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." On February 20, 2009, the closing market price for our common units was $37.23 per unit and there were approximately 90,000 record holders and beneficial owners (held in street name). As of February 20, 2009, there were 122,911,645 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]
2008			
4th Quarter	$42.39	$23.25	$0.8925
3rd Quarter	48.36	35.68	0.8925
2nd Quarter	50.96	44.54	0.8875
1st Quarter	52.44	43.93	0.8650
2007			
4th Quarter	$57.09	$46.25	$0.8500
3rd Quarter	65.24	52.01	0.8400
2nd Quarter	64.82	56.32	0.8300
1st Quarter	59.33	49.56	0.8125

(1) Cash distributions for a quarter are declared and paid in the following calendar quarter.

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 on a quarterly basis 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.

Upon closing of the Pacific and Rainbow acquisitions, our general partner agreed to reduce the amounts due to it as incentive distributions. The total reduction in incentive distributions will be

$75 million. Following the distribution in February 2009, the aggregate remaining incentive distribution reductions are $31 million.

We paid $106 million to the general partner in incentive distributions in 2008. On February 13, 2009, we paid a quarterly distribution of $0.8925 per unit applicable to the fourth quarter of 2008, of which approximately $30 million was paid to the general partner. 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—Sources of Liquidity—Credit Facilities and Long-Term Debt."

Issuer Purchases of Equity Securities

We did not repurchase any of our common units during the fourth quarter of fiscal 2008, and we do not have any announced or existing plans to repurchase any of our common units.

Item 6. *Selected Financial Data*

The historical financial information below was derived from our audited consolidated financial statements as of December 31, 2008, 2007, 2006, 2005 and 2004 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,				
	2008	2007	2006	2005	2004
	(in millions, except for per unit data)				
Statement of operations data:					
Total Revenues[1]	$30,061	$20,394	$22,445	$31,177	$20,975
Income before cumulative effect of change in accounting principle[2]	$ 437	$ 365	$ 279	$ 218	$ 133
Net Income	$ 437	$ 365	$ 285	$ 218	$ 130
Basic net income before cumulative effect of change in accounting principle[2]	$ 2.70	$ 2.54	$ 2.84	$ 2.77	$ 1.94
Basic net income after cumulative effect of change in accounting principle	$ 2.70	$ 2.54	$ 2.91	$ 2.77	$ 1.89
Diluted net income before cumulative effect of change in accounting principle[2]	$ 2.67	$ 2.52	$ 2.81	$ 2.72	$ 1.94
Diluted net income after cumulative effect of change in accounting principle	$ 2.67	$ 2.52	$ 2.88	$ 2.72	$ 1.89
Balance sheet data (at end of period):					
Total assets	$10,032	$ 9,906	$ 8,715	$ 4,120	$ 3,160
Total long-term debt	3,259	2,624	2,626	952	949
Total debt	4,286	3,584	3,627	1,330	1,125
Partners' capital	3,552	3,424	2,977	1,331	1,070
Other data:					
Maintenance capital investments	$ 81	$ 50	$ 28	$ 14	$ 11
Net cash provided by (used in) operating activities	$ 857	796	(276)	24	104
Net cash used in investing activities	$(1,339)	(663)	(1,651)	(297)	(651)
Net cash provided by (used in) financing activities	$ 464	(124)	1,927	271	555
Declared distributions per limited partner unit[3]	$ 3.50	$ 3.28	$ 2.87	$ 2.58	$ 2.30

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Volumes[4][5][6]					
Transportation segment (average daily volumes in thousands of barrels):					
Tariff activities	2,851	2,712	2,106	1,799	1,486
Trucking	97	105	101	84	64
Transportation Segment Total	2,948	2,817	2,207	1,883	1,550
Facilities segment:					
Crude oil, refined products and LPG storage (average monthly capacity in millions of barrels)	53	46	25	22	20
Natural gas storage, net to our 50% interest (average monthly capacity in billions of cubic feet ("bcf"))	14	13	13	4	—
LPG processing (average daily throughput in thousands of barrels)	17	18	12	—	—
Facilities Segment Total (average monthly capacity in millions of barrels)	56	48	27	22	20
Marketing segment (average daily volumes in thousands of barrels):					
Crude oil lease gathering purchases	658	685	650	610	589
Refined products sales	26	11	N/A	N/A	N/A
LPG sales	103	90	70	56	48
Waterborne foreign crude oil imported	80	71	63	59	12
Marketing Segment Total	867	857	783	725	649

(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) Income from continuing operations before cumulative effect of change in accounting principle pro forma for the impact of the January 1, 2006 change in our method of accounting for unit-based payment transactions would have been $224 million and $136 million for 2005 and 2004, respectively. In addition, basic net income per limited partner unit before cumulative effect of change in accounting principle would have been $2.81 ($2.76 diluted) and $1.98 ($1.98 diluted) for 2005 and 2004, respectively.

(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) Effective with the second quarter of 2008, facilities segment volumes with respect to crude oil and refined products are reported based on total shell capacity to provide uniform comparisons with respect to our activities for these products. Previously, such volumes were reported based on a combination of shell capacity and working capacity depending on the terms of the third-party or intra-company lease agreements. Natural gas and LPG volumes, which consist primarily of underground storage facilities, reflect working capacity as that is the primary basis upon which such facilities are leased. Corresponding metrics for prior periods have been conformed to this uniform approach.

(6) Facilities total is calculated as the sum of: (i) crude oil, refined products and LPG storage capacity; (ii) natural gas storage capacity divided by 6 to account for the 6:1 mcf of gas to crude oil barrel ratio; 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
- Internal Growth Projects and Acquisitions
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements
- Results of Operations
- Outlook
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements

Executive Summary

Company Overview

We are engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and LPG. In addition, through our 50% equity ownership in PAA/Vulcan, we are involved 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) Marketing. See "—Results of Operations—Analysis of Operating Segments" for further discussion.

Overview of Operating Results, Capital Spending and Significant Activities

During 2008, our operations provided solid growth over 2007 and 2006 levels. The growth was driven primarily by our fee based activities included in our Transportation and Facilities segments. Much of the growth in these segments resulted from expanding our asset base through acquisitions and our ongoing internal growth projects. Our Marketing segment provided a positive contribution, but was down from 2007 and 2006. Lease gathering margins were stronger in 2008 than 2007. However, the 2007 results benefited from a contango crude oil market structure (which existed during the first half of the year), favorable crude oil differentials and favorable LPG margins. Key items impacting 2008 include:

- Eight months' contributions to earnings from the Rainbow acquisition, which was completed in May 2008 for consideration of approximately $687 million, as well as increased earnings resulting from prior acquisitions and expansion activities.
- A net loss of $11 million resulting from inventory valuation adjustments partially offset by related net gains from derivative activities. This net loss includes a loss of $145 million resulting from a write-down of inventory to its net realizable value. That loss is partially offset by gains of $134 million on related derivatives. The inventory adjustment and the derivative gains were primarily the result of the significant decrease in crude oil and LPG prices that occurred during the second half of 2008.

- A net gain of $7 million related to other derivative activities.
- A gain of approximately $29 million related to the settlement of the foreign currency and linefill hedges entered into in conjunction with the Rainbow acquisition.
- Decreased earnings and increased expenses totaling an estimated $15 million to $20 million due to impacts of Hurricanes Gustav and Ike, both of which came through the Gulf Coast area during 2008.
- A gain of approximately $14 million resulting from the sale of our NYMEX seats and shares in NYMEX Holdings, Inc., which merged with CME Group Inc.
- Equity compensation plan expense of $24 million for 2008 compared to $49 million for the prior period. The decreased expense is primarily the result of the decrease in unit price for 2008 compared to the increase in unit price for 2007. The impact of the change in unit price was partially offset by additional LTIP grants that are considered probable of vesting and additional expense for Class B units. The Class B plan was not in existence for most of 2007.
- The issuance of $600 million of senior notes for net proceeds of approximately $597 million and the issuance of approximately 7 million limited partner units for net proceeds of approximately $315 million.

