.00 during an acquisition period) and matures in January 2012. Borrowings under this facility may be used for any partnership purpose, including financing the Southern Pines Acquisition. See Notes 3 and 5 to our Consolidated Financial Statements for discussion regarding this acquisition.

*Indentures.* In January 2011, we issued $600 million of 5.00% senior notes due 2021 for net proceeds of approximately $592 million. Including these notes, we have several issues of senior debt outstanding at December 31, 2010 that total approximately $5.0 billion, excluding premium or discount, and range in size from $150 million to $600 million and mature at various dates beginning in 2012 through 2037.

Our credit agreements and the indentures governing our senior notes contain cross-default provisions. A default under our credit facilities would permit the lenders to accelerate the maturity of the outstanding debt. As long as we are in compliance with the provisions in our credit agreements, our ability to make distributions of available cash is not restricted. We are currently in compliance with the covenants contained in our credit agreements and indentures. See Note 4 to our Consolidated Financial Statements for additional discussion regarding our credit facilities and long-term debt.

***Equity and Debt Financing Activities***

Our financing activities primarily relate to funding acquisitions and internal capital projects, and short-term working capital and hedged inventory borrowings related to our LPG business, contango market activities, foreign import activities as well as refinancing of our debt maturities. Our financing activities have primarily consisted of equity offerings, senior notes offerings and borrowings and repayments under our credit facilities.

*Registration Statements*. We periodically access the capital markets for both equity and debt financing. We have filed with the SEC a universal shelf registration statement that, subject to effectiveness at the time of use, allows us to issue up to an aggregate of $2.0 billion of debt or equity securities ("Traditional Shelf"). As of December 31, 2010, we have $2.0 billion of unsold securities available under the Traditional Shelf. We also have access to a universal shelf registration statement ("WKSI Shelf"), which provides us with the ability to offer and sell an unlimited amount of debt and equity securities, subject to market conditions and our capital needs. Our July 2010 offering of our $400 million senior notes due September 15, 2015 and our November 2010 equity offering for net proceeds of approximately $296 million were both conducted under the WKSI Shelf. Also, our more recent debt offering completed in January 2011 for net proceeds of approximately $592 million was also conducted under the WKSI Shelf.

*PAA Equity Offerings.* We completed equity offerings during 2010, 2009 and 2008 as summarized in the table below (net proceeds in millions). These offerings include our general partner's proportionate capital contributions and are net of costs associated with the offerings.

| Year | Units | Net Proceeds |
|---|---|---|
| 2010 | 4,780,000 | $ 296 |
| 2009 | 11,040,000 | $ 456 |
| 2008 | 6,900,000 | $ 315 |

*PNG Equity Offerings.* On May 5, 2010, PNG completed its IPO of 13.5 million common units representing limited partner interests at $21.50 per common unit for total proceeds of approximately $268 million. PNG additionally completed a private placement of 17.4 million common units to third parties for net proceeds of approximately $370 million in conjunction with the Southern Pines Acquisition in February 2011. In addition, we purchased approximately 10.2 million PNG common units for approximately $230 million, including our proportionate general partner contribution of $12 million. As a result of these transactions, our aggregate ownership interest in PNG is approximately 64%. See Note 5 to our Consolidated Financial Statements.

*Senior Notes.* During the last three years we issued senior unsecured notes as summarized in the table below (in millions).

| Year | Description | Maturity | Face Value | Net Proceeds[1] |
|---|---|---|---|---|
| 2011 | 5.00% Senior Notes issued at 99.521% of face value [2] | February 2021 | $ 600 | $ 597 |
| 2010 | 3.95% Senior Notes issued at 99.889% of face value [3] | September 2015 | $ 400 | $ 400 |
| 2009 | 5.75% Senior Notes issued at 99.523% of face value [4] | January 2020 | $ 500 | $ 499 |
| | 4.25% Senior Notes issued at 99.802% of face value | September 2012 | $ 500 | $ 497 |
| | 8.75% Senior Notes issued at 99.994% of face value | May 2019 | $ 350 | $ 350 |
| 2008 | 6.5% Senior Notes issued at 99.424% of face value | May 2018 | $ 600 | $ 597 |

(1) Face value of notes less the applicable premium or discount (before deducting for initial purchaser discounts, commissions and offering expenses).

