UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1999

OR

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

Commission file number: 1-14569

PLAINS ALL AMERICAN PIPELINE, L.P.
(Exact name of registrant as specified in its charter)

DELAWARE	**76-0582150**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Dallas Street
Houston, Texas 77002
(Address of principal executive offices)
(Zip Code)

(713) 654-1414
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Units	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No __

The aggregate value of the Common Units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant, for this purpose, as if they may be affiliates of the registrant) was approximately $375,808,346 on March 22, 2000, based on $16 - per unit, the closing price of the Common Units as reported on the New York Stock Exchange on such date.

At March 22, 2000, there were outstanding 23,049,239 Common Units, 1,307,190 Class B Common Units and 10,029,619 Subordinated Units.

DOCUMENTS INCORPORATED BY REFERENCE: None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
1999 FORM 10-K ANNUAL REPORT
Table of Contents

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this report 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 regarding our business strategy, plans and objectives of our management for future operations. These statements reflect our current views and those of our general partner with respect to future events, based on what we believe are reasonable assumptions. These statements, however, are subject to certain risks, uncertainties and assumptions, including, but not limited to:

- the availability of adequate supplies of and demand for crude oil in the areas in which we operate;
- the impact of crude oil price fluctuations;
- the effects of competition;
- the success of our risk management activities;
- the availability (or lack thereof) of acquisition or combination opportunities;
- the impact of current and future laws and governmental regulations;
- environmental liabilities that are not covered by an indemnity or insurance; and
- general economic, market or business conditions.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from the results anticipated in the forward-looking statements. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

PART I

Items 1. and 2. BUSINESS AND PROPERTIES

General

We are a publicly traded Delaware limited partnership engaged in interstate and intrastate crude oil transportation, terminalling and storage, as well as crude oil gathering and marketing activities. We were formed in September 1998 to acquire and operate the midstream crude oil business and assets of Plains Resources Inc., whose wholly-owned subsidiary, Plains All American, Inc., is our general partner. In 1999, we grew through acquisitions and internal development to become one of the largest transporters, terminal operators, gatherers and marketers of crude oil in the United States. We currently transport, terminal, gather and market an aggregate of approximately 650,000 barrels of crude oil per day.

Our operations are concentrated in California, Texas, Oklahoma, Louisiana and the Gulf of Mexico and can be categorized into two primary business activities:

- ***Crude Oil Pipeline Transportation***. Our activities from pipeline operations generally consist of transporting third-party volumes of crude oil for a tariff, as well as merchant activities designed to capture location and quality price differentials. We own and operate several pipeline systems including:
    - a segment of the All American Pipeline that extends approximately 140 miles from Las Flores, California to Emidio, California. In March 2000, we sold the 1,089-mile segment of the All American Pipeline that extends from Emidio, California to McCamey, Texas. See "All American Pipeline Linefill Sale and Asset Disposition";
    - the San Joaquin Valley Gathering System in California;
    - the West Texas Gathering System, the Spraberry Pipeline System, and the East Texas Pipeline System, which are all located in Texas;
    - the Sabine Pass Pipeline System in southwest Louisiana and southeast Texas;
    - the Ferriday Pipeline System in eastern Louisiana and western Mississippi; and
    - the Illinois Basin Pipeline System in southern Illinois.

- ***Terminalling and Storage Activities and Gathering and Marketing Activities*** We own and operate a state-of-the-art, 3.1 million barrel, above-ground crude oil terminalling and storage facility at Cushing, Oklahoma, the largest crude oil trading hub in the United States and the designated delivery point for New York Mercantile Exchange ("NYMEX") crude oil futures contracts. We also have an additional 6.6 million barrels of terminalling and storage capacity in our other facilities, including tankage associated with our pipeline and gathering systems. Our terminalling and storage operations generate revenue through a combination of storage and throughput fees. Our storage facilities also complement our merchant activities.

  We own or lease approximately 280 trucks, 325 tractor-trailers and 290 injection stations, which we use in our gathering and marketing activities. Our gathering and marketing operations include:
    - the purchase of crude oil at the wellhead and the bulk purchase of crude oil at pipeline and terminal facilities;
    - the transportation of crude oil on trucks, barges or pipelines; and
    - the subsequent resale or exchange of crude oil at various points along the crude oil distribution chain.

Partnership Structure and Management

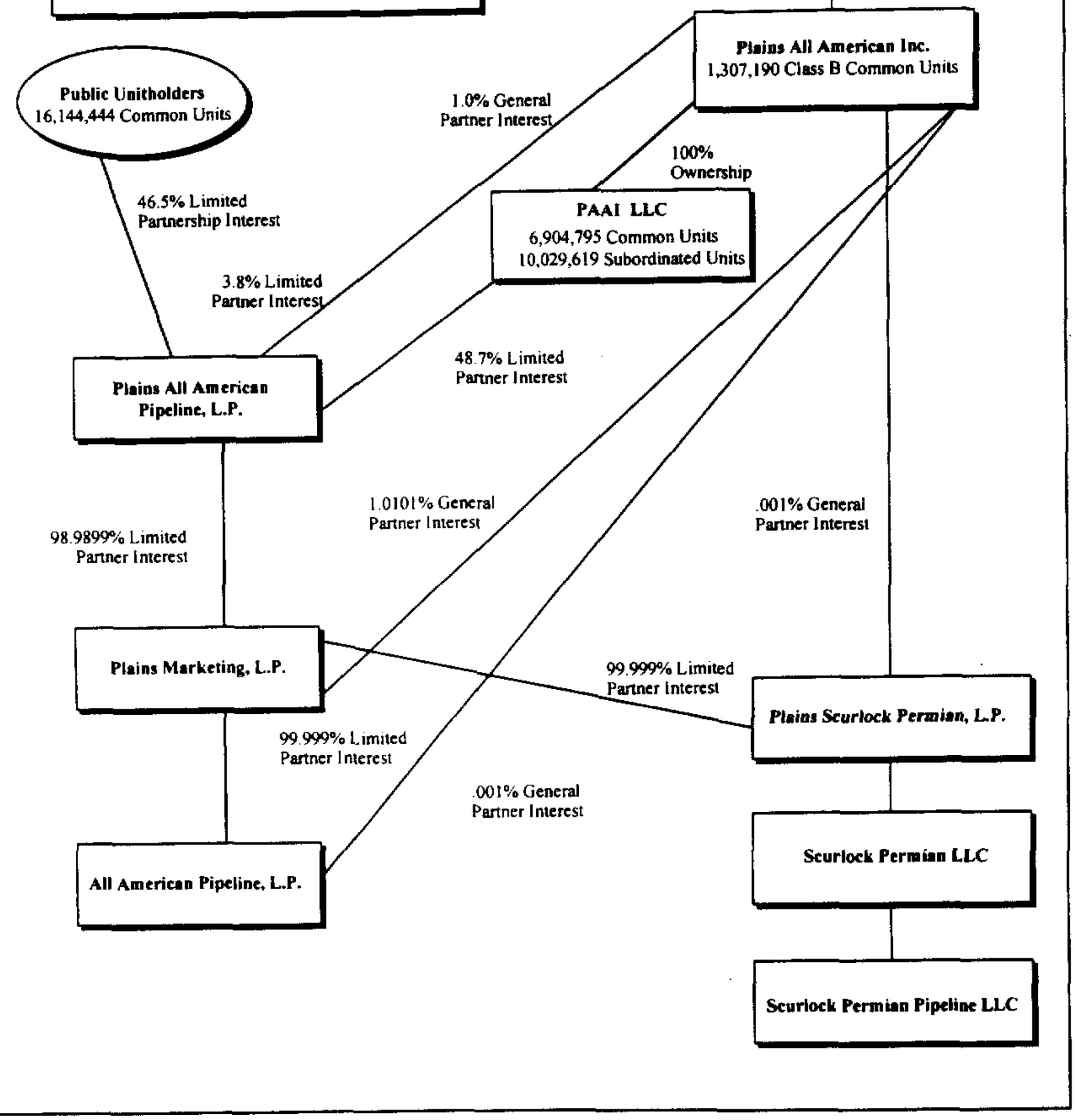
Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through three operating partnerships, Plains Marketing, L.P., All American Pipeline, L.P. and Plains Scurlock Permian, L.P.