Internal Growth Projects and Acquisitions

We completed a number of capital expansion projects and acquisitions in 2008, 2007 and 2006 that have impacted our results of operations and, combined with prudent financing, enabled us to enhance our liquidity, as discussed herein. The following table summarizes our capital expenditures for acquisitions, investments in unconsolidated entities, internal growth projects and maintenance capital for the periods indicated (in millions):

	For the Year Ended December 31,		
	2008	2007	2006
Acquisition capital	$ 735	$125	$3,021
Investment in unconsolidated entities	37	9	44
Internal growth projects	491	525	332
Maintenance capital	81	50	28
	$1,344	$709	$3,425

Internal Growth Projects

Our 2008 projects included the construction and expansion of pipeline systems and crude oil storage and terminal facilities. The following table summarizes our 2008 and 2007 projects (in millions):

Projects	2008	2007
Salt Lake City expansion[(1)]	$154	$ 72
Patoka tankage[(1)]	56	30
Paulsboro tankage[(1)]	30	—
St. James—Phase III[(1)]	27	—
Fort Laramie tank expansion	20	12
St. James, Louisiana storage facility	17	82
Rangeland tankage[(1)]	12	—
Pier 400[(2)]	10	6
Kerrobert pumping project[(1)]	9	—
Other projects[(3)]	156	323
Total	$491	$525

(1) These projects will continue into 2009. See "—Liquidity and Capital Resources—Uses of Liquidity—Capital Expenditures and Distributions Paid to Unitholders and General Partner—2009 Capital Expansion Projects."

(2) This project requires approval of a number of city and state regulatory agencies in California. Accordingly, the timing and amount of additional costs, if any, related to Pier 400 are not certain at this time. Does not include intangible expenditures of approximately $5 million for emission reduction credits.

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

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 ongoing 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 2008, 2007 and 2006 is set forth in the table below (in millions):

Acquisitions

Acquisition	Effective Date	Acquisition Price	Operating Segment
Rainbow	05/01/2008	$ 687	Transportation
San Pedro and other	11/13/2008	48	Facilities
2008 Total		$ 735	
Bumstead LPG Storage Facility	07/24/2007	$ 52	Facilities
Tirzah LPG Storage Facility	10/02/2007	54	Facilities
Other	Various	19	Transportation and Marketing
2007 Total		$ 125	
Pacific	11/15/2006	$2,456	Transportation, Facilities and Marketing
Andrews	04/18/2006	220	Transportation, Facilities and Marketing
SemCrude	05/01/2006	129	Marketing
BOA/CAM/HIPS	07/31/2006	130	Transportation
Products Pipeline	09/01/2006	66	Transportation
Other	Various	20	Transportation, Facilities and Marketing
2006 Total		$3,021	

Pacific. On November 15, 2006 we completed our merger with Pacific pursuant to an Agreement and Plan of Merger dated June 11, 2006. The merger-related transactions included (i) the acquisition from LB Pacific of the general partner interest and incentive distribution rights of Pacific as well as approximately 5 million Pacific common units and approximately 5 million Pacific subordinated units for a total of $700 million and (ii) the acquisition of the balance of Pacific's equity through a unit-for-unit exchange, resulting in the issuance of approximately 22 million Partnership units. The total value of the transaction was approximately $2.5 billion, including the assumption of debt and estimated transaction costs. Upon completion of the merger-related transactions, the general partner and limited partner ownership interests in Pacific were extinguished and Pacific was merged with and into the Partnership. See Note 3 to our Consolidated Financial Statements for discussion of the purchase price and related allocation, and discussion of the sources of funding.

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. 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 accounting principles generally accepted in the United States 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. The critical accounting estimates that we have identified are discussed below.

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, 2008, we estimate that approximately 1%, 1%, 6% and 8% of annual revenues, cost of sales, operating income and net income, respectively, were recorded using purchase and sales estimates. Accordingly, a 10% variance from this estimate would impact the respective line items by less than 1% 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.

Mark-to-Market Accrual. In situations where we are required to mark-to-market derivatives pursuant to Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities." as amended ("SFAS 133"), the estimates of gains or losses at a particular period end do not reflect the end results of particular transactions, and will most likely not reflect the actual 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. Approximately 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, insurance claims, asset retirement obligations, taxes 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, costs of medical care associated with worker's compensation and employee health insurance claims, 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 $8 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.

Fair Value of Assets and Liabilities Acquired and Identification of Associated Goodwill and Intangible Assets. In accordance with SFAS No. 141 "Business Combination," 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. We also estimate the amount of transaction costs that will be incurred in connection with each acquisition. As additional information becomes available, we may adjust the original estimates within a short time period subsequent to the 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 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.

At December 31, 2008, we compared our market capitalization to our book equity, to determine if there was an indicator of impairment. Although, our market capitalization exceeded the book value of our equity at December 31, 2008, we updated our goodwill impairment test due to the ongoing deterioration of the credit markets and the overall economic conditions. We determined that the fair value was greater than book value for all three reporting units, and therefore goodwill was not considered impaired. We will continue to monitor the market to determine if a triggering event occurs and will perform another goodwill impairment analysis if necessary. We did not have any goodwill impairments in 2008, 2007 or 2006. See Note 2 to our Consolidated Financial Statements for a discussion of goodwill.

Equity Compensation Plan Accruals. We accrue compensation expense for outstanding equity awards granted under our various Long Term Incentive Plans as well as outstanding Class B units of Plains AAP, L.P. (collectively, our "equity compensation plans"). Under generally accepted accounting principles, 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.

For equity awards granted under our various Long Term Incentive Plans, the total compensation expense recognized over the service period is determined by our unit price on the vesting date (or, in some cases, the average unit price for a range of dates preceding the vesting date) multiplied by the number of equity awards that are vesting, plus our share of associated employment taxes. 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.

For the Class B units of Plains AAP, L.P., the total compensation expense recognized over the service period is equal to the grant date fair value of the Class B units that become earned. The Class B units become earned in 25% increments upon PAA achieving annualized distribution levels of $3.50, $3.75, $4.00 and $4.50 (or, in some cases, within six months thereof). When earned, the Class B units will be entitled to participate in distributions paid by Plains AAP, L.P. in excess of $11 million (as adjusted for debt service costs and excluding special distributions funded by debt) per quarter. Uncertainties involved in this estimate include the estimated date that PAA will achieve the annualized distribution levels required and the continued employment of personnel who have been awarded Class B units.

We recognized total compensation expense of approximately $24 million, $49 million and $43 million in 2008, 2007 and 2006, 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, Plant and Equipment and Depreciation Expense. We compute depreciation using the straight-line method based on estimated useful lives. We periodically evaluate property, plant 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, plant and equipment a critical accounting estimate. In determining the existence of an impairment in carrying value, we make a number of subjective assumptions as to:

- whether there is an indication of 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 2008, an impairment of approximately $5 million was recognized for assets taken out of service. Impairments of approximately $1 million and less than $1 million were recognized during 2007 and 2006, respectively.

Recent Accounting Pronouncements

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements that will impact us, see Note 2 to our Consolidated Financial Statements.

Results of Operations

Analysis of Operating Segments

We manage our operations through three operating segments: (i) Transportation, (ii) Facilities and (iii) Marketing.

Our Chief Operating Decision Maker (our Chief Executive Officer) evaluates 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 consolidated income before cumulative effect of change in accounting principle.

Our segment analysis involves an element of judgment relating to the allocations between segments. In connection with its operations, the marketing 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 marketing 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 rates 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.