(2) We used the net proceeds from this offering to repay outstanding borrowings under our credit facilities and for general partnership purposes. In addition, we used a portion of the proceeds to redeem all of our outstanding $200 million 7.75% senior notes due 2012 (in conjunction with the early redemption of these notes, we recognized a loss of $23 million).

(3) We used the net proceeds from this offering to repay outstanding borrowings under our credit facilities. In addition, we used a portion of the proceeds to redeem all of our outstanding $175 million 6.25% senior notes due 2015 (in conjunction with the early redemption of these notes, we recognized a loss of approximately $6 million).

(4) We used the net proceeds from this offering to repay outstanding borrowings under our credit facilities, a portion of which was used to fund the cash requirements of the PNGS acquisition (which included repayment of all of PNGS's debt). In addition, we used a portion of the proceeds to redeem all of our outstanding $250 million 7.13% senior notes due 2014 (in conjunction with the early redemption of these notes, we recognized a loss of approximately $4 million).

In February, 2011, our $200 million 7.75% senior notes due 2012 were redeemed in full. In conjunction with the early redemption, we recognized a loss of approximately $23 million. We utilized cash on hand and available capacity under our credit facilities to redeem these notes.

In September 2010, we repaid our $175 million 6.25% senior notes and recognized a loss of approximately $6 million in conjunction with the early redemption of these notes. We utilized net proceeds from our July 2010 issuance of $400 million 3.95% senior notes to retire these senior notes.

In August 2009, our $175 million 4.75% senior notes matured. We utilized cash on hand and available capacity under our credit facilities to retire these senior notes.

***Capital Expenditures and Distributions Paid to Our Unitholders, General Partner and Noncontrolling Interests***

We use cash primarily for our acquisition activities, internal growth projects and distributions paid to our unitholders, general partner and noncontrolling interests. We have made and will continue to make capital expenditures for acquisitions, expansion capital and maintenance capital. Historically, we have financed these expenditures primarily with cash generated by operations and the financing activities discussed above. See "—Acquisitions and Internal Growth Projects" for further discussion for such capital expenditures.

*Acquisitions.* The price of the acquisitions includes cash paid, assumed liabilities and net working capital items. Because of the non-cash items included in the total price of the acquisition and the timing of certain cash payments, the net cash paid may differ significantly from the total price of the acquisitions completed during the year.

*2011 Capital Expansion Projects.* We expect the majority of funding for our 2011 capital program will be provided by revolver borrowings and cash flow in excess of partnership distributions as well as through our access to the capital markets for equity and debt as we deem necessary. Our 2011 capital expansion program includes the following projects with the estimated cost for the entire year (in millions):

| Projects | 2011 |
|---|---|
| PAA Natural Gas Storage (multiple projects) | $ 103 |
| Cushing Terminal Phases IX - XI | 62 |
| Basile gas processing facility | 36 |
| Shafter Expansion | 30 |
| Stanley Rail Project | 25 |
| Bumstead Facility | 21 |
| Mid-Continent project | 17 |
| Nipisi Treater | 17 |
| Patoka Phase IV | 17 |
| Undisclosed | 17 |
| Sidney Propane Storage | 13 |
| Basin System expansion | 11 |
| Other projects [1] | 181 |
| Total Projected Capital Expansion Projects | $ 550 |

(1) Primarily pipeline connections, upgrades and truck stations, new tank construction and refurbishing, and carry-over of projects started in 2010.

