PACIFIC ENERGY PARTNERS LP
Form 424B5
September 07, 2005

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PROSPECTUS SUPPLEMENT
BASE PROSPECTUS

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933 but is not complete and may be changed. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated September 6, 2005

Filed Pursuant to Rule 424(b)(5)
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PROSPECTUS SUPPLEMENT
(To Prospectus dated August 8, 2003)

Pacific Energy Partners, L.P.

4,550,000 Common Units

Representing Limited Partner Interests

We are offering to sell 4,550,000 common units. Our common units are listed on the New York Stock Exchange under the symbol "PPX." The last reported sale price of our common units on the NYSE on September 2, 2005, was $32.98 per common unit.

Investing in our common units involves risks. "Risk Factors" begin on page S-20 of this prospectus supplement and on page 3 of the accompanying prospectus.

	Per Common Unit	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Pacific Energy Partners, L.P. before expenses	$	$

We have granted the underwriters a 30-day option to purchase up to 682,500 additional common units from us on the same terms and conditions as set forth above if the underwriters sell more than the 4,550,000 common units in this offering.

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.

Lehman Brothers, on behalf of the underwriters, expects to deliver the common units on or about , 2005.

Joint Book-Running Managers

LEHMAN BROTHERS

CITIGROUP

UBS INVESTMENT BANK

WACHOVIA SECURITIES

A.G. EDWARDS

RBC CAPITAL MARKETS

RAYMOND JAMES

KEYBANC CAPITAL MARKETS

, 2005

This document is in two parts. The first part is this prospectus supplement, which describes our business and the specific terms of this offering. The second part is the accompanying prospectus, which 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 this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus, as well as the information we previously filed with the Securities and Exchange Commission that is incorporated by reference herein, is accurate as of any date other than its respective date.

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PROSPECTUS SUPPLEMENT

PROSPECTUS DATED AUGUST 8, 2003

For purposes of this prospectus supplement and the accompanying prospectus, unless the context otherwise indicates, the terms "Pacific Energy Partners," "us," "we," "our," or "ours" are sometimes used as abbreviated references to Pacific Energy Partners, L.P. itself or Pacific Energy Partners, L.P. and its consolidated subsidiaries. References to "our General Partner" in this prospectus supplement and the accompanying prospectus refer to Pacific Energy GP, Inc. prior to March 3, 2005 and from and after March 3, 2005, to Pacific Energy GP, LP and/or Pacific Energy Management LLC, the general partner of Pacific Energy GP, LP, as appropriate.

SUMMARY

You should carefully read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference to understand fully our business and the terms of our common units, as well as the tax and other considerations that are important to you in making your investment decision. You should pay special attention to the "Risk Factors" section beginning on page S-20 of this prospectus supplement and on page 3 of the accompanying prospectus to determine whether an investment in our common units is appropriate for you. Unless otherwise specifically stated, the information presented in this prospectus supplement assumes that the underwriters have not exercised their option to purchase additional common units. Unless otherwise specifically stated, all references to "dollars" or "$" in this prospectus supplement refer to United States dollars.

PACIFIC ENERGY PARTNERS, L.P.

We are a publicly traded Delaware limited partnership engaged principally in the business of gathering, transporting, storing and distributing crude oil and related products in California and the Rocky Mountain region, which includes Alberta, Canada. We generate revenue primarily by charging tariff rates for transporting crude oil and related products on our pipelines and by leasing tank storage capacity. We also buy, blend and sell crude oil, activities that are generally complementary to our pipeline transportation business. We operate primarily in California, Colorado, Montana, Wyoming and Utah in the United States and in Alberta, Canada and conduct our business through two strategic business units: the West Coast Business Unit and the Rocky Mountain Business Unit. On July 1, 2005, one of our wholly owned subsidiaries agreed to acquire certain terminal assets in the San Francisco, California and Philadelphia, Pennsylvania areas, and a refined products pipeline system in the U.S. Rocky Mountains. See "Recent Developments Acquisition of Valero Assets." For the year ended December 31, 2004, we had net revenues of $181.4 million, net income of $35.7 million and EBITDA of $79.4 million and for the six months ended June 30, 2005, we had net revenues of $102.0 million, net income of $15.6 million and EBITDA of $40.9 million. For a discussion of EBITDA, please see "Discussion of Non-GAAP Financial Measures" on page S-18. For a reconciliation of EBITDA to net income, please see note (11) on page S-17.