	For the Twelve Months Ended December 31,			Favorable (Unfavorable)			
				2008-2007		2007-2006	
	2008	2007	2006	$	%	$	%
	(In millions, except per unit data)						
Transportation segment profit	$ 445	$ 334	$ 200	$ 111	33 %	$ 134	67 %
Facilities segment profit	153	110	35	43	39 %	75	214 %
Marketing segment profit	221	269	228	(48)	(18)%	41	18 %
Total segment profit	819	713	463	106	15 %	250	54 %
Depreciation and amortization	(211)	(180)	(100)	(31)	(17)%	(80)	(80)%
Interest expense	(196)	(162)	(86)	(34)	(21)%	(76)	(88)%
Interest income and other income (expense), net	33	10	2	23	230 %	8	400 %
Income tax expense	(8)	(16)	—	8	50 %	(16)	N/A
Income before cumulative effect of change in accounting principle	437	365	279	72	20 %	86	31 %
Cumulative effect of change in accounting principle	—	—	6	—	—	(6)	(100)%
Net income	$ 437	$ 365	$ 285	$ 72	20 %	$ 80	28 %
Earnings per basic limited partner unit	$2.70	$2.54	$2.91	$0.16	6 %	$(0.37)	(13)%
Earnings per diluted limited partner unit	$2.67	$2.52	$2.88	$0.15	6 %	$(0.36)	(13)%
Basic weighted average units outstanding	120	113	81	7	6 %	32	40 %
Diluted weighted average units outstanding	121	114	82	7	6 %	32	39 %

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, 2008	2007	2006	Favorable (Unfavorable) 2008-2007 $	%	2007-2006 $	%
Revenues							
Tariff activities	$ 800	$ 654	$ 438	$ 146	22 %	$ 216	49 %
Trucking	127	117	96	10	9 %	21	22 %
Total transportation revenues	927	771	534	156	20 %	237	44 %
Cost and Expenses							
Trucking costs	(88)	(80)	(71)	(8)	(10)%	(9)	(13)%
Field operating costs (excluding equity compensation expense)	(331)	(288)	(201)	(43)	(15)%	(87)	(43)%
Equity compensation income (expense)—operations[2]	(1)	(5)	(5)	4	80 %	—	—
Segment G&A expenses (excluding equity compensation expense)	(56)	(50)	(43)	(6)	(12)%	(7)	(16)%
Equity compensation expense—general and administrative[2]	(11)	(19)	(16)	8	42 %	(3)	(19)%
Equity earnings in unconsolidated entities	5	5	2	—	—	3	150 %
Segment profit	$ 445	$ 334	$ 200	$ 111	33 %	$ 134	67 %
Maintenance capital	$ 54	$ 34	$ 20	$ 20	59 %	$ 14	70 %
Segment profit per barrel	$0.41	$0.34	$0.26	$0.07	21 %	$0.08	31 %

Average Daily volumes (in thousands of barrels per day)[3]	Year Ended December 31, 2008	2007	2006	Favorable (Unfavorable) 2008-2007 Volumes	%	2007-2006 Volumes	%
Tariff activities							
All American	45	47	49	(2)	(4)%	(2)	(4)%
Basin	377	378	332	(1)	—	46	14 %
Capline	219	235	160	(16)	(7)%	75	47 %
Line 63/Line 2000	147	175	20	(28)	(16)%	155	775 %
Salt Lake City Area Systems	93	101	14	(8)	(8)%	87	621 %
West Texas/New Mexico Area Systems[4]	372	369	403	3	1 %	(34)	(8)%
Manito	70	73	72	(3)	(4)%	1	1 %
Rainbow	129	—	—	129	N/A	—	N/A
Rangeland	58	63	24	(5)	(8)%	39	163 %
Refined products	109	109	24	—	—	85	354 %
Other	1,232	1,162	1,008	70	6 %	154	15 %
Tariff activities total	2,851	2,712	2,106	139	5 %	606	29 %
Trucking	97	105	101	(8)	(8)%	4	4 %
Transportation segment total	2,948	2,817	2,207	131	5 %	610	28 %

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

(2) Equity compensation expense related to 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.

(4) The volumes for the West Texas/New Mexico Area Systems previously included amounts for the Mesa system, which has been reclassified to "Other" for all periods presented.

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 transportation segment revenues and volumes increased for 2008 compared to 2007 and for 2007 compared to 2006. The significant variances in revenues and average daily volumes for 2008, 2007 and 2006 are discussed below:

- Acquisitions and Expansion Projects—Revenues and volumes for the year ended December 31, 2008 were impacted by the Rainbow acquisition, which occurred in May 2008. The Rainbow acquisition contributed approximately $50 million of additional tariff revenues and additional volumes of approximately 129,000 barrels per day for the year ended December 31, 2008.

  Revenues and volumes for the year ended December 31, 2007 were impacted by crude oil and refined products pipeline systems acquired or brought into service during 2007 and 2006 (primarily from the 2006 Pacific merger). Such acquisitions and systems brought into service contributed approximately $164 million of additional tariff revenues and additional volumes of approximately 541,000 barrels per day for the year ended December 31, 2007.

- 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. Although there was a significant decline in the average price of crude oil during the fourth quarter of 2008, the average realized price per barrel related to our loss allowance revenues was higher during most of 2008 than it was in 2007. Additionally, volumes increased slightly for 2008 compared to 2007. As a result, loss allowance revenues increased by approximately $31 million for the year ended December 31, 2008 compared to the year ended December 31, 2007.

  In contrast, the average realized price per barrel related to our loss allowance revenues during 2007 was relatively comparable to the realized price per barrel for 2006; however, the volumes for 2007 increased significantly compared to the volumes for 2006. Therefore, loss allowance revenues increased by approximately $24 million for the year ended December 31, 2007 compared to the year ended December 31, 2006.

- Linefill Hedge—Revenues for the year ended December 31, 2008 were impacted by a gain of approximately $17 million related to the unwind of a linefill hedge entered into in conjunction with the Rainbow acquisition.

- Rate Increases—Rates increase on the majority of our domestic pipeline systems on July 1st of each year resulting in increased revenues year-over-year. Rates on our pipeline systems are increased through indexing by the FERC, by state and Canadian regulatory agencies and through market-based escalation.

- Hurricane Impact—Segment profit decreased by an estimated $3 million to $5 million due to impacts of Hurricanes Gustav and Ike, both of which came through the Gulf Coast area during the third quarter of 2008.

- Foreign Exchange—Revenues from our Canadian pipeline systems (other than Rainbow, as noted above) increased in 2007 compared to 2006 primarily due to the appreciation of Canadian currency. The average exchange rates for the years ended December 31, 2008, 2007 and 2006 were $1.07:1, $1.07:1 and $1.13:1, respectively.

• Trucking—Revenues for 2007 increased compared to 2006 due to trucking businesses that were acquired in both 2007 and 2006.

• Basin and Capline Pipeline Systems—Capline revenues and volumes were negatively impacted for 2008 compared to 2007 by the hurricanes as discussed above. There was an increase in revenues and volumes for 2007 compared to 2006 of approximately $30 million and 122,000 barrels per day on the Basin and Capline pipeline systems. The increase on the Basin system was primarily a result of new connection points that were constructed and placed in service in 2007 as well as an increase in short-haul volumes. The increase in the Capline pipeline system revenues and volumes is primarily related to an existing shipper that increased its movements of crude oil in 2007.

Field Operating Costs. Field operating costs (excluding equity compensation charges as discussed below) have increased in most categories for 2008 and 2007 due to various reasons including our continued growth through acquisitions, primarily related to the Rainbow acquisition, and expansion projects. The 2008 increased costs primarily relate to (i) utilities costs, which increased due to higher market prices, (ii) payroll and benefits and (iii) compliance with API 653 and pipeline integrity testing and maintenance requirements.

The most significant cost increases in 2007 compared to 2006 primarily related to (i) payroll and benefits, (ii) maintenance, (iii) utilities, (iv) property taxes and (v) compliance with API 653 and pipeline integrity testing and maintenance requirements.

General and Administrative Expenses. General and administrative expenses have increased in 2008 compared to 2007 in most categories including (i) payroll, (ii) contract labor and consulting fees and (iii) taxes due to various reasons including our continued growth through acquisitions and expansion projects. Our G&A expenses (excluding equity compensation charges as discussed below) were impacted in 2007 compared to 2006 primarily as a result of acquisitions and expansion projects.