Our general partner has sole responsibility for conducting our business and managing our operations and owns all of the incentive distribution rights. Some of the senior executives who currently manage our business also manage and operate the business of Plains Resources. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but it is reimbursed for all direct and indirect expenses incurred on our behalf.

The chart below depicts the organization and ownership of Plains All American Pipeline, the operating partnerships and the subsidiaries. As is reflected in the chart, a subsidiary of our general partner owns 6,904,795 common units and 10,029,619 subordinated units, representing a 19.7% and 28.6% interest in the partnership and our subsidiaries. In addition, our general partner owns 1,307,190 Class B common units representing a 3.7% interest in the partnership and our subsidiaries. The percentages reflected in the organization chart represent the approximate ownership interest in Plains All American Pipeline, the operating partnerships and their subsidiaries individually and not on a combined basis.

Effective Aggregate Ownership of the Partnership and the Operating Partnerships

Public Common Unitholders	46.0%
General Partner Common Units	19.7%
General Partner Class B Common Units	3.7%
General Partner Subordinated Units	28.6%
General Partner Interest	2.0%



Unauthorized Trading Losses

In November 1999, we discovered that a former employee had engaged in unauthorized trading activity, resulting in losses of approximately $162.0 million ($174.0 million, including estimated associated costs and legal expenses). A full investigation into the unauthorized trading activities by outside legal counsel and independent accountants and consultants determined that the vast majority of the losses occurred from March through November 1999, and the impact warranted a restatement of previously reported financial information for 1999 and 1998 (see Note 3 in the Notes to the Consolidated and Combined Financial Statements appearing elsewhere in this report).

Normally, as we purchase crude oil, we establish a margin by selling crude oil for physical delivery to third-party users or by entering into a future delivery obligation with respect to futures contracts. The employee in question violated our policy of maintaining a position that is substantially balanced between crude oil purchases and sales or future delivery obligations. The unauthorized trading and associated losses resulted in a default of certain covenants under our credit facilities and significant short-term cash and letter of credit requirements. See Item 7. – "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources, Liquidity and Financial Condition."

In December 1999, we executed amended credit facilities and obtained default waivers from all of our lenders. The amended credit facilities:

- waived defaults under covenants contained in the existing credit facilities;
- increased availability under our letter of credit and borrowing facility from $175.0 million in November 1999 to $295.0 million in December 1999, $315.0 million in January 2000, and thereafter decreasing to $239.0 million in February through April 2000, to $225.0 million in May and June 2000 and to $200.0 million in July 2000 through July 2001;
- required the lenders' consent prior to the payment of distributions to unitholders;
- prohibited contango inventory transactions subsequent to January 20, 2000; and
- increased interest rates and fees under certain of the facilities.

We paid approximately $13.7 million to our lenders in connection with the amended credit facilities. This amount was capitalized as debt issue costs and will be amortized over the remaining term of the amended facilities. In connection with the amendments, our general partner loaned us approximately $114.0 million. This subordinated debt is due not later than November 30, 2005.

In the period immediately following the disclosure of the unauthorized trading losses, a significant number of our suppliers and trading partners reduced or eliminated the open credit previously extended to us. Consequently, the amount of letters of credit we needed to support the level of our crude oil purchases then in effect increased significantly. In addition, the cost to us of obtaining letters of credit increased under the amended credit facility. In many instances we arranged for letters of credit to secure our obligations to purchase crude oil from our customers, which increased our letter of credit costs and decreased our unit margins. In other instances, primarily involving lower margin wellhead and bulk purchases, certain of our purchase contracts were terminated. As a result of these changes, aggregate volumes purchased are expected to decrease by 150,000 barrels per day, consisting primarily of lower unit margin purchases. Approximately 50,000 barrels per day of the decrease is related to barrels gathered at producer lease locations and 100,000 barrels per day is attributable to bulk purchases. As a result of the increase in letter of credit costs and reduced volumes, annual EBITDA is expected to be adversely affected by approximately $5.0 million, excluding the positive impact of current favorable market conditions. EBITDA means earnings before interest expense, income taxes and depreciation and amortization.

We have taken appropriate and aggressive steps within our organization to enhance our processes and procedures to prevent future unauthorized trading. One of such steps includes the creation of a new professional risk management position. This risk manager has direct responsibility and authority for our trading controls and procedures and other aspects of corporate risk management. However, we can give no assurance that such steps will detect and prevent all violations of our trading policies and procedures, particularly if deception or other intentional misconduct is involved.

Results of Operations

For the year ended December 31, 1999, our gross margin deficit, EBITDA, cash flow from operations and net loss totaled ($56.1) million, $89.1 million, $67.2 million and ($103.4) million, respectively. Excluding the unauthorized trading losses, our gross margin and net income for the year ended December 31, 1999 would have been $110.3 million and $63.1 million, respectively. Cash flow from operations represents net income before noncash items. EBITDA and cash flow from operations both exclude the unauthorized trading losses, noncash compensation expense, restructuring expense, linefill gain and extraordinary loss from extinguishment of debt. Excluding the unauthorized trading losses, our pipeline operations accounted for approximately 53% of our gross margin for year ended December 31, 1999, while our terminalling and storage activities and gathering and marketing activities accounted for approximately 47%.

Acquisitions and Dispositions

Scurlock Acquisition

On May 12, 1999, we completed the acquisition of Scurlock Permian LLC and certain other pipeline assets from Marathon Ashland Petroleum LLC. Including working capital adjustments and closing and financing costs, the cash purchase price was approximately $141.7 million.

Scurlock, previously a wholly-owned subsidiary of Marathon Ashland Petroleum, is engaged in crude oil transportation, gathering and marketing, and owns approximately 2,300 miles of active pipelines, numerous storage terminals and a fleet of more than 250 trucks. Its largest asset is an 800-mile pipeline and gathering system located in the Spraberry Trend in West Texas than extends into Andrews, Glasscock, Martin, Midland, Regan and Upton Counties, Texas. The assets we acquired also included approximately one million barrels of crude oil linefill.

Financing for the Scurlock acquisition was provided through:

- borrowings of approximately $92.0 million under Plains Scurlock's limited recourse bank facility with BankBoston, N.A.;
- the sale to our general partner of 1.3 million of our Class B common units for a total cash consideration of $25.0 million, or $19.125 per unit, the price equal to the market value of our common units on May 12, 1999; and
- a $25.0 million draw under our existing revolving credit agreement.

The Class B common units are pari passu with common units with respect to quarterly distributions, and are convertible into common units upon approval of a majority of the common unitholders. The Class B unitholders may request that we call a meeting of common unitholders to consider approval of the conversion of Class B units into common units. If the approval of a conversion by the common unitholders is not obtained within 120 days of a request, each Class B unitholder will be entitled to receive distributions, on a per unit basis, equal to 110% of the amount of distributions paid on a common unit, with such distribution right increasing to 115% if such approval is not secured within 90 days after the end of the 120-day period. Except for the vote to approve the conversion, the Class B units have the same voting rights as the common units.

West Texas Gathering System Acquisition

On July 15, 1999, we completed the acquisition of the West Texas Gathering System from Chevron Pipe Line Company for approximately $36.0 million, including transaction costs. Financing for the amounts paid at closing was provided by a draw under the term loan portion of the Plains Scurlock credit facility. See Item 7. – "Management's Discussion and Analysis of Financial Condition and Results of Operations". The assets acquired include approximately 450 miles of crude oil transmission mainlines, approximately 400 miles of associated gathering and lateral lines, and approximately 2.9 million barrels of tankage located along the system.