*Distributions to unitholders, general partner and noncontrolling interests.* We distribute 100% of our available cash within 45 days after the end of each quarter to unitholders of record and to our general partner. Available cash is generally defined as all of our cash and cash equivalents on hand at the end of each quarter less reserves established in the discretion of our general partner for future requirements. On February 14, 2011, we paid a quarterly distribution of $0.9575 per limited partner unit. This distribution represented a year-over-year distribution increase of approximately 3.2%. Additionally, we have paid $10 million and $2 million for distributions to our noncontrolling interests for December 31, 2010 and 2009, respectively. See Note 5 to our Consolidated Financial Statements for details of distributions paid. Also, see Item 5. "Market for Registrant's Common Units, Related Unitholder Matters and Issuer Purchases of Equity Securities—Cash Distribution Policy" for additional discussion on distribution thresholds.

Upon closing of the Pacific, Rainbow and PNGS acquisitions, our general partner agreed to reduce the amounts due it as incentive distributions. See Note 5 to our Consolidated Financial Statements for details related to the general partner's incentive distribution reductions.

We believe that we have sufficient liquid assets, cash flow from operations and borrowing capacity under our credit agreements to meet our financial commitments, debt service obligations, contingencies and anticipated capital expenditures. We are subject to business and operational risks; however, that could adversely affect our cash flow. A material decrease in our cash flows would likely produce an adverse effect on our borrowing capacity.

**Contingencies**

For a discussion of contingencies that may impact us, see Note 11 to our Consolidated Financial Statements.

**Commitments**

*Contractual Obligations.* In the ordinary course of doing business, we purchase crude oil and LPG from third parties under contracts, the majority of which range in term from thirty-day evergreen to five years. We establish a margin for these purchases by entering into various types of physical and financial sale and exchange transactions through which we seek to maintain a position that is substantially balanced between purchases on the one hand and sales and future delivery obligations on the other. The table below includes purchase obligations related to these activities. Where applicable, the amounts presented represent the net obligations associated with buy/sell contracts and those subject to a net settlement arrangement with the counterparty. We do not expect to use a significant amount of internal capital to meet these obligations, as the obligations will be funded by corresponding sales to entities that we deem creditworthy.

The following table includes our best estimate of the amount and timing of these payments as well as others due under the specified contractual obligations as of December 31, 2010 (in millions):

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 and Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt and interest payments (1) | $ 274 | $ 963 | $ 740 | $ 214 | $ 754 | $ 4,398 | $ 7,343 |
| Leases (2) | 77 | 62 | 40 | 27 | 20 | 277 | 503 |
| Other obligations (3) | 69 | 66 | 29 | 4 | 3 | 46 | 217 |
| Subtotal | 420 | 1,091 | 809 | 245 | 777 | 4,721 | 8,063 |
| Crude oil, refined products and LPG purchases (4) | 4,070 | 383 | 278 | 227 | 182 | 132 | 5,272 |
| Total | $ 4,490 | $ 1,474 | $ 1,087 | $ 472 | $ 959 | $ 4,853 | $ 13,335 |

(1) Includes debt service payments, interest payments due on our senior notes and the commitment fee on our revolving credit facilities. Although there is an outstanding balance on our revolving credit facilities at December 31, 2010, we historically repay and borrow at varying amounts. As such, we have included only the maximum commitment fee (as if no amounts were outstanding on the facility) in the amounts above.

(2) Leases are primarily for (i) storage, (ii) rights-of-way, (iii) office rent, (iv) pipeline assets and (v) trucks used in our gathering activities.

(3) Excludes a non-current liability of less than $1 million related to derivative activity included in crude oil and LPG purchases.

(4) Amounts are based on estimated volumes and market prices based on average activity during December 2010. The actual physical volume purchased and actual settlement prices will vary from the assumptions used in the table. Uncertainties involved in these estimates include levels of production at the wellhead, weather conditions, changes in market prices and other conditions beyond our control.