Equity Compensation Charges. Equity compensation charges decreased approximately $12 million in 2008 compared to 2007 primarily as a result of the decrease in unit price for 2008 compared to the increase in unit price for 2007. The impact of the change in unit price was partially offset by additional LTIP grants that are considered probable of vesting and additional expense for Class B units. The Class B plan was not in existence for most of 2007. Equity compensation charges increased approximately $3 million in 2007 compared to 2006 primarily as a result of additional LTIP grants. See Note 10 to our Consolidated Financial Statements.

Equity Earnings. Our transportation segment includes our equity earnings from our investments in Settoon Towing, Butte and Frontier. Barge transportation services are provided by Settoon Towing, in which we own a 50% equity interest. Butte and Frontier are pipeline systems in which we own an approximate 22% share in each system. The increase in 2007 compared to 2006 is due to the acquisitions of Frontier (in connection with the Pacific acquisition) and Settoon Towing in the fourth quarter of 2006.

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 2008 compared to 2007 is primarily due to increased investment applicable to in-line inspections and API 653 repairs in an effort to meet our 2009 compliance deadline (particularly on assets acquired from Pacific). The increase in maintenance capital for 2007 compared to 2006 was due to our ownership of an increased number of assets and pipeline systems resulting from our continued growth through acquisitions and expansion projects and from general inflationary pressures that have adversely impacted the energy industry.

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 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,			Favorable (Unfavorable) 2008-2007		Favorable (Unfavorable) 2007-2006	
	2008	2007	2006	$	%	$	%
Storage and terminalling revenues(1)	$ 270	$ 210	$ 88	$ 60	29 %	$ 122	139 %
Field operating costs	(104)	(84)	(39)	(20)	(24)%	(45)	(115)%
Segment G&A expenses (excluding equity compensation expense)	(18)	(18)	(14)	—	—	(4)	(29)%
Equity compensation expense—general and administrative(2)	(4)	(8)	(6)	4	50 %	(2)	(33)%
Equity earnings in unconsolidated entities	9	10	6	(1)	(10)%	4	67 %
Segment profit	$ 153	$ 110	$ 35	$ 43	39 %	$ 75	214 %
Maintenance capital	$ 23	$ 10	$ 5	$ 13	130 %	$ 5	100 %
Segment profit per barrel	$0.23	$0.19	$0.11	$0.04	21 %	$0.08	73 %

Volumes(3)(4)(5)	For the Year Ended December 31,			Favorable (Unfavorable) 2008-2007		Favorable (Unfavorable) 2007-2006	
	2008	2007	2006	Volumes	%	Volumes	%
Crude oil, refined products and LPG storage (average monthly capacity in millions of barrels)	53	46	25	7	15 %	21	84%
Natural gas storage, net to our 50% interest (average monthly capacity in billions of cubic feet ("bcf"))	14	13	13	1	8 %	—	—
LPG processing (average throughput in thousands of barrels per day)	17	18	12	(1)	(6)%	6	50%
Facilities segment total (average monthly capacity in millions of barrels)	56	48	27	8	16 %	21	78%

(1) Revenues include intersegment amounts.

(2) Equity compensation expense related to 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) Effective with the second quarter of 2008, facilities segment volumes with respect to crude oil and refined products are reported based on total shell capacity to provide uniform comparisons with respect to our activities for these products. Previously, such volumes were reported based on a combination of shell capacity and working capacity depending on the terms of the third-party or intra-company lease agreements. Natural gas and LPG volumes, which consist primarily of underground storage facilities, reflect working capacity as that is the primary basis upon which such facilities are leased. Corresponding metrics for prior periods have been conformed to this uniform approach.

(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 oil barrel ratio; 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 and volumes increased for 2008 compared to 2007 and for 2007 compared to 2006. The table below presents the significant variances in volumes and revenues (in millions) between 2008, 2007 and 2006:

	Volumes			Revenues
	Crude Oil, Refined Products and LPG Storage[1]	Natural Gas Storage[2]	LPG Processing[3]	
2008 compared to 2007				
Increase due to:				
Acquisitions[4]	2	—	—	$ 13
Expansions[5]	6	—	—	37
Other	(1)	1	(1)	10
Total variance	7	1	(1)	$ 60
2007 compared to 2006				
Increase due to:				
Acquisitions[6]	16	—	6	$ 98
Expansions[7]	3	—	—	12
Other	2	—	—	12
Total variance	21	—	6	$122

(1) Average monthly capacity (in millions of barrels).

(2) Average monthly capacity (in bcf).

(3) Barrels per day (in thousands).

(4) Revenues and volumes for 2008 compared to 2007 were impacted by the Bumstead and Tirzah acquisitions in 2007 in addition to the San Pedro acquisition that we closed during the fourth quarter of 2008. The Bumstead acquisition was completed in the third quarter of 2007 and the Tirzah acquisition was completed in the fourth quarter of 2007.

(5) Expansion projects also resulted in an increase in revenues and volumes in 2008 compared to 2007. The Cushing, Martinez and St. James facilities all had significant expansion projects that were completed during 2008. Revenues for these facilities increased by a combined $37 million. Aggregate volumes increased by approximately 6 million barrels for 2008 at these facilities.

(6) Revenues and volumes were primarily impacted in 2007 by acquisitions. The Pacific acquisition was completed in November 2006 and contributed additional revenues of approximately $75 million and additional volumes of approximately 15 million barrels for 2007 compared to 2006. The acquisition of the Shafter processing facility in April 2006 resulted in additional processing revenues of approximately $19 million and additional volumes of approximately 6,000 barrels per day for 2007 compared to 2006. The Bumstead and Tirzah acquisitions in July 2007 and October 2007, respectively, in the aggregate contributed additional revenues of approximately $4 million and additional volumes of approximately 1 million barrels for 2007.

(7) Expansion projects also resulted in an increase in revenues and volumes in 2007 compared to 2006. The St. James and Kerrobert expansion projects were completed during 2007. Aggregate revenues and volumes for these facilities increased by approximately $12 million and approximately 3 million barrels, respectively, for 2007.

Field Operating Costs. Field operating costs (excluding equity compensation charges as discussed below) have increased in most categories for 2008 and 2007 due to various reasons including our continued growth through acquisitions, primarily related to the Tirzah and Bumstead acquisitions completed during 2007 and the additional tankage added at Cushing, St. James and Martinez in 2008 and 2007. The 2008 increased costs primarily relate to (i) payroll and benefits, (ii) utilities costs, which increased primarily due to increased usage as well as higher market prices, (iii) unplanned maintenance projects at several facilities and (iv) additional regulatory accruals.

The increase for 2007 compared to 2006 relates to the operating costs associated with the Shafter processing facility that was acquired in April 2006, the Pacific acquisition that was completed in November 2006, and the Bumstead and Tirzah acquisitions that were completed in July 2007 and October 2007, respectively, as well as the St. James expansion project that was ongoing throughout 2007.

General and Administrative Expenses. Our G&A expenses (excluding equity compensation charges as discussed below) were impacted in 2007 and 2006 primarily as a result of acquisitions and expansions.

Equity Compensation Charges. Equity compensation charges decreased by approximately $4 million in 2008 compared to 2007 primarily as a result of the decrease in unit price for 2008 compared to the increase in unit price for 2007. The impact of the change in unit price was partially offset by additional LTIP grants that are considered probable of vesting and additional expense for Class B units. The Class B plan was not in existence for most of 2007. Equity compensation charges increased approximately $2 million in 2007 compared to 2006 principally as a result of additional LTIP grants. See Note 10 to our Consolidated Financial Statements.

Equity Earnings. Our facilities segment also includes our equity earnings from our investment in PAA/Vulcan. Our investment in PAA/Vulcan contributed approximately $4 million in additional earnings for 2007 compared to 2006, reflecting increased value for leased storage.

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 for 2008 is primarily due to maintenance at various terminals, including the Martinez, Richmond, LA Basin and Cushing terminals. The increase in 2007 was primarily due to additional maintenance expenditures arising from the Pacific acquisition.