All American Pipeline Linefill Sale and Asset Disposition

We initiated the sale of approximately 5.2 million barrels of crude oil linefill from the All American Pipeline in November 1999. This sale was substantially completed in February 2000. The linefill was located in the segment of the All American Pipeline that extends from Emidio, California, to McCamey, Texas. Except for minor third party volumes, one of our subsidiaries has been the sole shipper on this segment of the pipeline since its predecessor acquired the line from the Goodyear Tire & Rubber Company in July 1998. Proceeds from the sale of the linefill were approximately $100.0 million, net of associated costs, and were used for working capital purposes. We estimate that we will recognize a total gain of approximately $44.0 million in connection with the sale of linefill. As of December 31, 1999, we had delivered approximately 1.8 million barrels of linefill and recognized a gain of $16.5 million.

On March 24, 2000, we complete the sale of the above referenced segment of the All American Pipeline to a unit of El Paso Energy Corporation for total proceeds of $129.0 million. The proceeds from the sale were used to reduce outstanding debt. Our net proceeds are expected to be approximately $124.0 million, net of associated transaction costs and estimated costs to remove certain equipment. We estimate that we will recognize a gain of approximately $20.0 million in connection with the sale. During 1999, we reported gross margin of approximately $5.0 million from volumes transported on the segment of the line that was sold.

Crude Oil Pipeline Operations

We present below a description of our principal pipeline assets. All of our pipeline systems are operated from one of two central control rooms with SCADA computer systems designed to continuously monitor real time operational data including measurement of crude oil quantities injected in and delivered through the pipelines, product flow rates and pressure and temperature variations. This monitoring and measurement technology provides us the ability to efficiently batch differing crude oil types with varying characteristics through the pipeline systems. The SCADA systems are designed to enhance leak detection capabilities, sound automatic alarms in the event of operational conditions outside of pre-established parameters and provide for remote-controlled shut-down of pump stations on the pipeline systems. Pump stations, storage facilities and meter measurement points along the pipeline systems are linked by telephone, microwave, satellite or radio communication systems for remote monitoring and control, which reduces our requirement for full time site personnel at most of these locations.

We perform scheduled maintenance on all of our pipeline systems and make repairs and replacements when necessary or appropriate. We attempt to control corrosion of the mainlines through the use of corrosion inhibiting chemicalsinjected into the crude stream, external coatings and anode bed based or impressed current cathodic protection systems. Maintenance facilities containing equipment for pipe repairs, spare parts and trained response personnel are strategically located along the pipelines and in concentrated operating areas. We believe that all of our pipelines have been constructed and are maintained in all material respects in accordance with applicable federal, state and local laws and regulations, standards prescribed by the American Petroleum Institute and accepted industry practice.

All American Pipeline

The segment of the All American Pipeline which was not sold to El Paso (see " – All American Pipeline Linefill Sale and Asset Disposition") is a common carrier crude oil pipeline system that transports crude oil produced from fields offshore California to locations in California pursuant to tariff rates regulated by the Federal Energy Regulatory Commission ("FERC") (see " – Regulation – Transportation Regulation"). As a common carrier, the All American Pipeline offers transportation services to any shipper of crude oil, provided that the crude oil tendered for transportation satisfies the conditions and specifications contained in the applicable tariff. The All American Pipeline transports crude oil for third parties as well as for us.

We currently operate the segment of the system that extends approximately 10 miles from Exxon's onshore facilities at Las Flores on the California coast to Plains Resources' onshore facilities at Gaviota, California (24 inch diameter pipe) and continues from Gaviota approximately 130 miles to our station in Emidio, California (30-inch pipe). Between Gaviota and our Emidio Station, the All American Pipeline interconnects with our SJV Gathering System as well as various third party intrastate pipelines, including the Unocap Pipeline System, Pacific Pipeline, and a pipeline owned by EOTT Energy Partners, L.P.

System Supply. The All American Pipeline currently transports Outer Continental Shelf crude oil received at the onshore facilities of the Santa Ynez field at Las Flores, California and the onshore facilities of the Point Arguello field located at Gaviota, California.

Effective December 1, 1999, the segment of the All American Pipeline that was sold to El Paso ceased being used for crude oil transportation. Exxon, which owns all of the Santa Ynez production, and Plains Resources, Texaco and Sun Operating L.P., which together own approximately one-half of the Point Arguello production, have entered into transportation agreements committing to transport all of their production from these fields on the segment of the All American Pipeline which we retained. These agreements, which expire in August 2007, provide for a minimum tariff with annual escalations. At December 31, 1999, the tariffs averaged $1.41 per barrel for deliveries to connecting pipelines in California. The agreements do not require these owners to transport a minimum volume. The producers from the Point Arguello field who do not have contracts with us have no other means of transporting their production and, therefore, ship their volumes on the All American Pipeline at the posted tariffs. For the year ended December 31, 1999, approximately $30.6 million, or 17%, of our gross margin was attributable to the Santa Ynez field and approximately $10.6 million, or 6% was attributable to the Point Arguello field. Transportation of volumes from the Point Arguello field on the All American Pipeline commenced in 1991 and from the Santa Ynez field in 1994.

The table below sets forth the historical volumes received from both of these fields.

	Year Ended December 31,								
	1999	1998	1997	1996	1995	1994	1993	1992	1991
	(barrels in thousands)								
Average daily volumes received from:									
Point Arguello (at Gaviota)	20	26	30	41	60	73	63	47	29
Santa Ynez (at Las Flores)	59	68	85	95	92	34	-	-	-
Total	79	94	115	136	152	107	63	47	29

In July 1999, a wholly-owned subsidiary of Plains Resources acquired Chevron USA's 26% working interest in Point Arguello and is the operator of record for the Point Arguello Unit. All of the volumes attributable to Plains Resources' interests are committed for transportation on the All American Pipeline and are subject to our Marketing Agreement with Plains Resources. Plains Resources believes that opportunities may exist to minimize production decline and, barring operational or economic disruptions, to offset production decline or increase production. We anticipate that average daily production received from the Santa Ynez field for 2000 will generally approximate 55,000 to 60,000 barrels, although we can provide no assurance in that regard.

According to information published by the Minerals Management Service ("MMS"), significant additional proved, undeveloped reserves have been identified offshore California which have the potential to be delivered on the All American Pipeline. Future volumes of crude oil deliveries on the All American Pipeline will depend on a number of factors that are beyond our control, including

- the economic feasibility of developing the reserves;
- the economic feasibility of connecting such reserves to the All American Pipeline; and
- the ability of the owners of such reserves to obtain the necessary governmental approvals to develop such reserves.

The owners of these reserves have filed development plans with the MMS.On August 13, 1999, the MMS cancelled 4 of the 40 undeveloped leases offshore California concluding they did not qualify for further lease suspensions. At the same time, they directed 90-day extensions to the suspensions for the remaining 36 leases to gather additional information. On November 12, 1999, the Secretary of the Interior directed suspensions for the 36 leases ending at various periods between June 1, 2001 and August 1, 2003 for the purpose of (1) completion of an environmental review including cumulative analysis taking into account changed circumstances, (2) obtaining detailed plans of lessee's additional exploration and development activities, and (3) the maximum review of these plans allowed under law. Immediately thereafter, the State of California filed suit claiming that the California Coastal Commission must review requests for suspension consistency under California's Coastal Plan before the MMS can approve suspensions. We cannot assure you that the owners will develop such reserves, that the MMS will approve development plans or that future regulations or litigation will not prevent or delay their ultimate development and production. We also cannot assure you that, if such reserves were developed, a competing pipeline will not be built to transport the production. In addition, a June 12, 1998 Executive Order of the President of the United States extends until the year 2012 a statutory moratorium on new leasing of offshore California fields. Existing fields are authorized to continue production, but federal, state and local agencies may restrict permits and authorizations for their development, and may restrict new onshore facilities designed to serve offshore production of crude oil. San Luis Obispo and Santa Barbara counties have adopted zoning ordinances that prohibit development, construction, installation or expansion of any onshore support facility for offshore oil and gas activity in the area, unless approved by a majority of the votes cast by the voters of the affected county in an authorized election. Any such restrictions, should they be imposed, could adversely affect the future delivery of crude oil to the All American Pipeline.