West Coast Business Unit

Our West Coast Business Unit is located in California and includes the only common carrier pipelines that deliver crude oil produced in California's San Joaquin Valley and the two primary California Outer Continental Shelf ("OCS") producing fields, Point Arguello and the Santa Ynez Unit, to refineries and terminal facilities in the Los Angeles Basin and in Bakersfield. It also includes a proprietary crude oil gathering and blending operation in the San Joaquin Valley, as well as an oil storage and distribution system servicing the Los Angeles Basin, which we believe strategically positions us to benefit from the projected increase in marine imports of crude oil into this region. Our West Coast Business Unit is headquartered in Long Beach, California, with a field office in Bakersfield.

Our West Coast Business Unit is comprised of the following assets, all of which we operate and own 100%:

Line 2000: Line 2000 is an intrastate common carrier crude oil pipeline that consists of a 130-mile, insulated trunk pipeline with a permitted throughput capacity of 130,000 barrels per day ("bpd") that transports crude oil produced in the San Joaquin Valley and California OCS to refineries and terminal facilities in the Los Angeles Basin.

The Line 63 System: The Line 63 system is an intrastate common carrier crude oil pipeline system that consists of a 107-mile trunk pipeline with a throughput capacity of approximately 105,000 bpd that transports crude oil from the San Joaquin Valley to Los Angeles, 60 miles of distribution pipelines, 156 miles of gathering pipelines, and 22 storage tanks with a total of approximately 1.2 million barrels of storage capacity. Most of these storage assets are located in the San Joaquin Valley and are primarily used to facilitate the transportation of crude oil on our pipelines.

Pacific Terminals Storage and Distribution System: The Pacific Terminals storage and distribution system is a crude oil storage and pipeline distribution system located in the Los Angeles Basin that consists of 70 miles of distribution pipelines in active service and 34 storage tanks with a total of approximately 9.0 million barrels of storage capacity. Of this total, approximately 6.7 million barrels are in active commercial service, 0.5 million barrels are used primarily for throughput to other storage tanks and do not generate revenue independently, approximately 1.5 million barrels are idle but could be reconditioned and brought into service, and approximately 0.5 million barrels are in displacement oil service.

PMT Gathering and Blending System: The PMT gathering and blending system is a proprietary crude oil pipeline system located in the San Joaquin Valley that consists of 103 miles of gathering pipelines and six storage and blending facilities with a total of approximately 0.3 million barrels of storage capacity and up to 51,000 bpd of blending capacity. The PMT gathering and blending system is interconnected to our Line 63 system. Our subsidiary Pacific Marketing and Transportation LLC uses the PMT Gathering and Blending System in connection with its crude oil buying, blending and selling activities, which are generally complementary to our pipeline transportation business.

Rocky Mountain Business Unit

Our Rocky Mountain Business Unit consists of various interests in pipelines that transport crude oil produced in Canada and the U.S. Rocky Mountain region to refineries in Montana, Wyoming, Colorado and Utah. We deliver crude oil to these refineries directly through our pipelines or indirectly through connections with third-party pipelines. Our Rocky Mountain Business Unit is headquartered in Denver, Colorado with an operations and marketing office in Calgary, Alberta. We currently have five field offices in Wyoming and three in Alberta, Canada.

Our Rocky Mountain Business Unit is comprised of the following assets, which form an integrated pipeline network:

Rangeland System: The Rangeland system includes the Rangeland pipeline and the Mid Alberta Pipeline ("MAPL pipeline"). The MAPL pipeline is a 138-mile proprietary pipeline with a throughput capacity of approximately 50,000 bpd if transporting light crude oil. The MAPL pipeline originates in Edmonton, Alberta and terminates in Sundre, Alberta where it connects to the Rangeland pipeline. The Rangeland pipeline is a proprietary pipeline system that consists of approximately 800 miles of gathering and trunk pipelines and is capable of transporting crude oil, condensate and butane either north to Edmonton, Alberta via third-party pipeline connections or south to the U.S./Canadian border near Cutbank, Montana where it connects to the Western Corridor system. The trunk pipeline from Sundre, Alberta to the U.S./Canadian border consists of approximately 250 miles of trunk pipelines and has a current throughput capacity of approximately 85,000 bpd if transporting light crude oil. The trunk system from Sundre, Alberta north to Rimbey, Alberta is a bi-directional system that consists of three parallel trunk pipelines: a 56-mile pipeline for low sulfur crude oil, a 63-mile pipeline for high sulfur crude oil, and a 56-mile pipeline for condensate and butane.