Marketing Segment

Our revenues from marketing 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. Because the commodities that we buy and sell are generally indexed to the same pricing indices for both the purchase and the sale, revenues and costs related to purchases will increase and decrease with changes in market prices. However, the margins related to those purchases and sales will not necessarily have corresponding increases and decreases. 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 marketing segment volumes (which consist of (i) lease gathered crude oil purchase volumes, (ii) refined products volumes, (iii) LPG sales volumes and (iv) 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 counter-cyclical balance that provides 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 marketing segment for the periods indicated:

Operating Results[(1)] (in millions, except per barrel amounts)	For the Year Ended December 31,			Favorable (Unfavorable)			
				2008-2007		2007-2006	
	2008	2007	2006	$	%	$	%
Revenues[(2)(3)]	$ 29,350	$ 19,858	$ 22,061	$ 9,492	48 %	$(2,203)	(10)%
Purchases and related costs[(4)(5)]	(28,873)	(19,366)	(21,641)	(9,507)	(49)%	2,275	11 %
Field operating costs	(185)	(154)	(137)	(31)	(20)%	(17)	(12)%
Segment G&A expenses (excluding equity compensation charge)	(63)	(52)	(39)	(11)	(21)%	(13)	(33)%
Equity compensation charge—general and administrative[(6)]	(8)	(17)	(16)	9	53 %	(1)	(6)%
Segment profit[(3)]	$ 221	$ 269	$ 228	$ (48)	(18)%	$ 41	18 %
Net gains/(losses) related to inventory valuation adjustments and derivative activities[(3)]	$ (4)	$ (27)	$ (4)	$ 23	85 %	$ (23)	(575)%
Maintenance capital	$ 4	$ 6	$ 3	$ (2)	(33)%	$ 3	100 %
Segment profit per barrel[(7)]	$ 0.70	$ 0.86	$ 0.80	$ (0.16)	(19)%	$ 0.06	7 %

Average Daily Volumes[(8)] (in thousands of barrels per day)	For the Year Ended December 31,			Favorable (Unfavorable)			
				2008-2007		2007-2006	
	2008	2007	2006	Volumes	%	Volumes	%
Crude oil lease gathering purchases	658	685	650	(27)	(4)%	35	5%
Refined products sales	26	11	N/A	15	136 %	11	N/A
LPG sales	103	90	70	13	14 %	20	29%
Waterborne foreign crude oil imported	80	71	63	9	13 %	8	13%
Marketing segment total	867	857	783	10	1 %	74	9%

(1) Revenues and costs include intersegment amounts.

(2) Includes revenues associated with buy/sell arrangements of $4,762 million for the year ended December 31, 2006. This amount includes certain estimates based on management's judgment; such estimates are not expected to have a material impact on the balances. See Note 2 to our Consolidated Financial Statements.

(3) Gains/(losses) from derivative activities net of inventory valuation adjustments.

(4) Includes purchases associated with buy/sell arrangements of $4,795 million for the year ended December 31, 2006. This amount includes certain estimates based on management's judgment; such estimates are not expected to have a material impact on the balances. See Note 2 to our Consolidated Financial Statements.

(5) Purchases and related costs include interest expense on hedged inventory purchases of approximately $21 million, $44 million and $49 million for the years ended December 31, 2008, 2007 and 2006, respectively.

(6) Equity compensation expense related to our equity compensation plans.

(7) Calculated based on crude oil lease gathered volumes, refined products volumes, LPG sales volumes and waterborne foreign crude volumes.

(8) 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.

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

Revenues and purchases and related costs. The variances between our revenues and purchases and related costs for 2008, 2007 and 2006 are discussed below.

- Generally we consider the market to be favorable and are able to optimize and enhance the margins of our gathering and marketing activities when there is a high level of volatility in the market combined with favorable basis differentials and a steep contango or backwardated market structure. There was volatility in the outright price of crude oil during the last three years. The NYMEX benchmark price of crude oil ranged from approximately $32 to $147 per barrel, $50 to $99 per barrel and $55 to $78 per barrel for 2008, 2007 and 2006, respectively. In addition, there was volatility in the market structure in each of the last three years; 2008 and 2007 fluctuated between a contango market and a backwardated market but 2006 was in contango for the whole year. The monthly timespread of prices averaged approximately $0.21 (contango) for 2008, versus $0.32 (contango) for 2007 and an average contango spread of $1.22 for 2006. A contango market is favorable to our commercial strategies that are associated with storage tankage as it allows us to simultaneously purchase production at current prices for storage and sell at higher prices for future delivery. A backwardated market has a positive impact on our lease gathering margins because crude oil gatherers can capture a premium for prompt deliveries. However, in this environment, there is little incentive to store crude oil as current prices are above future delivery prices. In the fluctuating market structure for 2008 and 2007, we were able to optimize the margins of our gathering and marketing activities. Lease gathering margins were stronger in 2008 than 2007. However, the 2007 results benefited from a contango crude oil market structure (which existed during the first half of the year), favorable crude oil differentials and favorable LPG margins.

- Results from our LPG operations were lower in 2008 as compared to the respective period of 2007. Our LPG operations operate on an April to March storage season and the timing of recognizing earnings over that season may vary from year to year based on the sales price of contracts presented for delivery and the average costing of inventory. Results for 2007 benefited from a strong first quarter that included profits from the end of the 2006 - 2007 storage season. Our LPG operations were also impacted by a foreign exchange unrealized loss, which we expect to recover through higher margins in future periods.
- Results for 2008 include a net loss of $11 million resulting from inventory valuation adjustments partially offset by related net gains from derivative activities. This net loss includes a loss of $145 million resulting from a write-down of inventory to its net realizable value, which is partially offset by gains of $134 million on related derivatives. The inventory adjustment and the derivative gains were primarily the result of the significant decrease in crude oil and LPG prices that occurred during the second half of 2008. Revenues for 2008 also include a net gain of $7 million related to other derivative activities. Revenues for 2007 include losses related to derivative activities of approximately $27 million. Revenues for 2006 include losses related to derivative activities of approximately $4 million. Purchases and related costs for 2006 include an inventory valuation adjustment, which resulted in a loss of approximately $6 million. See Note 6 to our Consolidated Financial Statements for a discussion of our derivative related activities.
- Segment profit for the year ended December 31, 2008 was also negatively impacted by an estimated $10 million to $15 million due to reduced volumes and other impacts of Hurricanes Gustav and Ike.
- Our revenues and purchases and related costs decreased for 2007 compared to 2006 due to the adoption in the second quarter of 2006 of Emerging Issues Task Force Issue No. 04-13 (“EITF 04-13”), “Accounting for Purchases and Sales of Inventory with the Same Counterparty.” The adoption of EITF 04-13 in the second quarter of 2006 resulted in inventory purchases and sales under buy/sell transactions, which historically would have been recorded gross as purchases and sales, to be treated as inventory exchanges in our consolidated statements of operations. The treatment of buy/sell transactions under EITF 04-13 reduces both revenues and purchases and related costs on our income statement but does not impact our financial position, net income or liquidity.

- During 2007 and 2006, we purchased certain crude oil gathering assets and related contracts in South Louisiana, completed the acquisitions of Pacific and Andrews, and purchased a refined products supply and marketing business. These transactions primarily affected our transportation and facilities segment, but also included some marketing activities and opportunities. The integration into our business of these marketing activities precludes specific quantification of relative contribution, but we believe these acquisitions increased segment profit and revenues for our marketing segment.

Field Operating Costs. Field operating costs increased in 2008 compared to 2007, primarily due to increases in (i) transportation-related costs, including fuel, third-party trucking fees and drivers' salaries and (ii) the number of trucks and trailers under operating leases versus capital leases. Field operating costs increased in 2007 compared to 2006, primarily as a result of increases in (i) third-party trucking fees as a result of 2006 acquisitions, (ii) fuel costs resulting from higher market prices and (iii) maintenance costs as a result of 2006 acquisitions.