*Letters of Credit.* In connection with our crude oil supply and logistics activities, we provide certain suppliers with irrevocable standby letters of credit to secure our obligation for the purchase of crude oil. Our liabilities with respect to these purchase obligations are recorded in accounts payable on our balance sheet in the month the crude oil is purchased. Generally, these letters of credit are issued for periods of up to seventy days and are terminated upon completion of each transaction. At December 31, 2010 and 2009, we had outstanding letters of credit of approximately $75 million and $76 million, respectively. The change in the value of outstanding letters of credit is impacted primarily by the fluctuation of market prices and the timing of foreign cargo purchases.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as defined by Item 303 of Regulation S-K.

**Investments in Unconsolidated Entities**

We have invested in entities that are not consolidated in our financial statements. Certain of these entities are borrowers under credit facilities. We are neither a co-borrower nor a guarantor under any such facilities. We may elect at any time to make additional capital contributions to any of these entities. The following table sets forth selected information regarding these entities as of December 31, 2010 (unaudited, dollars in millions):

| Entity | Type of Operation | Our Ownership Interest | Total Entity Assets | Total Cash and Restricted Cash | Total Entity Debt |
|---|---|---|---|---|---|
| **Settoon Towing, LLC** | Barge Transportation Services | 50% | $ 103 | $ — | $ 59 |
| **White Cliffs Pipeline, LLC** | Crude Oil Pipeline | 34% | $ 302 | $ 5 | $ — |
| **Frontier Pipeline Company** | Crude Oil Pipeline | 22% | $ 28 | $ 4 | $ — |
| **Butte Pipe Line Company** | Crude Oil Pipeline | 22% | $ 14 | $ 2 | $ — |

**Item 7A.** ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to various market risks, including volatility in (i) commodity prices for crude oil, refined products, natural gas and LPG, (ii) interest rates and (iii) currency exchange rates. Our policy is to use derivative instruments only for risk management purposes. We use various derivative instruments to manage such risks and, in certain circumstances, to realize incremental margin during volatile market conditions. Our risk management policies and procedures are designed to help ensure that our hedging activities address our risks by monitoring NYMEX, IntercontinentalExchange ("ICE") and over-the-counter positions, as well as physical volumes, grades, locations, delivery schedules and storage capacity. We have a risk management function that has direct responsibility and authority for our risk policies, related controls around commercial activities and procedures and certain aspects of corporate risk management. Our risk management function also approves all new risk management strategies through a formal process. The following discussion addresses each category of risk.

**Commodity Price Risk**

We use derivative instruments to hedge our exposure to price fluctuations with respect to crude oil, refined products, natural gas and LPG in storage, and anticipated purchases and sales of these commodities. The derivative instruments utilized to manage our commodity price risk consist primarily of futures, options and swaps traded on the NYMEX and ICE and in over-the-counter transactions. Our policy is (i) to purchase only product for which we have a market, (ii) to structure our sales contracts so that price fluctuations do not materially affect our operating income and (iii) not to acquire and hold physical inventory, futures contracts or other derivatives products for the purpose of speculating on outright commodity price changes, as these activities could expose us to significant losses.

Although we seek to maintain positions that are substantially balanced, we purchase crude oil, refined products and LPG from thousands of locations and may experience net unbalanced positions as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions and other uncontrollable events. When unscheduled physical inventory builds or draws do occur, they are monitored constantly and managed to a balanced position over a reasonable period of time.

The fair value of our commodity derivatives and the change in fair value that would be expected from a 10% price increase or decrease is shown in the table below (in millions):

| | Fair Value | Effect of 10% Price Increase | Effect of 10% Price Decrease |
|---|---|---|---|
| Crude oil: | | | |
| Futures contracts | $ (14) | $ (107) | $ 107 |
| Swaps and options contracts | (1) | $ (12) | $ 14 |
| | | | |
| LPG and other: | | | |
| Futures contracts | (6) | $ (2) | $ 2 |
| Swaps and options contracts [1] | (25) | $ (11) | $ 12 |
| Total Fair Value | $ (46) | | |

(1) Amount includes a liability of approximately $2 million associated with LPG physical contracts not eligible for the normal purchase and normal sale scope exception under FASB guidance.

