

PLAINS ALL AMERICAN PIPELINE LP

Form 424B3

June 20, 2007

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the attached prospectus are not an offer to sell and do not seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-126447**

**SUBJECT TO COMPLETION, DATED JUNE 20, 2007**

**PROSPECTUS SUPPLEMENT  
(To Prospectus Dated July 22, 2005)**

6,296,172 Common Units

Representing Limited Partner Interests

We are offering 6,296,172 common units directly to certain purchasers (the Purchasers) in a privately negotiated transaction at a price of \$59.56 per unit. We expect to receive net proceeds of approximately \$382.5 million, including our general partner's proportionate capital contribution after deducting offering expenses, from this sale of our common units.

Our common units are listed on The New York Stock Exchange under the symbol PAA. The last reported sale price of our common units on the New York Stock Exchange on June 19, 2007 was \$63.25 per unit.

**Investing in our common units involves risks. See Risk Factors beginning on page S-1 of this prospectus supplement and on page 5 of the accompanying prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus supplement is June 2007.

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This document is in two parts. The first part is the prospectus supplement, which describes our business and the specific terms of this offering. The second part, the base prospectus, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. If the description of the offering varies between the prospectus supplement and the base prospectus, you should rely on the information in the prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of the common units in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus or in the documents incorporated by reference in this prospectus is accurate as of any date other than the date on the front of those documents.

The information in this prospectus supplement is not complete. You should review carefully all of the detailed information appearing in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference before making any investment decision.

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**PLAINS ALL AMERICAN PIPELINE, L.P.**

We are a Delaware limited partnership formed in September 1998. We are engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas related petroleum products. We refer to liquefied petroleum gas and other natural gas related petroleum products as LPG. Through our 50% equity ownership in PAA/Vulcan Gas Storage, LLC, we also develop and operate natural gas storage facilities.

We own and operate a diversified portfolio of strategically located assets that play a vital role in the movement of U.S. and Canadian energy supplies. On average we handle over 3 million barrels per day of crude oil, refined products and LPG through our extensive network of assets located in key North American producing basins and transportation gateways.

Our executive offices are located at 333 Clay Street, Suite 1600, Houston, Texas 77002 and our telephone number is (713) 646-4100.

**RISK FACTORS**

You should carefully consider the risk factors discussed in our 2006 Annual Report on Form 10-K, together with all of the other information included in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference into this prospectus in evaluating an investment in our common units. If any of the described risks actually were to occur, our business, financial condition or results of operations could be materially adversely affected.

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**USE OF PROCEEDS**

The net proceeds of this offering will be approximately \$382.5 million, including our general partner's proportionate capital contribution after deducting estimated offering expenses. We intend to use the net proceeds of this offering (i) to fund expansion capital programs; (ii) to fund the pending acquisition of the Bumstead LPG storage business, which we agreed to acquire in February 2007 for approximately \$52 million; (iii) to repay indebtedness under our senior unsecured credit facility; and (iv) for general partnership purposes.

Indebtedness under our senior unsecured credit facility was approximately \$469 million as of June 19, 2007, and had an annual interest rate of 5.4% and a final maturity in July 2011. Substantially all of the outstanding indebtedness under the facility was incurred to fund acquisitions, capital expansion projects, working capital requirements and the purchase of hedged inventory.

**Table of Contents****PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS**

As of June 19, 2007, we had 109,685,504 common units outstanding, held by approximately 435 holders of record. Our common units are traded on the New York Stock Exchange under the symbol PAA.

The following table sets forth, for the periods indicated, the high and low sales prices for the common units, as reported on the New York Stock Exchange Composite Transactions Tape, and quarterly cash distributions declared per common unit. The last reported sale price of common units on the New York Stock Exchange on June 19, 2007 was \$63.25 per common unit.

	<b>Price Range</b>		<b>Cash</b>
	<b>High</b>	<b>Low</b>	<b>Distributions(1)</b>
<b>2005</b>			
First Quarter	\$ 40.98	\$ 36.50	\$ 0.6375
Second Quarter	45.08	38.00	0.6500
Third Quarter	48.20	42.01	0.6750
Fourth Quarter	42.82	38.51	0.6875
<b>2006</b>			
First Quarter	\$ 47.00	\$ 39.81	\$ 0.7075
Second Quarter	48.92	42.81	0.7250
Third Quarter	47.35	43.21	0.7500
Fourth Quarter	53.23	45.20	0.8000
<b>2007</b>			
First Quarter	\$ 59.33	\$ 49.56	\$ 0.8125
Second Quarter (through June 19, 2007)	63.50	56.32	(2)

(1) Represents cash distributions per common unit declared with respect to the quarter and paid in the following quarter.