General and Administrative Expenses. General and administrative expenses increased for 2008 compared to 2007 primarily as a result of increases in payroll costs and consulting fees. General and administrative expenses increased for 2007 compared to 2006 primarily as a result of increased payroll and benefits (partly due to the retirement of an executive), as well as acquisitions and internal growth.

Equity Compensation Charges. Equity compensation charges decreased by approximately $9 million in 2008 compared to 2007 primarily as a result of the decrease in unit price during 2008 compared to the increase in unit price for 2007. The impact of the change in unit price was partially offset by additional LTIP grants that are considered probable of vesting and additional expense for Class B units. The Class B plan was not in existence for most of 2007. Equity compensation charges increased approximately $1 million in 2007 compared to 2006 principally as a result of additional LTIP grants. See Note 10 to our Consolidated Financial Statements.

Other Income and Expenses

Depreciation and Amortization

Depreciation and amortization expense was $211 million for the year ended December 31, 2008 compared to $180 million and $100 million for the years ended December 31, 2007 and 2006, respectively. The increases in 2008 and 2007 related primarily to an increased amount of depreciable assets stemming from our acquisition activities and internal growth projects. Amortization of debt issue costs was $4 million, $3 million and $3 million in 2008, 2007 and 2006, respectively.

Included in depreciation expense for the years ended December 31, 2008, 2007 and 2006 is a net gain of $6 million, a net loss of approximately $7 million and a net gain of approximately $2 million, respectively, recognized upon disposition of certain inactive assets. Also included within depreciation expense for the year ended December 31, 2008 is an impairment of approximately $5 million for assets taken out of service.

Interest Expense

Interest expense was $196 million for the year ended December 31, 2008, compared to $162 million and $86 million for the years ended December 31, 2007 and 2006, respectively. Interest expense is primarily impacted by:

- our 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 selected components of our average debt balances (in millions):

	For the year ended December 31,					
	2008		2007		2006	
	Total	% of Total	Total	% of Total	Total	% of Total
Fixed rate senior notes[1]	$3,028	87%	$2,625	95%	$1,336	92%
Borrowings under our revolving credit facilities[2]	456	13%	150	5%	118	8%
Total	$3,484		$2,775		$1,454	

(1) Weighted average face amount of senior notes, exclusive of discounts.

(2) Excludes borrowings under our senior secured hedged inventory facility and the short-term portion of our senior unsecured revolving credit facility, as the associated interest expense is recorded in crude oil, refined products and LPG purchases and related costs.

The following table summarizes the components impacting the interest expense variance for the years ended December 31, 2008 and 2007 (in million, except for percentages):

	$	Average LIBOR Rate	Weighted Average Interest Rate[1]
Interest expense for the year ended December 31, 2006	$ 86	5.0%	6.1%
Impact of issuance and assumption of notes related to the Pacific acquisition[2]	77		
Impact of issuance of senior notes[3]	6		
Impact of increased borrowings under credit facilities[4]	2		
Impact of increased capitalized interest	(8)		
Other	(1)		
Interest expense for the year ended December 31, 2007	$162	5.2%	6.3%
Impact of issuance of senior notes[5]	27		
Impact of increased borrowings under credit facilities[4]	5		
Impact of increased capitalized interest	(3)		
Other	5		
Interest expense for the year ended December 31, 2008	$196	2.7%	5.9%

(1) Excludes commitment and other fees.

(2) In October 2006, we issued $1.0 billion senior notes to partly finance the Pacific acquisition in November 2006. In connection with the Pacific acquisition, we also assumed $400 million senior notes from Pacific.

(3) In May 2006, we issued $250 million of senior notes.

(4) The change primarily reflects varying borrowing requirements for inventory-related borrowings and other working capital items and changes in LIBOR rates.

(5) The $600 million senior notes were issued in April 2008 in connection with the Rainbow acquisition.

Interest costs attributable to borrowings for inventory stored in a contango market are included in purchases and related costs in our marketing 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 $21 million, $44 million and $49 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Interest Income and Other, Net

Interest income and other, net increased by approximately $23 million for the year ended December 31, 2008, compared to the year ended December 31, 2007 primarily due to (i) a gain of $14 million resulting from the sale of our NYMEX seats and shares in NYMEX Holdings, Inc., which merged with CME Group Inc. and (ii) a gain of $11 million on the foreign currency hedge and commodity price risk hedge that we entered into in connection with the Rainbow acquisition.

Interest income and other, net increased by approximately $8 million for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily due to (i) the recognition of a gain of approximately $4 million upon the sale of a portion of our stock ownership in NYMEX Holdings, Inc. and (ii) the change in fair value of our interest rate swaps.

Income Tax Expense

Excluding the $10 million impact of the initial adoption of the revised Canadian tax laws in 2007, our income tax expense increased by $2 million in 2008 compared to 2007 primarily due to the Rainbow acquisition. Income tax expense was $16 million for the year ended December 31, 2007 primarily due to revised rules on Canadian taxation on certain flow-through entities and the introduction of the Texas margin tax. There was no income tax in 2006. See Note 7 to our Consolidated Financial Statements for further discussion.

Outlook

During 2008, we grew our business by expanding our asset base through approximately $735 million of acquisitions and $491 million of internal growth projects. In 2009, we intend to spend approximately $295 million on internal growth projects. Several of the larger storage tank projects for 2008 and 2009, such as the construction or expansion of the Patoka, St. James and Cushing terminals, are well positioned to benefit from the importation of waterborne foreign crude oil into the Gulf Coast as well as the importation of Canadian crude oil and the associated diluent requirements to facilitate its movement. We also believe there are opportunities for us to grow our LPG business and the natural gas storage business of PAA/Vulcan. In late 2008, PAA/Vulcan's management team was further strengthened and a major gas storage project was placed into partial commercial operation. The management team of PAA/Vulcan has been charged with developing the company into a solid, stand alone business through organic growth, acquisitions and greenfield development projects.

We intend to continue to develop our inventory of projects for implementation beyond 2009 throughout all of our product and growth platforms, and to pursue potential acquisitions of assets and businesses within our existing areas of operation as well as potential acquisitions of other complementary assets and businesses. These efforts may involve assets that, if constructed or acquired, could have a material effect on our financial condition and results of operations. Although we expect any such capital expenditures to be accretive in the long term, we can give no assurance that our current or future expansion or acquisition efforts will be completed, if at all, on terms considered favorable to us, nor that our expectations will ultimately be realized.

During 2008, the financial markets were extremely volatile and the global economy substantially weakened. Many well-known and previously sound U.S. financial institutions failed or were forced into mergers. The U.S. government and governments around the world have taken 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. Moreover, the energy markets experienced remarkable volatility, with the prices of crude oil and refined products reaching historically high levels during the first seven months of 2008, then dropping precipitously to much lower levels during the remainder of the year.

Despite the chaotic and unstable market conditions, we believe we have access to equity and debt capital—albeit at a higher cost and with greater execution risk than previously experienced—and that we are well situated to optimize our position in and around our existing assets and to expand our asset base by continuing to consolidate, rationalize and optimize portions of the North American midstream infrastructure. Although we will not be unaffected by challenging economic and capital markets conditions, we believe that the current market environment may enhance our competitive positioning relative to other smaller, non-investment grade competitors.

Although we believe our business strategy is designed to manage a volatile environment, and that our asset base strategically positions us to benefit from certain of these developments, there can be no assurance that we will not be negatively affected by this volatility or the 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

Cash flow from operations and borrowings under our credit facilities are our primary sources of liquidity. At December 31, 2008, we had a working capital deficit of approximately $364 million, approximately $764 million of availability under our committed revolving credit facility and approximately $245 million of availability under our committed hedged inventory facility. Usage of the credit facilities is subject to ongoing compliance with covenants. We believe we are currently in compliance with all covenants.

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 is strong and we have sufficient liquidity; however, further disruptions in the financial markets and significant energy price volatility that adversely affect our business may have a material 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.