The fair value of our exchange-traded derivatives is based on quoted market prices obtained from the NYMEX or ICE. The fair value of our over-the-counter swaps and options contracts is estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. The assumptions used in these estimates as well as the source for the estimates are maintained by the independent risk control function. See Note 6 to our Consolidated Financial Statements for further discussion. Price-risk sensitivities were calculated by assuming an across-the-board 10% increase or decrease in price regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an actual 10% change in near-term crude prices, the fair value of our derivative portfolio would typically change less than that shown in the table as changes in near-term prices are not typically mirrored in delivery months further out.

**Interest Rate Risk**

We use both fixed and variable rate debt, and are exposed to market risk due to the floating interest rates on our credit facilities. Therefore, from time to time we use interest rate derivatives to hedge interest rate risk associated with anticipated debt issuances and, in certain cases, outstanding debt instruments. All of our senior notes are fixed rate notes and thus not subject to market risk. The majority of our variable rate debt at December 31, 2010, approximately $1.9 billion (including $300 million of interest rate derivatives that swap fixed rate debt for floating), is short-term debt and is subject to interest rate re-sets, which range from a week to three months. The average interest rate of 1.4% is based upon rates in effect at December 31, 2010. The fair value of our interest rate derivatives is an unrealized gain of approximately $15 million as of December 31, 2010. A 10% increase in the forward LIBOR curve as of December 31, 2010 would result in a decrease of less than $1 million to the fair value of our interest rate derivatives. The carrying values of the variable rate instruments in our credit facilities approximate fair value primarily because interest rates fluctuate with prevailing market rates. See Note 6 to our Consolidated Financial Statements for a discussion of our interest rate risk hedging activities.

**Currency Exchange Rate Risk**

We use foreign currency derivatives to hedge foreign currency risk associated with our exposure to fluctuations in the USD-to-CAD exchange rate. Because a significant portion of our Canadian business is conducted in CAD and, at times, a portion of our debt is denominated in CAD, we use certain financial instruments to minimize the risks of unfavorable changes in exchange rates. These instruments include foreign currency exchange contracts, forwards and options. The fair value of these instruments is an unrealized gain of approximately $1 million as of December 31, 2010. A 10% increase in the exchange rate (CAD-to-USD) would result in an decrease of approximately $4 million to the fair value of our foreign currency derivatives. See Note 6 to our Consolidated Financial Statements for a discussion of our currency exchange rate risk hedging.

**Item 8.** ***Financial Statements and Supplementary Data***

See "Index to the Consolidated Financial Statements" on page F-1.

**Item 9.** ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

***Disclosure Controls and Procedures***

We maintain written "disclosure controls and procedures," which we refer to as our "DCP." Our DCP is designed to ensure that (i) information required to be disclosed by us in reports that we file under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure.

Applicable SEC rules require an evaluation of the effectiveness of the design and operation of our DCP. Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our DCP as of the end of the period covered by this report, and has found our DCP to be effective in providing reasonable assurance of the timely recording, processing, summarization and reporting of information, and in accumulation and communication of information to management to allow for timely decisions with regard to required disclosure.

***Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting. "Internal control over financial reporting" is a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our management, including our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2010. See Management's Report on Internal Control Over Financial Reporting on page F-2 of our Consolidated Financial Statements.

Although we have made various enhancements to our controls, there have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Certifications***

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act rules 13a-14(a) and 15d-14(a) are filed with this report as Exhibits 31.1 and 31.2. The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350 are furnished with this report as Exhibits 32.1 and 32.2.

**Item 9B.** ***Other Information***

There was no information that was required to be disclosed in a report on Form 8-K during the fourth quarter of 2010 that has not previously been reported.