Western Corridor System: The Western Corridor system is an interstate and intrastate common carrier crude oil pipeline system that consists of 1,012 miles of pipelines extending from dual origination points at the U.S./Canadian border near Cutbank, Montana, where it receives deliveries from the Rangeland pipeline, and at Cutbank, Montana, where it receives deliveries from Cenex pipeline, and terminating at Guernsey, Wyoming with connections in Wyoming to Frontier pipeline, Suncor pipeline, Platte pipeline and our Salt Lake City Core system. The Western Corridor system consists of three contiguous trunk pipelines: Glacier pipeline, Beartooth pipeline and Big Horn pipeline. We own various undivided interests in each of these three pipelines, which give us rights to a specified portion of each pipeline's throughput capacity. Glacier and Beartooth pipelines provide us with approximately 25,000 bpd of throughput capacity from the U.S./Canadian border to Elk Basin, Wyoming. Big Horn pipeline provides us with approximately 33,900 bpd of throughput capacity from Elk Basin, Wyoming to Guernsey, Wyoming. We operate the Beartooth and Big Horn pipelines. Conoco Pipe Line Company owns the remaining undivided interests in each pipeline and operates Glacier pipeline. We also own various undivided interests in 22 storage tanks that provide us with a total of approximately 1.3 million barrels of storage capacity.

Salt Lake City Core System: The Salt Lake City Core system is an interstate and intrastate common carrier crude oil pipeline system that consists of 955 miles of trunk pipelines with a combined throughput capacity of approximately 114,000 bpd to Salt Lake City, 209 miles of gathering pipelines, and 32 storage tanks with a total of approximately 1.5 million barrels of storage capacity. This system originates in Ft. Laramie, Wyoming, receives deliveries from the Western Corridor system at Guernsey, Wyoming, and extends west to Wamsutter, Wyoming, where it divides, with a northern segment continuing west, eventually delivering to Salt Lake City, and a southern segment extending south to Rangely, Colorado, where it delivers to a ChevronTexaco pipeline that serves refineries in Salt Lake City. During 2004, of the 114,000 bpd delivery capacity into Salt Lake City, the northern segment delivered approximately 40,100 bpd and the southern segment delivered approximately 18,000 bpd. Also during 2004, 42,500 bpd were transported from Frontier/Evanston Station, Utah to Kimball Junction, Utah, 7,300 bpd were transported from Reno to Casper, Wyoming and 3,000 bpd from Reno to Guernsey, Wyoming. We operate and own 100% of the Salt Lake City Core system.

Frontier Pipeline: Frontier pipeline is an interstate common carrier crude oil pipeline that consists of a 289-mile trunk pipeline with a throughput capacity of approximately 62,200 bpd and three storage tanks with a total of approximately 274,000 barrels of storage capacity. Frontier pipeline originates in Casper, Wyoming, a hub for the distribution of crude oil produced in Canada and in the U.S. Rocky Mountain region, and receives deliveries from the Western Corridor system. Frontier pipeline also receives Canadian crude oil, including Canadian synthetic crude, via connections with Express pipeline and other connecting carriers in Casper, Wyoming. Frontier pipeline delivers crude oil into the Salt Lake City Core system for ultimate delivery into Salt Lake City. We operate Frontier pipeline and own a 22.22% partnership interest in Frontier Pipeline Company, a general partnership that owns Frontier pipeline. Enbridge, Inc. owns the remaining partnership interest in Frontier Pipeline Company.

Recent Developments

Acquisition of Valero Assets

Valero Acquisition. On July 1, 2005, our wholly owned subsidiary, Pacific Energy Group LLC ("PEG"), entered into a Sale and Purchase Agreement (the "Asset Purchase Agreement") with three subsidiaries of Valero L.P., Support Terminals Operating Partnership, L.P., Kaneb Pipe Line Operating Partnership, L.P., and Shore Terminals LLC (the "Sellers"), pursuant to which PEG agreed to acquire certain refined products and crude oil terminal and pipeline assets and related liabilities (the "Valero Assets") from the Sellers for an aggregate purchase price of approximately $455 million. Valero L.P. is required to divest these assets pursuant to an order from the Federal Trade Commission in connection with its acquisition of the Kaneb group of companies.

In addition, on July 1, 2005, we entered into a Guarantee Agreement with the Sellers, whereby we unconditionally and irrevocably guaranteed the punctual payment and performance of the obligations of PEG under the Asset Purchase Agreement and each other instrument and agreement executed and delivered or to be executed and delivered by PEG in connection with the Asset Purchase Agreement.