San Joaquin Valley Supply. The San Joaquin Valley is one of the most prolific oil producing regions in the continental United States, producing approximately 559,000 barrels per day of crude oil during the first nine months of 1999 that accounted for approximately 67% of total California production and 11% of the total production in the lower 48 states.

The following table reflects the historical production for the San Joaquin Valley as well as total California production (excluding OCS volumes) as reported by the California Division of Oil and Gas.

	Year Ended December 31,									
	1999 (1)	1998	1997	1996	1995	1994	1993	1992	1991	1990
	(barrels in thousands)									
Average daily volumes:										
San Joaquin Valley production (2)	559	592	584	579	569	578	588	609	634	629
Total California production (excluding OCS volumes)	731	781	781	772	764	784	803	835	875	879

(1) Reflects information through September 1999.
(2) Consists of production from California Division of Oil and Gas District IV.

System Demand. Deliveries from the All American Pipeline are made to California refineries through connections with third-party pipelines at Sisquoc, Pentland and Emidio. Deliveries at Mojave were discontinued in the second quarter of 1999, and volumes previously delivered to Mojave are delivered to Emidio. Except for the purging of linefill volumes, deliveries to Texas were discontinued effective December 1, 1999.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(barrels in thousands)				
Average daily volumes delivered to:					
California					
Sisquoc	27	24	21	17	11
Pentland	52	69	74	71	65
Mojave	7	22	32	6	-
Emidio	15	-	-	-	-
Total California	101	115	127	94	76
Texas (1)	56	59	68	113	141
Total	157	174	195	207	217

(1) See "Acquisitions and Dispositions – All American Pipeline Linefill and Asset Disposition".

SJV Gathering System

The SJV Gathering System is a proprietary pipeline system. As a proprietary pipeline, the SJV Gathering System is not subject to common carrier regulations.

The SJV Gathering System was constructed in 1987 with a design capacity of approximately 140,000 barrels per day. The system consists of a 16-inch pipeline that originates at the Belridge station and extends 45 miles south to a connection with the All American Pipeline at the Pentland station. The SJV Gathering System is connected to several fields, including the South Belridge, Elk Hills and Midway Sunset fields, three of the seven largest producing fields in the lower 48 states. In 1999, we leased a pipeline that provides us access to the Lost Hills field. The SJV Gathering System also includes approximately 586,000 barrels of tank capacity, which can be used to facilitate movements along the system as well as to support our other activities.

The SJV Gathering System is supplied with the crude oil production primarily from major oil companies' equity production from the South Belridge, Cymeric, Midway Sunset, Elk Hills and Lost Hills fields. The table below sets forth the historical volumes received into the SJV Gathering System.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(barrels in thousands)				
Total average daily volumes	84	85	91	67	50

West Texas Gathering System

We purchased the West Texas Gathering System from Chevron Pipe Line Company in July 1999 for approximately $36.0 million, including transaction costs. The West Texas Gathering System is a common carrier crude oil pipeline system located in the heart of the Permian Basin producing area. The West Texas Gathering System has lease gathering facilities in Crane, Ector, Upton, Ward and Winkler counties. In aggregate, these counties have produced on average in excess of 150,000 barrels per day of crude oil over the last four years. The West Texas Gathering System was originally built by Gulf Oil Corporation in the late 1920's, expanded during the late 1950's and updated during the mid 1990's. The West Texas Gathering System provides us with considerable flexibility, as major segments are bi-directional and allow us to move crude oil between three of the major trading locations in West Texas.

Lease volumes gathered into the system are approximately 50,000 barrels per day. Chevron USA has agreed to transport its equity crude oil production from fields connected to the West Texas Gathering System on the system through July 2011 (currently representing approximately 22,000 barrels per day, or 44% of total system gathering volumes and 22% of the total system volumes). Other large producers connected to the gathering system include Burlington, Devon, Anadarko, Altura, Bass, and Fina. Volumes from connecting carriers, including Exxon, Phillips and Unocal, average approximately 42,000 barrels per day. Our West Texas Gathering System has the capability to transport approximately 190,000 barrels per day. At the time of the acquistion, truck injection stations were limited and provided less than 1,000 barrels per day. We have installed ten truck injection stations on the West Texas Gathering System since the acquisition. Our trucks are used to pick up crude oil produced in the areas adjacent to the West Texas Gathering System and deliver these volumes into the pipeline. These additional injection stations allowed us to reduce the distance of our truck hauls in this area, increase the utilization of our pipeline assets and reduce our operating costs. Volumes received from truck injection stations were increased to 10,000 barrels per day by the fourth quarter of 1999. The West Texas Gathering System also includes approximately 2.9 million barrels of tank capacity located along the pipeline system.

Spraberry Pipeline System

The Spraberry Pipeline System, acquired in the Scurlock acquisition, is a proprietary pipeline system that gathers crude oil from the Spraberry Trend of West Texas and transports it to Midland, Texas, where it interconnects with the West Texas Gathering System and other pipelines. The Spraberry Pipeline System consists of approximately 800 miles of pipe of varying diameter, and has a throughput capacity of approximately 50,000 barrels of crude oil per day. The Spraberry Trend is one of the largest producing areas in West Texas, and we are one of the largest gatherers in the Spraberry Trend. The Spraberry Pipeline System gathers approximately 34,000 barrels per day of crude oil. Large suppliers to the Spraberry Pipeline System include Lantern Petroleum and Pioneer Natural Resources. The Spraberry Pipeline System also includes approximately 173,000 barrels of tank capacity located along the pipeline.

Sabine Pass Pipeline System

The Sabine Pass Pipeline System, acquired in the Scurlock acquisition, is a common carrier crude oil pipeline system. The primary purpose of the Sabine Pass Pipeline System is to gather crude oil from onshore facilities of offshore production near Johnson's Bayou, Louisiana, and deliver it to tankage and barge loading facilities in Sabine Pass, Texas. The Sabine Pass Pipeline System consists of approximately 34 miles of pipe ranging from 4 to 6 inches in diameter and has a throughput capacity of approximately 26,000 barrels of Louisiana light sweet crude oil per day. For the year ended December 31, 1999, the system transported approximately 16,500 barrels of crude oil per day. The Sabine Pass Pipeline System also includes 245,000 barrels of tank capacity located along the pipeline.

Ferriday Pipeline System

The Ferriday Pipeline System, acquired in the Scurlock acquisition, is a common carrier crude oil pipeline system which is located in East Louisiana and West Mississippi. The Ferriday Pipeline System consists of approximately 600 miles of pipe ranging from 2 inches to 12 inches in diameter. The Ferriday Pipeline System delivers 9,000 barrels per day of crude oil to third-party pipelines that supply refiners in the Midwest. The Ferriday Pipeline System also includes approximately 348,000 barrels of tank capacity located along the pipeline.

In November 1999, we completed the construction of an 8-inch pipeline underneath the Mississippi River that connects our Ferriday Pipeline System in West Mississippi with the portion of the system located in East Louisiana. This connection provides us with bi-directional capability to access additional markets and enhances our ability to service our pipeline customers and take advantage of additional high margin merchant activities.

East Texas Pipeline System

The East Texas Pipeline System, acquired in the Scurlock acquisition, is a proprietary crude oil pipeline system that is used to gather approximately 10,000 barrels per day of crude oil in East Texas and transport approximately 22,000 barrels per day of crude oil to Crown Central's refinery in Longview, Texas. The deliveries to Crown Central are subject to a five-year throughput and deficiency agreement, which extends through 2004. The East Texas Pipeline System also includes approximately 221,000 barrels of tank capacity located along the pipeline.