(2) The distribution attributable to the second quarter of 2007 has not yet been declared or paid.

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**PLAN OF DISTRIBUTION**

We are selling the common units offered pursuant to this prospectus directly to the following purchasers in a privately negotiated transaction in which no party is acting as an underwriter:

<b>Purchaser</b>	<b>Common Units</b>
Total	6,296,172

Subject to the terms of a purchase agreement to be entered into, the purchasers are expected to agree to purchase, and we intend to sell to the purchasers, 6,296,172 common units at a price of \$59.56 per unit. We determined the per unit price through negotiations with the purchasers.

The purchasers have agreed not to offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)), directly or indirectly, including the filing (or participation in the filing) of a registration statement with the Securities and Exchange Commission (the SEC) in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, with respect to the purchased common units for a period of 90 days after the closing date of this transaction without our prior written consent; *however*, a purchaser may enter into a total return swap or similar transaction as long as the swap counterparty agrees to be bound by the terms of the lock-up.

We expect to deliver the units through the book entry facilities of The Depository Trust Company against payment of the aggregate purchase price for the units purchased on or about June , 2007; *provided, however*, that we and certain of the purchasers may agree to close the offering with respect to the common units being offered to such purchaser on a later date as mutually agreed upon by us and such purchaser in accordance with the purchase agreement.



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**WHERE YOU CAN FIND MORE INFORMATION**

The SEC allows us to incorporate by reference information we file with it. This procedure means that we can disclose important information to you by referring you to documents filed with the SEC. The information we incorporate by reference (excluding any information furnished and not filed with the SEC) is part of this prospectus supplement and later information that we file with the SEC (excluding any information furnished and not filed with the SEC) will automatically update and supersede this information. We incorporate by reference the documents listed below:

Annual Report on Form 10-K for the year ended December 31, 2006;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2007;

Exhibit 99.3 to the Current Report on Form 8-K filed with the Commission on November 21, 2006 (audited consolidated financial statements of Pacific Energy Partners, L.P. as of December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005);

Current Report on Form 8-K filed with the Commission on February 28, 2007 (LTIP grants to Named Executive Officers);

Current Report on Form 8-K filed with the Commission on May 2, 2007 (audited consolidated balance sheet of Plains AAP, L.P. as of December 31, 2006); and

Current Report on Form 8-K filed with the Commission on June 19, 2007 (unaudited consolidated balance sheet of Plains AAP, L.P. as of March 31, 2007).

You may request a copy of these filings at no cost by making written or telephone requests for copies to:

Plains All American Pipeline, L.P.  
333 Clay Street, Suite 1600  
Houston, Texas 77002  
Attention: Tim Moore  
Telephone: (713) 646-4100

Additionally, you may read and copy any materials that we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding us. The SEC's website address is [www.sec.gov](http://www.sec.gov).

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying base prospectus. We have not authorized anyone else to provide you with any information. You should not assume that the information incorporated by reference or provided in this prospectus supplement or the accompanying base prospectus is accurate as of any date other than its date.

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**FORWARD-LOOKING STATEMENTS**

All statements included or incorporated by reference in this prospectus or any prospectus supplement, other than statements of historical fact, are forward-looking statements, including but not limited to statements identified by the words anticipate, believe, estimate, expect, plan, intend and forecast, and similar expressions and statements of our business strategy, plans and objectives of our management for future operations. The absence of these words, however, does not mean that the statements are not forward looking. These statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

the failure to realize the anticipated synergies and other benefits of the merger with Pacific Energy Partners, L.P.;

the success of our risk management activities;

environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;

maintenance of our credit rating and ability to receive open credit from our suppliers and trade counterparties;

abrupt or severe declines or interruptions in outer continental shelf production located offshore California and transported on our pipeline system;

failure to implement or capitalize on planned internal growth projects;

shortages or cost increases of power supplies, materials or labor;