The Valero Assets include:

West Coast terminals in the San Francisco, California area, specifically, the Martinez terminal and the Richmond terminal, which have approximately 3.9 million barrels of combined storage capacity currently available and an additional 0.2 million barrels of storage capacity under construction.

East Coast terminals in the Philadelphia, Pennsylvania area, specifically, the North Philadelphia terminal, the South Philadelphia terminal and the Paulsboro, New Jersey terminal, which have a combined storage capacity of approximately 3.1 million barrels.

West pipeline system in the U.S. Rocky Mountain region, which consists of 550 miles of refined products pipeline extending from Casper, Wyoming east to Rapid City, South Dakota and south to Colorado Springs, Colorado. The West pipeline system includes products terminals at Rapid City, South Dakota, Cheyenne, Wyoming, and Denver and Colorado Springs, Colorado with a combined storage capacity of approximately 1.7 million barrels.

The closing of the acquisition of the Valero Assets is subject to the satisfaction of a number of conditions, including approval by the Federal Trade Commission and various state agencies. Closing is expected to occur in September or October, 2005.

Consistent with our growth strategy, if we are able to complete the acquisition of the Valero Assets, it will allow us to expand our midstream asset base through a combination of strategic storage and pipeline facilities that will be accretive to our cash flow on a per unit basis and complementary to our existing business units, while providing increased diversification. The Valero Assets are high quality, fee-based assets in historically well-utilized transportation and terminaling locations. The strategic location of the assets will strengthen our core operations and provide us with additional long-term growth opportunities.

We believe the acquisition of the Valero Assets fits our acquisition criteria because we expect it to:

Immediately provide enhanced cash flow to us and our unitholders, while also providing us with the opportunity for additional organic growth opportunities;

Expand our market position in California through the acquisition of the Martinez and Richmond terminals, and complement our Rocky Mountain Business Unit through the acquisition of the West pipeline system; and

Allow us to achieve greater diversification, both geographically by expanding into Northern California and the Northeastern United States, and in commodity type, by expanding into the refined products segment.

Financing. We intend to finance the aggregate purchase price for the Valero Assets, including working capital and transaction costs, with:

the net proceeds of this offering and the related capital contribution of our General Partner;

borrowings under the New Credit Facility (see " New Credit Facilities" below) and other debt financing; and

the net proceeds from a private sale of 4,300,000 common units to certain institutional investors and the related capital contribution of our General Partner (see " Equity Commitments" below).

New Credit Facilities

In connection with our anticipated acquisition of the Valero Assets, we have received $700 million in financing commitments from Bank of America, N.A. and Lehman Commercial Paper Inc., an

affiliate of Lehman Brothers Inc., one of the underwriters in this offering. These commitments include a new five-year $400 million senior secured revolving credit facility (the "New Credit Facility"), and a new $300 million 364-day senior secured term credit facility (the "364-Day Facility").

We do not intend to borrow from the 364-Day Facility, and will do so only if we are unable to complete the private sale of common units prior to the acquisition of the Valero Assets. We may cancel the 364-Day Facility at any time prior to the close of the acquisition of the Valero Assets.

Equity Commitments

We have entered into a Common Unit Purchase Agreement, dated as of August 9, 2005 (the "Common Unit Purchase Agreement"), with certain institutional investors, pursuant to which we have agreed to sell 4,300,000 common units to such institutional investors for net proceeds (net of commitment and other fees) of approximately $129.2 million at the closing of the acquisition of the Valero Assets, subject to a downward purchase price adjustment if closing is delayed beyond the record date in respect of the distribution to our common unitholders for the third quarter of 2005 (the "Equity Commitments"). The closing of the sale of common units pursuant to the Common Unit Purchase Agreement is conditioned upon the consummation of the acquisition of the Valero Assets. The Common Unit Purchase Agreement will automatically terminate on January 15, 2006 if we have not consummated the acquisition of the Valero Assets. We have paid the institutional investors a 1% commitment fee in connection with this transaction. Lehman Brothers Inc., which is an affiliate of our General Partner and an underwriter in this offering, will also receive a fee in connection with the Equity Commitments.