Illinois Basin Pipeline System

The Illinois Basin Pipeline System, acquired with the Scurlock acquisition, consists of common carrier pipeline and gathering systems and truck injection facilities in southern Illinois. The Illinois Basin Pipeline System consists of approximately 170 miles of pipe of varying diameter and delivers approximately 6,400 barrels per day of crude oil to third-party pipelines that supply refiners in the Midwest. Approximately 3,600 barrels per day of the supply on this system are from fields operated by Plains Resources.

Terminalling and Storage Activities and Gathering and Marketing Activities

Terminalling and Storage Activities

We own approximately 9.7 million barrels of terminalling and storage assets, including tankage associated with our pipeline and gathering systems. Our terminalling and storage operations generate revenue through terminalling and storage fees paid by third parties as well as by utilizing the tankage in conjunction with our merchant activities. Storage fees are generated when we lease tank capacity to third parties. Terminalling fees, also referred to as throughput fees, are generated when we receive crude oil from one connecting pipeline and redeliver such crude oil to another connecting carrier in volumes that allow the refinery to receive its crude oil on a ratable basis throughout a delivery period. Both terminalling and storage fees are generally earned from:

- refiners and gatherers that segregate or custom blend crudes for refining feedstocks;
- pipeline operators, refiners or traders that need segregated tankage for foreign cargoes;
- traders who make or take delivery under NYMEX contracts; and
- producers and resellers that seek to increase their marketing alternatives.

The tankage that is used to support our arbitrage activities positions us to capture margins in a contango market or when the market switches from contango to backwardation.

Our most significant terminalling and storage asset is our Cushing Terminal which was constructed in 1993, and expanded by approximately 50% in 1999, to capitalize on the crude oil supply and demand imbalance in the Midwest. The imbalance was caused by the continued decline of regional production supplies, increasing imports and an inadequate pipeline and terminal infrastructure. The Cushing Terminal is also used to support and enhance the margins associated with our merchant activities relating to our lease gathering and bulk trading activities.

The Cushing Terminal has total storage capacity of approximately 3.1 million barrels. The Cushing Terminal is comprised of fourteen 100,000 barrel tanks, four 150,000 barrel tanks and four 270,000 barrel tanks which are used to store and terminal crude oil. The Cushing Terminal also includes a pipeline manifold and pumping system that has an estimated daily throughput capacity of approximately 800,000 barrels per day. The pipeline manifold and pumping system is designed to support more than ten million barrels of tank capacity. The Cushing Terminal is connected to the major pipelines and terminals in the Cushing Interchange through pipelines that range in size from 10 inches to 24 inches in diameter.

The Cushing Terminal is a state-of-the-art facility designed to serve the needs of refiners in the Midwest. In order to service an expected increase in the volumes as well as the varieties of foreign and domestic crude oil projected to be transported through the Cushing Interchange, we incorporated certain attributes into the design of the Cushing Terminal including:

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

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

As a result of incorporating these attributes into the design of the Cushing Terminal, we believe we are favorably positioned to serve the needs of Midwest refiners to handle an increase in varieties of crude transported through the Cushing Interchange.

The Cushing Terminal also incorporates numerous environmental and operational safeguards. We believe that our terminal is the only one at the Cushing Interchange in which each tank has a secondary liner (the equivalent of double bottoms), leak detection devices and secondary seals. The Cushing Terminal is the only terminal at the Cushing Interchange equipped with aboveground pipelines. Like the pipeline systems we operate, the Cushing Terminal is operated by a SCADA system and each tank is cathodically protected. In addition, each tank is equipped with an audible and visual high level alarm system to prevent overflows; a double seal floating roof that minimizes air emissions and prevents the possible accumulation of potentially flammable gases between fluid levels and the roof of the tank; and a foam dispersal system that, in the event of a fire, is fed by a fully-automated fire water distribution network.

The Cushing Interchange is the largest wet barrel trading hub in the U.S. and the delivery point for crude oil futures contracts traded on the NYMEX. The Cushing Terminal has been designated by the NYMEX as an approved delivery location for crude oil delivered under the NYMEX light sweet crude oil futures contract. As the NYMEX delivery point and a cash market hub, the Cushing Interchange serves as a primary source of refinery feedstock for the Midwest refiners and plays an integral role in establishing and maintaining markets for many varieties of foreign and domestic crude oil.

The following table sets forth throughput volumes for our terminalling and storage operations, and quantity of tankage leased to third parties from 1995 through 1999.

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	(barrels in thousands)				
Throughput volumes (average daily volumes):					
Cushing Terminal	72	69	69	56	43
Ingleside Terminal	11	11	8	3	-
Total	83	80	77	59	43
Storage leased to third parties (monthly average volumes):					
Cushing Terminal	1,743	890	414	203	208
Ingleside Terminal	232	260	254	211	-
Total	1,975	1,150	668	414	208

Gathering and Marketing Activities

Our gathering and marketing activities are conducted in 23 states; however, the vast majority of those activities are in Texas, Louisiana, California, Illinois and the Gulf of Mexico. These activities include:

- purchasing crude oil from producers at the wellhead and in bulk from aggregators at major pipeline interconnects and trading locations;
- transporting this crude oil on our own proprietary gathering assets or assets owned and operated by third parties when necessary or cost effective;
- exchanging this crude oil for another grade of crude oil or at a different geographic location, as appropriate, in order to maximize margins or meet contract delivery requirements; and
- marketing crude oil to refiners or other resellers.

We purchase crude oil from many independent producers andbelieve that we have established broad-based relationships with crude oil producers in our areas of operations. For the year ended December 31, 1999, we purchased approximately 265,000 barrels per day of crude oil directly at the wellhead from more than 2,200 producers from approximately 10,700 leases. We purchase crude oil from producers under contracts that range in term from a thirty-day evergreen to three years.

Gathering and marketing activities are characterized by large volumes of transactions with lower margins relative to pipeline and terminalling and storage operations.

In the period immediately following the disclosure of the unauthorized trading losses, a significant number of our suppliers and trading partners reduced or eliminated the amount of open credit previously extended to us. Consequently, the amount of letters of credit we needed to support the level of crude oil purchases then in effect increased significantly. In many instances we arranged for letters of credit to secure our obligations to purchase crude oil from our customers. In other instances, certain of our purchase contracts were terminated. As a result of these changes, aggregate volumes purchased are expected to decrease by 150,000 barrels per day, consisting primarily of lower unit margin purchases. Approximately 50,000 barrels per day of the decrease is related to barrels gathered at producer lease locations and 100,000 barrels per day is attributable to bulk purchases. See "Unauthorized Trading Losses" and Item 7. – "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources, Liquidity and Financial Condition".

The following table shows the average daily volume of our lease gathering and bulk purchases from 1995 through 1999.

	Year Ended December 31,				
	1999 (1)	1998	1997	1996	1995
		(barrels in thousands)			
Lease gathering (1)	265	88	71	59	46
Bulk purchases	138	98	49	32	10
Total volumes	403	186	120	91	56

(1) Includes volumes from Scurlock Permian since May 1, 1999.

Crude Oil Purchases. In a typical producer's operation, crude oil flows from the wellhead to a separator where the petroleum gases are removed. After separation, the crude oil is treated to remove water, sand and other contaminants and is then moved into the producer's on-site storage tanks. When the tank is full, the producer contacts our field personnel to purchase and transport the crude oil to market. We utilize our truck fleet and gathering pipelines and third-party pipelines, trucks and barges to transport the crude oil to market. We own or lease approximately 280 trucks, 325 tractor-trailers and 290 injection stations.

We have a Marketing Agreement with Plains Resources Inc., under which we are the exclusive marketer/purchaser for all of Plains Resources' equity crude oil production. The Marketing Agreement provides that we will purchase for resale at market prices all of Plains Resources' equity crude oil production for which we charge a fee of $0.20 per barrel. This fee will be adjusted every three years based upon then existing market conditions. The Marketing Agreement will terminate upon a "change of control" of Plains Resources or our general partner.