the availability of adequate third party production volumes for transportation and marketing in the areas in which we operate and other factors that could cause declines in volumes shipped on our pipelines by us and third party shippers;

fluctuations in refinery capacity in areas supplied by our mainlines and other factors affecting demand for various grades of crude oil, refined products and natural gas and resulting changes in pricing conditions or transmission throughput requirements;

the availability of, and our ability to consummate, acquisition or combination opportunities;

our access to capital to fund additional acquisitions and our ability to obtain debt or equity financing on satisfactory terms;

successful integration and future performance of acquired assets or businesses and the risks associated with operating in lines of business that are distinct and separate from our historical operations;

unanticipated changes in crude oil market structure and volatility (or lack thereof);

the impact of current and future laws, rulings and governmental regulations;

the effects of competition;

continued creditworthiness of, and performance by, our counterparties;

interruptions in service and fluctuations in tariffs or volumes on third-party pipelines;

increased costs or lack of availability of insurance;

fluctuations in the debt and equity markets, including the price of our units at the time of vesting under our long-term incentive plans;

the currency exchange rate of the Canadian dollar;

weather interference with business operations or project construction;

risks related to the development and operation of natural gas storage facilities;

general economic, market or business conditions; and

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other factors and uncertainties inherent in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas related petroleum products.

Other factors described herein or incorporated by reference, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read "Risk Factors" beginning on page S-1 of this prospectus supplement and in Item 1A. "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2006. Except as required by securities laws applicable to the documents incorporated by reference, we do not intend to update these forward-looking statements and information.

**EXPERTS**

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2006 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The balance sheet of Plains AAP, L.P. incorporated in this prospectus supplement by reference to Plains All American Pipeline, L.P.'s Current Report on Form 8-K filed on May 2, 2007 has been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Pacific Energy Partners, L.P. as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, have been incorporated by reference herein in reliance upon the report of KPMG LLP, an independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

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**PROSPECTUS**

**\$2,000,000,000**

**Plains All American Pipeline, L.P.  
PAA Finance Corp.**

**Common Units  
Debt Securities**

We may from time to time offer the following securities under this prospectus:

common units representing limited partner interests in Plains All American Pipeline, L.P.; and  
debt securities of Plains All American Pipeline, L.P.

PAA Finance Corp. may act as co-issuer of the debt securities, and all other subsidiaries of Plains All American Pipeline, L.P., other than minor subsidiaries as such item is interpreted in securities regulations governing financial reporting for guarantors, may guarantee the debt securities.

Our common units are traded on the New York Stock Exchange under the symbol PAA.

Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. You should also read the documents we have referred you to in the Where You Can Find More Information section of this prospectus for information on us and for our financial statements.

**Limited partnerships are inherently different from corporations. You should consider each of the factors described under Risk Factors, which begin on page 5, in deciding whether or not to buy any of our securities.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of our securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 22, 2005.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf process, we may offer from time to time up to \$2,000,000,000 of our securities. Each time we offer securities, we will provide you with a prospectus supplement that will describe, among other things, the specific amounts and prices of the securities being offered and the terms of the offering, including, in the case of debt securities, the specific terms of the securities. The prospectus supplement may also add, update or change information contained in this prospectus. Therefore, before you invest in our securities, you should read this prospectus and any attached prospectus supplements.

In this registration statement, the terms we, our, ours, and us refer to Plains All American Pipeline, L.P. and its subsidiaries, unless otherwise indicated or the context requires otherwise.

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**WHERE YOU CAN FIND MORE INFORMATION**

We are incorporating by reference into this prospectus information we file with the SEC. This procedure means that we can disclose important information to you by referring you to documents filed with the SEC. The information we incorporate by reference is part of this prospectus and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made by Plains All American Pipeline, L.P. with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (excluding any information furnished and not filed with the SEC) until all offerings under this shelf registration statement are completed or after the date on which the registration statement that includes this prospectus was initially filed with the SEC and before the effectiveness of such registration statement:

Annual Report on Form 10-K for the year ended December 31, 2004;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2005;

Current Reports on Forms 8-K filed on January 26, 2005; February 23, 2005; March 8, 2005; April 1, 2005; April 8, 2005; April 21, 2005; April 25, 2005; May 12, 2005; May 25, 2005; and May 31, 2005; and

the description of our common units contained in our Form 8-A/A dated November 3, 1998.