In light of the recent decline in the credit markets and overall market turmoil, we have taken the following proactive and preemptive steps to maintain our financial strength and flexibility and the ability to generate baseline cash flow:

- We have increased the amount of storage capacity leased to third parties by leasing storage capacity on certain newly constructed tanks and certain tanks previously reserved for our proprietary use, which reduced our potential working capital requirements.
- We have pre-funded or contemporaneously funded acquisitions and our capital expansion programs in order to maintain a strong balance sheet and high levels of liquidity. As a result, we have the ability to execute our capital plans through 2009 without reliance on the financial markets for incremental debt or equity capital.
- We have reduced our forecasted expansion capital spending for 2009 to approximately $295 million from $491 million in 2008.

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, and (ii) the payment of amounts related to the purchase of crude oil and other products and other expenses, principally field operating costs and general and administrative expenses. 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 in third party pipelines. 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, but to a lesser extent, 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 because 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.

Our cash flow from operations are significantly impacted in periods when we are increasing or decreasing the amount of inventory in storage. During 2008, we 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 year amounts. 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. The settlement of gains on derivatives that have been deferred in AOCI also had a significant positive impact in 2008 on our operating cash flows. During 2007 we reduced our overall inventory levels as we liquidated inventory that had been stored in the contango market. The proceeds from liquidating the inventory were used to repay borrowings under our credit facilities and favorably impacted our cash flow from operating activities. In 2006, the market was in contango and we increased our storage of crude oil and other products primarily financed through borrowings under our credit facilities, resulting in a negative impact on our cash flows from operating activities for the period, as explained above.

Credit Facilities and Long-Term Debt

At December 31, 2008, we had approximately $0.8 billion of available borrowing capacity under our $1.6 billion committed revolving credit facility. Of the capacity we utilized at December 31, 2008, approximately $51 million was associated with outstanding letters of credit and the remainder was borrowed. The majority of these borrowings related to LPG inventory that is scheduled to be sold over the next six months. This credit facility, among other things, 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. In addition this revolving credit facility includes broad participation from 24 financial institutions, with no one institution holding more than 10% or less than 2% of the total facility. See Note 4 to our Consolidated Financial Statements.

At December 31, 2008, we had approximately $245 million of availability under our $525 million committed hedged inventory facility. The facility's committed amount may be increased to $1.2 billion, subject to obtaining additional commitments from lenders. This facility is a committed working capital facility, which is used to finance the purchase of hedged crude oil inventory for storage when market conditions warrant. 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. The facility will mature on an annual basis beginning in November 2009.

We also have several issues of senior debt outstanding that total $3.2 billion, excluding premium or discount, and range in size from $150 million to $600 million and mature at various dates through 2037. Approximately $175 million of these senior notes are due in August 2009. Since we have the ability and intent to refinance these notes, they are classified as long-term debt within our balance sheet.

Our credit agreements and the indentures governing our senior notes contain cross-default provisions. A default under our credit facility would permit the lenders to accelerate the maturity of the outstanding debt. As long as we are in compliance with 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.

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 contango market activities. Our financing activities have primarily consisted of equity offerings, senior notes offerings and borrowings and repayments under our credit facilities.

We periodically access the capital markets for both equity and debt financing. We have filed with the Securities and Exchange Commission a universal shelf registration statement that, subject to effectiveness at the time of use, allows us to issue from time to time up to an aggregate of $2.0 billion of debt or equity securities. At December 31, 2008, we have $2.0 billion of unissued securities remaining available under this registration statement.

Equity Offerings. During the last three years we completed several equity offerings as summarized in the table below (net proceeds in millions). Certain of these offerings involved related parties. See Note 9 to our Consolidated Financial Statements.

2008		2007		2006	
Units	Net Proceeds[1]	Units	Net Proceeds[1]	Units	Net Proceeds[1][2]
6,900,000	$315	6,296,172	$383	13,389,562	$621

(1) Includes our general partner's proportionate capital contribution and is net of costs associated with the offering.

(2) Excludes the common units issued and our general partner's proportionate capital contribution of $22 million pertaining to the equity exchange for the Pacific acquisition.

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

Year	Description	Maturity	Face Value	Net Proceeds[1]
2008	6.5% Senior Notes issued at 99.424% of face value	May 2018	$600	$597
2006	6.125% Senior Notes issued at 99.56% of face value	January 2017	$400	$398
	6.65% Senior Notes issued at 99.17% of face value	January 2037	$600	$595
	6.7% Senior Notes issued at 99.82% of face value	May 2036	$250	$250

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

Credit Facilities. During the year ended December 31, 2008, we had net working capital and hedged inventory borrowings of approximately $90 million. These net borrowings were used primarily for purchases of LPG inventory that was stored. During the year ended December 31, 2007, we had net working capital and hedged inventory repayments of approximately $54 million. These repayments resulted primarily from sales of crude oil inventory that was stored and subsequently liquidated as we transitioned to backwardated market conditions, partially offset by higher levels of stored LPG inventory. See "—Cash Flow from Operations" above. During 2006, we had net working capital and hedged inventory borrowings of approximately $320 million. These net borrowings were used primarily for purchases of crude oil inventory that was stored. For further discussion related to our credit facilities and long-term debt, see "—Credit Facilities and Long-Term Debt" above.

Capital Expenditures and Distributions Paid to Unitholders and General Partner

We use cash primarily for our acquisition activities, internal growth projects and distributions paid to our unitholders and general partner. 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 "—Internal Growth Projects and Acquisitions" for further discussion for such capital expenditures.

Acquisitions. The price of the acquisitions includes cash paid, transaction costs and 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.

2009 Capital Expansion Projects. The vast majority of funding for our 2009 capital program will be provided by a combination of cash flow in excess of partnership distributions, proceeds associated with pending asset sales and planned reductions in crude oil and LPG inventories, as we expect prices to be lower in 2009 than they were in 2008. This will allow us to fund these capital projects without need to access the capital markets for equity or debt. Our 2009 capital expansion program includes the following projects with the estimated cost for the entire year (in millions):

Projects	
St. James Phase III[1]	$ 85
Kerrobert pumping project	34
Cushing—Phase VII	29
Rangeland tankage and connections	29
Nipisi storage and truck terminal	20
Patoka tankage	20
Paulsboro tankage	13
Other projects, including acquisition related expansion projects[2]	65
	$295

(1) Includes a dock and condensate tanks.

(2) Primarily pipeline connections, upgrades and truck stations, new tank construction and refurbishing, and carry-over of projects started in 2008.

Distributions to unitholders and general partner. 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. We paid our quarterly distribution for the fourth quarter of 2008 on February 13, 2009. Due to the unstable and uncertain financial markets, the distribution was consistent with the distribution in the third quarter of 2008 but achieved a year-over-year distribution increase of 5%, which is within the range of our 2008 target for distribution growth of 5% - 8%. We will continue to monitor the financial market conditions as they evolve and it is our intent to maintain an appropriate balance between the near-term benefits of distribution growth and the long-term benefits of retaining excess cash flow during such challenging times for capital formation. 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 and Rainbow 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 distributions reduction.

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

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 three 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 creditworthy entities.

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, 2008 (in millions).

	Total	2009	2010	2011	2012	2013	2014 and Thereafter
Long-term debt and interest payments[(1)]	$ 5,811	$ 378	$ 198	$ 198	$ 394	$ 431	$ 4,212
Leases[(2)]	408	57	46	40	35	26	204
Other long-term liabilities[(3)]	110	36	27	9	13	3	22
Subtotal	6,329	471	271	247	442	460	4,438
Crude oil and LPG purchases[(4)]	4,344	3,277	519	312	229	7	—
Total	$10,673	$ 3,748	$ 790	$ 559	$ 671	$ 467	$ 4,438

(1) Includes debt service payments, interest payments due on our senior notes and the commitment fee on our revolving credit facility. Although there is an outstanding balance on our revolving credit facility at December 31, 2008, 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 and (iv) trucks used in our gathering activities.

(3) Excludes a non-current liability of approximately $72 million related to SFAS 133 included in crude oil and LPG purchases.