Bulk Purchases. In addition to purchasing crude oil at the wellhead from producers, we purchase crude oil in bulk at major pipeline terminal points. This production is transported from the wellhead to the pipeline by major oil companies, large independent producers or other gathering and marketing companies. We purchase crude oil in bulk when we believe additional opportunities exist to realize margins further downstream in the crude oil distribution chain. The opportunities to earn additional margins vary over time with changing market conditions. Accordingly, the margins associated with our bulk purchases will fluctuate from period to period. Our bulk purchasing activities are concentrated in California, Texas, Louisiana and at the Cushing Interchange.

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

As we purchase crude oil, we establish a margin by selling crude oil for physical delivery to third party users, such as independent refiners or major oil companies, or by entering into a future delivery obligation with respect to futures contracts on the NYMEX. Through these transactions, we seek to maintain a position that is substantially balanced between crude oil purchases and sales and future delivery obligations. We from time to time enter into fixed price delivery contracts, floating price collar arrangements, financial swaps and crude oil futures contracts as hedging devices. Our policy is generally to purchase only crude oil for which we have a market and to structure our sales contracts so that crude oil price fluctuations do not materially affect the gross margin which we receive. We do not acquire and hold crude oil, futures contracts or other derivative products for the purpose of speculating on crude oil price changes that might expose us to indeterminable losses. In November 1999, we discovered that this policy was violated, and we incurred $174.0 million in unauthorized trading losses, including estimated associated costs and legal expenses. See "Unauthorized Trading Losses".

Risk management strategies, including those involving price hedges using NYMEX futures contracts, have become increasingly important in creating and maintaining margins. Such hedging techniques require significant resources dedicated to managing futures positions. We are able to monitor crude oil volumes, grades, locations and delivery schedules and to coordinate marketing and exchange opportunities, as well as NYMEX hedging positions. This coordination ensures that our NYMEX hedging activities are successfully implemented. We have recently hired a Risk Manager that has direct responsibility and authority for our risk policies and our trading controls and procedures and other aspects of corporate risk management.

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

Producer Services. Crude oil purchasers who buy from producers compete on the basis of competitive prices and highly responsive services. Through our team of crude oil purchasing representatives, we maintain ongoing relationships with more than 2,200 producers. We believe that our ability to offer high-quality field and administrative services to producers is a key factor in our ability to maintain volumes of purchased crude oil and to obtain new volumes. High-quality field services include efficient gathering capabilities, availability of trucks, willingness to construct gathering pipelines where economically justified, timely pickup of crude oil from tank batteries at the lease or production point, accurate measurement of crude oil volumes received, avoidance of spills and effective management of pipeline deliveries. Accounting and other administrative services include securing division orders (statements from interest owners affirming the division of ownership in crude oil purchased by us), providing statements of the crude oil purchased each month, disbursing production proceeds to interest owners and calculation and payment of ad valorem and production taxes on behalf of interest owners. In order to compete effectively, we must maintain records of title and division order interests in an accurate and timely manner for purposes of making prompt and correct payment of crude oil production proceeds, together with the correct payment of all severance and production taxes associated with such proceeds.

Credit. Our merchant activities involve the purchase of crude oil for resale and require significant extensions of credit by our suppliers of crude oil. In order to assure our ability to perform our obligations under crude oil purchase agreements, various credit arrangements are negotiated with our crude oil suppliers. Such arrangements include open lines of credit directly with us and standby letters of credit issued under our letter of credit facility. Due to the unauthorized trading losses, the amount of letters of credit that we are required to provide to secure our crude oil purchases has increased. See Item 7. – "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources, Liquidity and Financial Condition – Unauthorized Trading Losses".

When we market crude oil, we must determine the amount, if any, of the line of credit to be extended to any given customer. If we determine that a customer should receive a credit line, we must then decide on the amount of credit that should be extended. Since our typical sales transactions can involve tens of thousands of barrels of crude oil, the risk of nonpayment and nonperformance by customers is a major consideration in our business. We believe our sales are made to creditworthy entities or entities with adequate credit support.

Credit review and analysis are also integral to our leasehold purchases. Payment for all or substantially all of the monthly leasehold production is sometimes made to the operator of the lease. The operator, in turn, is responsible for the correct payment and distribution of such production proceeds to the proper parties. In these situations, we must determine whether the operator has sufficient financial resources to make such payments and distributions and to indemnify and defend us in the event any third party should bring a protest, action or complaint in connection with the ultimate distribution of production proceeds by the operator.

Operating Activities

See Note 17 in the Notes to the Consolidated and Combined Financial Statements appearing elsewhere in this report for information with respect to our pipeline activities and terminalling and storage and gathering and marketing activities and also those of our predecessor.

Customers

Sempra Energy Trading Corporation and Koch Oil Company accounted for 22% and 19%, respectively, of our combined 1999 revenues. No other individual customer accounted for greater than 10% of our revenues in 1999. We believe that the loss of an individual customer would not have a material adverse effect.

Competition

Competition among pipelines is based primarily on transportation charges, access to producing areas and demand for the crude oil by end users. We believe that high capital requirements, environmental considerations and the difficulty in acquiring rights of way and related permits make it unlikely that competing pipeline systems comparable in size and scope to our pipeline systems will be built in the foreseeable future.

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

Regulation

Our operations are subject to extensive regulation. Many departments and agencies, both federal and state, are authorized by statute to issue and have issued rules and regulations binding on the oil industry and its individual participants. The failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil industry increases our cost of doing business and, consequently, affects our profitability. However, we do not believe that we are affected in a significantly different manner by these regulations than are our competitors. Due to the myriad of complex federal and state statutes and regulations which may affect us, directly or indirectly, you should not rely on the following discussion of certain statutes and regulations as an exhaustive review of all regulatory considerations affecting our operations.

Pipeline Regulation

Our pipelines are subject to regulation by the Department of Transportation under the Hazardous Liquids Pipeline Safety Act of 1979, as amended ("HLPSA") relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. The HLPSA requires us and other pipeline operators to comply with regulations issued pursuant to HLPSA, to permit access to and allow copying of records and to make certain reports and provide information as required by the Secretary of Transportation.

The Pipeline Safety Act of 1992 amends the HLPSA in several important respects. It requires the Research and Special Programs Administration of the Department of Transportation to consider environmental impacts, as well as its traditional public safety mandate, when developing pipeline safety regulations. In addition, the Pipeline Safety Act mandates the establishment by the Department of Transportation of pipeline operator qualification rules requiring minimum training requirements for operators, and requires that pipeline operators provide maps and records to the Research and Special Programs Administration. It also authorizes the Research and Special Programs Administration to require that pipelines be modified to accommodate internal inspection devices, to mandate the installation of emergency flow restricting devices for pipelines in populated or sensitive areas and to order other changes to the operation and maintenance of petroleum pipelines. We believe that our pipeline operations are in substantial compliance with applicable HLPSA and Pipeline Safety Act requirements. Nevertheless, we could incur significant expenses in the future if additional safety measures are required or if safety standards are raised and exceed the current pipeline control system capabilities.

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

Transportation Regulation

General Interstate Regulation. Our interstate common carrier pipeline operations are subject to rate regulation by the FERC under the Interstate Commerce Act. The Interstate Commerce Act requires that tariff rates for petroleum pipelines, which includes crude oil, as well as refined product and petrochemical pipelines, be just and reasonable and non-discriminatory. The Interstate Commerce Act permits challenges to proposed new or changed rates by protest, and challenges to rates that are already final and in effect by complaint. Upon the appropriate showing, a successful complainant may obtain reparations for overcharges sustained for a period of up to two years prior to the filing of a complaint.

The FERC is authorized to suspend the effectiveness of a new or changed tariff rate for a period of up to seven months and to investigate the rate. If upon the completion of an investigation the FERC finds that the rate is unlawful, it may require the pipeline operator to refund to shippers, with interest, any difference between the rates the FERC determines to be lawful and the rates under investigation. In addition, the FERC will order the pipeline to change its rates prospectively to the lawful level.