You may request a copy of these filings at no cost by making written or telephone requests for copies to:

Plains All American Pipeline, L.P.  
333 Clay Street, Suite 1600  
Houston, Texas 77002  
Attention: Tim Moore  
Telephone: (713) 646-4100

Additionally, you may read and copy any materials that we have filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding us. The SEC's website address is [www.sec.gov](http://www.sec.gov).

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with any information. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.



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**FORWARD-LOOKING STATEMENTS**

All statements, other than statements of historical fact, included or incorporated by reference in this prospectus or the accompanying prospectus supplement are forward-looking statements, including, but not limited to, statements identified by the words anticipate, believe, estimate, expect, plan, intend and forecast, and similar expressions. These statements regarding our business strategy, plans and objectives of our management for future operations. These statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- abrupt or severe production declines or production interruptions in outer continental shelf production located offshore California and transported on our pipeline system;
- the success of our risk management activities;
- the availability of, and our ability to consummate, acquisition or combination opportunities;
- our access to capital to fund additional acquisitions and our ability to obtain debt or equity financing on satisfactory terms;
- successful integration and future performance of acquired assets or businesses;
- environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;
- maintenance of our credit rating and ability to receive open credit from our suppliers and trade counter-parties;
- declines in volumes shipped on the Basin Pipeline, Capline Pipeline and our other pipelines by third party shippers;
- the availability of adequate third party production volumes for transportation and marketing in the areas in which we operate;
- successful third party drilling efforts in areas in which we operate pipelines or gather crude oil;
- demand for various grades of crude oil and resulting changes in pricing conditions or transmission throughput requirements;
- fluctuations in refinery capacity in areas supplied by our transmission lines;
- the effects of competition;
- continued creditworthiness of, and performance by, counter-parties;
- the impact of crude oil price fluctuations;
- the impact of current and future laws, rulings and governmental regulations;

shortages or cost increases of power supplies, materials or labor;

weather interference with business operations or project construction;

the currency exchange rate of the Canadian dollar;

fluctuations in the debt and equity markets, including the price of our units at the time of vesting under our Long-Term Incentive Plan; and

general economic, market or business conditions.

Other factors described herein or incorporated by reference, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read **Risk Factors** beginning on page 5 of this prospectus. Except as required by securities laws applicable to the documents incorporated by reference, we do not intend to update these forward-looking statements and information.

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**WHO WE ARE**

We are engaged in interstate and intrastate crude oil transportation, and crude oil gathering, marketing, terminalling and storage, as well as the marketing and storage of liquefied petroleum gas and natural gas related petroleum products. We refer to liquefied petroleum gas and natural gas related petroleum products collectively as LPG. We have an extensive network of pipeline transportation, storage and gathering assets in key oil producing basins and at major market hubs in the United States and Canada. Our operations can be categorized into two primary business activities: crude oil pipeline transportation operations and gathering, marketing, terminalling and storage operations.

Our principal business strategy is to efficiently and competitively provide services to our customers, while capitalizing on the regional crude oil supply and demand imbalances that exist in the United States and Canada by combining the strategic location and distinctive capabilities of our transportation and terminalling assets with our extensive marketing and distribution expertise to generate sustainable earnings and cash flow.

We intend to execute our business strategy by:

increasing and optimizing throughput on our existing pipeline and gathering assets and realizing cost efficiencies through operational improvements;

utilizing our Cushing Terminal and our other assets to service the needs of refiners and to profit from merchant activities that take advantage of crude oil pricing and quality differentials;

utilizing assets we have recently acquired along the Gulf Coast and our Cushing Terminal to increase our presence in the importation of foreign crude through Gulf of Mexico receipt facilities to U.S. refiners;

selectively pursuing strategic and accretive acquisitions of crude oil transportation assets, including pipelines, gathering systems, terminalling and storage facilities and other assets that complement our existing asset base and distribution capabilities;

optimizing and expanding our Canadian operations and our presence in certain areas of the U.S. to take advantage of anticipated increases in the volume and qualities of crude oil produced in these areas as well as increased foreign crude import activities in the Gulf Coast area; and

prudently and economically leveraging our asset base, knowledge base and skill sets to participate in energy businesses that are closely related to, or significantly intertwined with, the crude oil business.