(4) Amounts are based on estimated volumes and market prices. The actual physical volume purchased and actual settlement prices may 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 marketing, 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, 2008 and 2007, we had outstanding letters of credit of approximately $51 million and $153 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 cargos purchased.

Capital Contributions to PAA/Vulcan Gas Storage, LLC. We and Vulcan Gas Storage are both required to make capital contributions in equal proportions to fund equity requests associated with certain projects specified in the joint venture agreement. For certain other specified projects, Vulcan Gas Storage has the right, but not the obligation, to participate for up to 50% of such equity requests. In some cases, Vulcan Gas Storage's obligation is subject to a maximum amount, beyond which Vulcan Gas Storage's participation is optional. For any other capital expenditures, or capital expenditures with respect to which Vulcan Gas Storage's participation is optional, if Vulcan Gas Storage elects not to participate, we have the right to make additional capital contributions to fund 100% of the project until our interest in PAA/Vulcan equals 70%. Such contributions would increase our interest in PAA/Vulcan and dilute Vulcan Gas Storage's interest. Once our ownership interest is 70% or more, Vulcan Gas Storage would have the right, but not the obligation, to make future capital contributions proportionate to its ownership interest at the time. During 2008 and 2007, we made additional contributions of $37 million and $9 million to PAA/Vulcan, respectively. During 2008, we received distributions of $7 million from PAA/Vulcan; there were no such distributions received during 2007. Vulcan Gas Storage made the same net contribution as we did during 2008 and 2007. Such contributions and distributions did not result in an increase or decrease to our ownership interest. See Note 9 to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We have invested in certain entities (PAA/Vulcan, Butte, Settoon Towing and Frontier) that are not consolidated in our financial statements. In conjunction with these investments, from time to time we may elect to provide financial and performance guarantees or other forms of credit support. In conjunction with the formation of PAA/Vulcan and the acquisition of ECI (now known as PAA Natural Gas Storage, LLC) in 2005, we provided performance and financial guarantees to the seller with respect to PAA/Vulcan's performance under the purchase agreement, as well as in support of continuing guarantees of the seller with respect to ECI's obligations under certain gas storage and other contracts. We believe that the fair value of the obligation to stand ready to perform is minimal. In addition, we believe the probability that we would be required to perform under the guaranty is remote. See Note 9 to our Consolidated Financial Statements for more information concerning our obligations as they relate to our investment in PAA/Vulcan.

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. In the case of PAA/Vulcan, we have agreed, along with our co-venturer, to make future capital contributions (a maximum of $17.5 million in the aggregate to our share) for further contribution to Pine Prairie. 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, 2008 (unaudited, in millions):

Entity	Type of Operation	Our Ownership Interest	Total Entity Assets	Total Cash and Restricted Cash	Total Entity Debt
PAA/Vulcan	Natural Gas Storage	50%	$812	$47	$418
Settoon Towing	Barge Transportation Services	50%	$ 85	$—	$ 54
Frontier	Crude Oil Pipeline	22%	$ 25	$ 1	$ —
Butte	Crude Oil Pipeline	22%	$ 12	$ 1	$ —

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. We utilize various derivative instruments to manage such exposure and, in certain circumstances, to realize incremental margin during volatile market conditions. In analyzing our risk management activities, we draw a distinction between enterprise level risks and trading related risks. Enterprise level risks are those that underlie our core businesses and may be managed based on whether there is value in doing so. Conversely, trading related risks (the risks involved in trading in the hopes of generating an increased return) are not inherent in the core business; rather, those risks arise as a result of engaging in the trading activity. Our risk management policies and procedures are designed to monitor interest rates, currency exchange rates, NYMEX, ICE and over-the-counter positions, and physical volumes, grades, locations and delivery schedules to ensure our hedging activities address our market risks. We have a risk management function that has direct responsibility and authority for our risk policies and our trading controls and procedures and certain aspects of corporate risk management. Our risk management function also approves all new risk management strategies through a formal process. With the exception of the controlled trading program referenced below, our approved strategies are intended to mitigate and manage enterprise level risks that are inherent in our core businesses of gathering and marketing and storage. To hedge the risks discussed above we engage in risk management activities that we categorize by the risks we are hedging. The following discussion addresses each category of risk.

Commodity Price Risk

We use derivative instruments and physical delivery contracts to hedge our exposure to price fluctuations with respect to crude oil, refined products, natural gas and LPG in storage, and expected purchases and sales of these commodities (relating primarily to crude oil and LPGs at this time). The derivative instruments utilized consist primarily of futures, options and swaps traded on the NYMEX, ICE and in over-the-counter transactions, including swap and option contracts entered into with financial institutions and other energy companies. Our policy is to purchase only commodity products for which we have a market, and to structure our sales contracts so that price fluctuations for those products do not materially affect the segment profit we receive. Except for the controlled trading program referenced below, we do not acquire and hold futures contracts or other derivative products for the purpose of speculating on price changes, as these activities could expose us to significant losses.

Although we seek to maintain a position that is substantially balanced within our various commodity purchase and sales activities (which mainly relate to crude oil and LPGs), we may experience net unbalanced positions for short periods of time as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions. 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. In connection with managing these positions and maintaining a constant presence in the marketplace, both necessary for our core business, we engage in a controlled trading program for up to an aggregate of 500,000 barrels of crude oil and a substantially lesser amount for LPG.

Although the intent of our risk-management strategies is to hedge our margin, not all of our derivatives qualify for hedge accounting. In such instances, changes in the fair values of these derivatives are recognized in earnings, and result in greater potential for earnings volatility. This accounting treatment is discussed further in Note 2 to our Consolidated Financial Statements.

All of our open commodity price risk derivatives at December 31, 2008 were categorized as non-trading. The fair value of these instruments and the change in fair value that would be expected from a 10 percent price decrease are shown in the table below (in millions):

	Fair Value	Effect of 10% Price Decrease
Crude oil:		
Futures contracts	$ (10)	$ 22
Swaps and options contracts	174	59
LPG and other:		
Futures contracts	(24)	(3)
Swaps, options and other contracts[1]	(170)	(21)
Total Fair Value	$ (30)	

(1) Amount includes approximately $46 million associated with LPG and natural gas physical contracts not eligible for the normal purchase and sale scope exception under SFAS 133.

The fair value of our exchange-traded contracts is based on quoted market prices obtained from the NYMEX or ICE. The fair value of our over-the-counter swaps and option contracts is estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at year end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. 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 percent 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 percent 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 obligations on specific debt issuances, including anticipated debt issuances. All of our senior notes are fixed rate notes and thus not subject to market risk. Substantially all of our variable rate debt at December 31, 2008, approximately $1 billion, is short-term debt and is subject to interest rate re-sets, which range from a week to a month. The average interest rate of 1.4% is based upon rates in effect at December 31, 2008. 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 Risk

Our cash flow stream relating to our Canadian operations is based on the U.S. dollar equivalent of such amounts measured in Canadian dollars. Assets and liabilities of our Canadian subsidiaries are translated to U.S. dollars using the applicable exchange rate as of the end of a reporting period. Revenues, expenses and cash flow are translated using the average exchange rate during the reporting period. Because a significant portion of our Canadian business is conducted in Canadian dollars, we use certain financial instruments to minimize the risks of changes in the exchange rate. These instruments may include forward exchange contracts, swaps and options. The fair value of our open foreign currency instruments is an unrealized gain of $13 million as of December 31, 2008. A ten percent decrease in the exchange rate (Canadian dollars to U.S. dollars) would result in an increase of approximately $12 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*

Not applicable.

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

We maintain written "disclosure controls and procedures," which we refer to as our "DCP." The purpose of our DCP is to provide reasonable assurance that (i) information is recorded, processed, summarized and reported in time to allow for timely disclosure of such information in accordance with the securities laws and SEC regulations and (ii) 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.

In addition to the information concerning our DCP, we are required to disclose certain changes in our internal control over financial reporting. Although we have made various enhancements to our controls, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.

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 generally accepted accounting principles. 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, 2008. See Management's Report on Internal Control Over Financial Reporting on page F-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 2008 that has not previously been reported.