In general, petroleum pipeline rates must be cost-based, although settlement rates, which are rates that have been agreed to by all shippers, are permitted, and market-based rates may be permitted in certain circumstances. Under a cost-of-service basis, rates are permitted to generate operating revenues, on the basis of projected volumes, not greater than the total of the following:

- operating expenses;
- depreciation and amortization;
- federal and state income taxes; and
- an overall allowed rate of return on the pipeline's "rate base."

Energy Policy Act of 1992 and Subsequent Developments. In October 1992 Congress passed the Energy Policy Act of 1992. The Energy Policy Act deemed petroleum pipeline rates in effect for the 365-day period ending on the date of enactment of the Energy Policy Act or that were in effect on the 365th day preceding enactment and had not been subject to complaint, protest or investigation during the 365-day period to be just and reasonable under the Interstate Commerce Act. The Energy Policy Act also provides that complaints against such rates may only be filed under the following limited circumstances:

- a substantial change has occurred since enactment in either the economic circumstances or the nature of the services which were a basis for the rate;
- the complainant was contractually barred from challenging the rate prior to enactment; or
- a provision of the tariff is unduly discriminatory or preferential.

The Energy Policy Act further required the FERC to issue rules establishing a simplified and generally applicable ratemaking methodology for petroleum pipelines, and to streamline procedures in petroleum pipeline proceedings. On October 22, 1993, the FERC responded to the Energy Policy Act directive by issuing Order No. 561, which adopts a new indexing rate methodology for petroleum pipelines. Under the new regulations, which were effective January 1, 1995, petroleum pipelines are able to change their rates within prescribed ceiling levels that are tied to the Producer Price Index for Finished Goods, minus one percent. Rate increases made pursuant to the index will be subject to protest, but such protests must show that the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline's increase in costs. The new indexing methodology can be applied to any existing rate, even if the rate is under investigation. If such rate is subsequently adjusted, the ceiling level established under the index must be likewise adjusted.

In Order No. 561, the FERC said that as a general rule pipelines must utilize the indexing methodology to change their rates. The FERC indicated, however, that it was retaining cost-of-service ratemaking, market-based rates, and settlements as alternatives to the indexing approach. A pipeline can follow a cost-of-service approach when seeking to increase its rates above index levels for uncontrollable circumstances. A pipeline can seek to charge market- based rates if it can establish that it lacks market power. In addition, a pipeline can establish rates pursuant to settlement if agreed upon by all current shippers. Initial rates for new services can be established through a cost-of-service proceeding or through an uncontested agreement between the pipeline and all of its shippers, including at least one shipper not affiliated with the pipeline.

On May 10, 1996, the Court of Appeals for the District of Columbia Circuit affirmed OrderNo. 561. The Court held that by establishing a general indexing methodology along with limited exceptions to indexed rates, FERC had reasonably balanced its dual responsibilities of ensuring just and reasonable rates and streamlining ratemaking through generally applicable procedures. The FERC indicated in Order No. 561 that it will assess in 2000 how the rate-indexing method is operating.

In a proceeding involving Lakehead Pipe Line Company, Limited Partnership (Opinion No. 397), FERC concluded that there should not be a corporate income tax allowance built into a petroleum pipeline's rates to reflect income attributable to noncorporate partners since noncorporate partners, unlike corporate partners, do not pay a corporate income tax. This result comports with the principle that, although a regulated entity is entitled to an allowance to cover its incurred costs, including income taxes, there should not be an element included in the cost of service to cover costs not incurred. Opinion No. 397 was affirmed on rehearing in May 1996. Appeals of the Lakehead opinions were taken, but the parties to the Lakehead proceeding subsequently settled the case, with the result that appellate review of the tax and other issues never took place.

A proceeding is also pending on rehearing at the FERC involving another publicly traded limited partnership engaged in the common carrier transportation of crude oil (the "Santa Fe Proceeding") in which the FERC could further limit its current position related to the tax allowance permitted in the rates of publicly traded partnerships, as well as possibly alter the FERC's current application of the FERC oil pipeline ratemaking methodology. On January 13, 1999, the FERC issued Opinion No. 435 in the Santa Fe Proceeding, which, among other things, affirmed Opinion No. 397's determination that there should not be a corporate income tax allowance built into a petroleum pipeline's rates to reflect income attributable to noncorporate partners. Requests for rehearing of Opinion No. 435 are pending before the FERC. Petitions for review of Opinion No. 435 are before the D.C. Circuit Court of Appeals, but are being held in abeyance pending FERC action on the rehearing requests. Once the FERC acts on rehearing, the FERC's position on the income tax allowance and on other rate issues could be subject to judicial review.

Our Pipelines. The FERC generally has not investigated rates, such as those currently charged by us, which have been mutually agreed to by the pipeline and the shippers or which are significantly below cost of service rates that might otherwise be justified by the pipeline under the FERC's cost-based ratemaking methods. Substantially all of our gross margins on transportation are produced by rates that are either grandfathered or set by agreement of the parties. These rates have not been decreased through application of the indexing method. Rates for OCS crude are set by transportation agreements with shippers that do not expire until 2007 and provide for a minimum tariff with annual escalation. The FERC has twice approved the agreed OCS rates, although application of the PPFIG-1 index method would have required their reduction. When these OCS agreements expire in 2007, they will be subject to renegotiation or to any of the other methods for establishing rates under Order No. 561. As a result, we believe that the rates now in effect can be sustained, although no assurance can be given that the rates currently charged would ultimately be upheld if challenged. In addition, we do not believe that an adverse determination on the tax allowance issue in the Santa Fe Proceeding would have a detrimental impact upon our current rates.

Trucking Regulation

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

Environmental Regulation

General

Various federal, state and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment, affect our operations and costs. In particular, our activities in connection with storage and transportation of crude oil and other liquid hydrocarbons and our use of facilities for treating, processing or otherwise handling hydrocarbons and wastes are subject to stringent environmental regulation. As with the industry generally, compliance with existing and anticipated regulations increases our overall cost of business. Areas affected include capital costs to construct, maintain and upgrade equipment and facilities. While these regulations affect our capital expenditures and earnings, we believe that these regulations do not affect our competitive position in that the operations of our competitors that comply with such regulations are similarly affected. Environmental regulations have historically been subject to frequent change by regulatory authorities, and we are unable to predict the ongoing cost to us of complying with these laws and regulations or the future impact of such regulations on our operations. Violation of federal or state environmental laws, regulations and permits can result in the imposition of significant civil and criminal penalties, injunctions and construction bans or delays. A discharge of hydrocarbons or hazardous substances 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 regulations and claims by neighboring landowners and other third parties for personal injury and property damage.

Water

The Oil Pollution Act ("OPA") was enacted in 1990 and amends provisions of the Federal Water Pollution Control Act of 1972 ("FWPCA") and other statutes as they pertain to prevention and response to oil spills. The OPA subjects owners of facilities to strict, joint and potentially unlimited liability for removal costs and certain other consequences of an oil spill, where such spill is into navigable waters, along shorelines or in the exclusive economic zone of the U.S. In the event of an oil spill into navigable waters, substantial liabilities could be imposed upon us. States in which we operate have also enacted similar laws. Regulations are currently being developed under OPA and state laws that may also impose additional regulatory burdens on our operations.

The FWPCA imposes restrictions and strict controls regarding the discharge of pollutants into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters. The FWPCA imposes substantial potential liability for the costs of removal, remediation and damages. We believe that compliance with existing permits and compliance with foreseeable new permit requirements will not have a material adverse effect on our financial condition or results of operations.

Some states maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions. We believe that we are in substantial compliance with these state requirements.

Air Emissions

Our operations are subject to the Federal Clean Air Act and comparable state and local statutes. We believe that our operations are in substantial compliance with these statutes in all states in which we operate.