To a lesser degree, we also engage in a similar business strategy with respect to the wholesale marketing and storage of LPG, which we began as a result of an acquisition in mid-2001.

Plains All American Pipeline, L.P. is a Delaware limited partnership. PAA Finance was incorporated under the laws of the State of Delaware in February 2001, is indirectly wholly owned by Plains All American Pipeline, and has no material assets or any liabilities other than as a co-issuer of debt securities. Its activities will be limited to co-issuing debt securities and engaging in other activities incidental thereto. Plains AAP, L.P., a Delaware limited partnership, serves as our general partner. Plains All American GP LLC is the general partner of Plains AAP, L.P. Our U.S. operations are conducted through, and our operating assets are owned by, Plains Marketing, L.P., a Delaware limited partnership, and Plains Pipeline, L.P., a Texas limited partnership. Our Canadian operations are conducted through, and our Canadian operating assets are owned by, Plains Marketing Canada, L.P., a Canadian limited

partnership.

Our principal executive offices are located at 333 Clay Street, Suite 1600, Houston, Texas 77002, and our phone number is (713) 646-4100.

## **Recent Developments**

### ***Capital Expenditures***

We estimate that capital expenditures for expansion projects will be approximately \$180 million during 2005, an \$80 million increase over the estimate provided in our Annual Report on Form 10-K for the year

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ended December 31, 2004. This increase results primarily from additional organic growth projects, including the recently announced construction of a St. James, Louisiana crude oil storage facility. We estimate the total project cost for the St. James facility will be approximately \$70 million, of which approximately \$21 million will be spent in 2005.

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**RISK FACTORS**

*You should carefully consider the following risk factors together with all of the other information included or incorporated by reference in this prospectus in evaluating an investment in Plains All American Pipeline. If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. When we offer and sell any securities pursuant to a prospectus supplement, we may include additional risk factors relevant to such securities in the prospectus supplement.*

**Risks Related to Our Business**

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

A significant portion of our segment profit is derived from pipeline transportation margins associated with the Santa Ynez and Point Arguello fields located offshore California. We expect that there will continue to be natural production declines from each of these fields as the underlying reservoirs are depleted. We estimate that a 5,000 barrel per day decline in volumes shipped from these fields would result in a decrease in annual pipeline segment profit of approximately \$3.2 million. In addition, any significant production disruption from the Santa Ynez field due to production problems, transportation problems or other reasons could have a material adverse effect on our business.

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

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

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

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

Our ability to grow is substantially dependent on our ability to make acquisitions that result in an increase in adjusted operating surplus per unit. If we are unable to make such accretive acquisitions either because (i) we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them, (ii) we are unable to raise financing for such acquisitions on economically acceptable terms or (iii) we are outbid by competitors, our future growth will be limited.

In particular, competition for midstream assets and businesses has intensified substantially and as a result such assets and businesses have become more costly. As a result, we may not be able to complete the number

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or size of acquisitions that we have targeted internally or to continue to grow as quickly as we have historically.

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

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

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

Any acquisition involves potential risks, including:

performance from the acquired assets and businesses that is below the forecasts we used in evaluating the acquisition;

a significant increase in our indebtedness and working capital requirements;

the inability to timely and effectively integrate the operations of recently acquired businesses or assets;

the incurrence of substantial unforeseen environmental and other liabilities arising out of the acquired businesses or assets, including liabilities arising from the operation of the acquired businesses or assets prior to our acquisition;

customer or key employee loss from the acquired businesses; and

the diversion of management's attention from other business concerns.

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

***The nature of our assets and business could expose us to significant compliance costs and liabilities.***

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



us to substantial expense, including both the cost to comply with applicable laws and regulations and liability to private parties for personal injury or property damage.

*The profitability of our pipeline operations depends on the volume of crude oil shipped.*

Third party shippers generally do not have long term contractual commitments to ship crude oil on our pipelines. A decision by a shipper to substantially reduce or cease to ship volumes of crude oil on our

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pipelines could cause a significant decline in our revenues. For example, we estimate that an average 20,000 barrel per day variance in the Basin Pipeline System within the current operating window, equivalent to an approximate 7% volume variance on that system, would change annualized segment profit by approximately \$1.7 million. In addition, we estimate that an average 10,000 barrel per day variance on the Capline Pipeline System, equivalent to an approximate 7% volume variance on that system, woul