Amendments to the Federal Clean Air Act enacted in late 1990 (the "1990 Federal Clean Air Act Amendments") require or will require most industrial operations in the U.S. to incur capital expenditures in order to meet air emission control standards developed by the Environmental Protection Agency (the "EPA") and state environmental agencies. In addition, the 1990 Federal Clean Air Act Amendments include a new operating permit for major sources ("Title V permits"), which applies to some of our facilities. Although we can give no assurances, we believe implementation of the 1990 Federal Clean Air Act Amendments will not have a material adverse effect on our financial condition or results of operations.

Solid Waste

We generate non-hazardous solid wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The EPA is considering the adoption of stricter disposal standards for non-hazardous wastes, including oil and gas wastes. RCRA also governs the disposal of hazardous wastes. We are not currently required to comply with a substantial portion of the RCRA requirements because our operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during operations, will in the future be designated as "hazardous wastes." Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Such changes in the regulations could result in additional capital expenditures or operating expenses.

Hazardous Substances

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as "Superfund," imposes liability, without regard to fault or the legality of the original act, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the site and companies that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In the course of our ordinary operations, we may generate waste that falls within CERCLA's definition of a "hazardous substance." We may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites at which such hazardous substances have been disposed of or released into the environment.

We currently own or lease, and have in the past owned or leased, properties where hydrocarbons are being or have been handled. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. These properties and wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial plugging operations to prevent future contamination.

OSHA

We are also subject to the requirements of the Federal Occupational Safety and Health Act ("OSHA") and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that certain information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with OSHA requirements, including general industry standards, record keeping requirements and monitoring of occupational exposure to regulated substances.

Endangered Species Act

The Endangered Species Act ("ESA") restricts activities that may affect endangered species or their habitats. While certain of our facilities are in areas that may be designated as habitat for endangered species, we believe that we are in substantial compliance with the ESA. However, the discovery of previously unidentified endangered species could cause us to incur additional costs or operation restrictions or bans in the affected area.

Hazardous Materials Transportation Requirements

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

Environmental Remediation

In connection with our acquisition of Scurlock Permian, we identified a number of areas of potential environmental exposure. Under the terms of our acquisition agreement, Marathon Ashland is fully indemnifying us for areas of environmental exposure which were identified at the time of the acquisition, including any and all liabilities associated with two superfund sites at which it is alleged Scurlock Permian deposited waste oils as well as any potential liability for hydrocarbon soil and water contamination at a number of Scurlock Permian facilities. For environmental liabilities which were not identified at the time of the acquisition but which occurred prior to the closing, we have agreed to pay the costs relating to matters that are under $25,000. Our liabilities relating to matters discovered prior to May 2003 and that exceed $25,000, is limited to an aggregate of $1.0 million, with Marathon Ashland indemnifying us for any excess amounts. Marathon Ashland's indemnification obligations for identified sites extend indefinitely while its obligations for non-identified sites extend to matters discovered within four years. While we do not believe that our liability, if any, for environmental contamination associated with our Scurlock Permian assets will be material, there can be no assurance in that regard. Moreover, should we be found liable, we believe that our indemnification from Marathon Ashland should prevent such liability from having a material adverse effect on our financial condition or results of operations.

In connection with our acquisition of the West Texas Gathering System, we agreed to be responsible for pre-acquisition environmental liabilities up to an aggregate amount of $1.0 million, while Chevron Pipe Line Company agreed to remain solely responsible for liabilities which are discovered prior to July 2002 which exceed this $1.0 million threshold. During our pre-acquisition investigation, we identified a number of sites along our West Texas Gathering System on which there are hydrocarbon contaminated soils. While the total cost of remediation of these sites has not yet been determined, we believe our indemnification arrangement with Chevron Pipe Line Company should prevent such costs from having a material adverse effect on our financial condition or results of operations.

From 1994 to 1997, our Venice, Louisiana terminal experienced several releases of crude oil and jet fuel into the soil. The Louisiana Department of Environmental Quality has been notified of the releases. Marathon Ashland has performed some soil remediation related to the releases. The extent of the contamination at the sites is uncertain and there is a potential for groundwater contamination. We do not expect expenditures related to this terminal to be material, although we can provide no assurances in that regard.

During 1997, the All American Pipeline experienced a leak in a segment of its pipeline in California which resulted in an estimated 12,000 barrels of crude oil being released into the soil. Immediate action was taken to repair the pipeline leak, contain the spill and to recover the released crude oil. We have expended approximately $400,000 to date in connection with this spill and do not expect any additional expenditures to be material, although we can provide no assurances in that regard.

Prior to being acquired by our predecessor in 1996, the Ingleside Terminal experienced releases of refined petroleum products into the soil and groundwater underlying the site due to activities on the property. We are undertaking a voluntary state-administered remediation of the contamination on the property to determine the extent of the contamination. We have spent approximately $130,000 to date in investigating the contamination at this site. We do not anticipate the total additional costs related to this site to exceed $250,000, although no assurance can be given that the actual cost could not exceed such estimate. In addition, a portion of any such costs may be reimbursed to us from Plains Resources.

We may experience future releases of crude oil into the environment from our pipeline and storage operations, or discover releases that were previously unidentified. While we maintain an extensive inspection program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any future environmental releases from our assets may substantially affect our business

Operational Hazards and Insurance

A pipeline may experience damage as a result of an accident or other natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damages and suspension of operations. We maintain insurance of various types that we consider to be adequate to cover our operations and properties. The insurance covers all of our assets in amounts considered reasonable. The insurance policies are subject to deductibles that we consider reasonable and not excessive. Our insurance does not cover every potential risk associated with operating pipelines, including the potential loss of significant revenues. Consistent with insurance coverage generally available to the industry, our insurance policies provide limited coverage for losses or liabilities relating to pollution, with broader coverage for sudden and accidental occurrences.

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

Title to Properties

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

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

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

Employees

To carry out our operations, our general partner or its affiliates employed approximately 910 employees at December 31, 1999. None of the employees of our general partner were represented by labor unions, and our general partner considers its employee relations to be good.

Item 3. LEGAL PROCEEDINGS

Texas Securities Litigation. On November 29, 1999, a class action lawsuit was filed in the United States District Court for the Southern District of Texas entitled Di Giacomo v. Plains All American Pipeline, et al. The suit alleged that Plains All American Pipeline, L.P. and certain of our general partner's officers and directors violated federal securities laws, primarily in connection with unauthorized trading by a former employee. An additional nineteen cases were filed in the Southern District of Texas, some of which name our general partner and Plains Resources as additional defendants. Plaintiffs allege that the defendants are liable for securities fraud violations under Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934 and for making false registration statements under Sections 11 and 15 of the Securities Act of 1933. The court has consolidated all subsequently filed cases under the first filed action described above. Two unopposed motions are currently pending to appoint lead plaintiffs. These motions ask the court to appoint two distinct lead plaintiffs to represent two different plaintiff classes: (1) purchasers of Plains Resources common stock and options and (2) purchasers of our common units. Once lead plaintiffs have been appointed, the plaintiffs will file their consolidated amended complaints. No answer or responsive pleading is due until thirty days after a consolidated amended complaint is filed.

Delaware Derivative Litigation. On December 3, 1999, two derivative lawsuits were filed in the Delaware Chancery Court, New Castle County, entitled Susser v. Plains All American Inc., et al and Senderowitz v. Plains All American Inc., et al. These suits, and three others which were filed in Delaware subsequently, named our general partner, its directors and certain of its officers as defendants, and allege that the defendants breached the fiduciary duties that they owed to Plains All American Pipeline, L.P. and its unitholders by failing to monitor properly the activities of its employees. The derivative complaints allege, among other things, that Plains All American Pipeline has been harmed due to the negligence or breach of loyalty of the officers and directors that are named in the lawsuits. These cases are currently in the process of being consolidated. No answer or responsive pleading is due until these cases have been consolidated and a consolidated complaint has been filed.

We intend to vigorously defend the claims made in the Texas securities litigation and the Delaware derivative litigation. However, there can be no assurance that we will be successful in our defense or that these lawsuits will not have a material adverse effect on our financial position or results of operation.

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

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders, through solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.