Sale of The Anschutz Corporation's Interest in Us

On March 3, 2005, The Anschutz Corporation completed the sale of its 36.5% interest in us to LB Pacific, LP ("LBP"), an entity affiliated with Lehman Brothers Inc., one of the underwriters in this offering. The acquisition by LBP (the "LB Acquisition") included the purchase of a 100% ownership interest in Pacific Energy GP, Inc. (predecessor of Pacific Energy GP, LP), which owned (i) a 2% general partner interest in us, (ii) the incentive distribution rights, and (iii) 10,465,000 subordinated units representing a 34.5% limited partner interest in us. Immediately prior to the closing of the LB Acquisition, Pacific Energy GP, Inc. was converted to Pacific Energy GP, LLC, a Delaware limited liability company; and immediately after the closing of the LB Acquisition, Pacific Energy GP, LLC was converted to Pacific Energy GP, LP, a Delaware limited partnership. The general partner of Pacific Energy GP, LP is Pacific Energy Management LLC ("PEM"), a Delaware limited liability company, which is 100% owned by LBP. Immediately following the closing of the LB Acquisition, our General Partner distributed its 10,465,000 subordinated units to LBP. Subsequently, an affiliate of Lehman Brothers Inc. sold approximately 30% of its interest in LBP to an affiliate of First Reserve Corporation ("FRC").

In connection with the conversion of our General Partner to a limited partnership, our General Partner ceased to have a board of directors, and is now managed by its general partner, PEM. PEM has a board of directors (the "Board of Directors" or "Board") that manages the business and affairs of our General Partner and us. The Board of Directors is now comprised of six of the directors who served on the Board of Directors of Pacific Energy GP, Inc., prior to the LB Acquisition, together with four directors appointed by LBP, one of which was designated by FRC. All of the officers and employees of Pacific Energy GP, Inc. are now in identical positions with PEM, and the Board established the same committees as had been maintained by Pacific Energy GP, Inc. prior to the LB Acquisition. PEM also adopted Pacific Energy GP, Inc.'s governance guidelines and its compensation structure and employee benefits plans and policies. For more information with respect to our management and the Board of Directors, please read "Management."

Line 63 Crude Oil Release

On March 23, 2005, a release of approximately 3,400 barrels of crude oil occurred on Line 63 when it was severed as a result of a landslide induced by heavy rainfall in the Pyramid Lake area of Los Angeles County. Over the period March 2005 through March 2006, we expect to incur an estimated total of $15.0 million before insurance reimbursement for oil containment and clean-up of the impacted areas, future monitoring costs, potential third-party claims and penalties, and other costs, excluding pipeline repair costs. Through June 30, 2005, we had incurred approximately $11.5 million of the total expected oil release costs for work performed through such date.

We have a pollution liability insurance policy with a $2.0 million deductible, and the insurance carrier has acknowledged coverage of the incident and is processing and paying invoices related to the clean-up. Although we believe we are entitled, subject to the $2.0 million deductible, to recover substantially all of our clean-up costs and third-party claims associated with the release, there is no absolute assurance that this will be the case. As of June 30, 2005, we have recovered $6.3 million from insurance and accrued a receivable of $6.7 million for insurance receipts we deem probable.

We recorded $2.0 million in net costs in "Line 63 oil release costs" in our condensed consolidated statements of income for the six months ended June 30, 2005. The $2.0 million net oil release costs consist of $15.0 million of accrued costs relating to the release, net of insurance recovery of $6.3 million and accrued insurance receipts of $6.7 million.

On April 18, 2005, we received the necessary approvals to begin the repair of Line 63, and on April 25, 2005, Line 63 was returned to operation. During the time the pipeline was out of service, we transferred significant volumes of light crude oil, on a temporary basis, from Line 63 to Line 2000, to mitigate the impact on customers and limit the potential loss of revenue. We also asked our customers to shift volumes of OCS crude oil from Line 63 to Line 2000. We expect the permanent repair of Line 63 to be complete in the third quarter of 2005. We expensed $0.6 million for the repair of Line 63 in the second quarter of 2005, and expect to incur $1.2 million of Line 63 capital improvements in future periods.

On July 21, 2005, the California Public Utilities Commission ("CPUC") approved our request to implement a temporary surcharge of $0.10 per barrel on our Line 63 long-haul tariff rates to recover our costs relating to this release together with other costs incurred or to be incurred as a result of problems caused by rain-induced earth movement and stream erosion. The surcharge was effective on August 1, 2005. We are required under the terms of the CPUC decision that approved the surcharge to substantiate in subsequent filings with the CPUC the actual costs incurred by us as a result of the Line 63 damage and our entitlement to the surcharge amounts received by us.

The foregoing estimates are based on facts known at the time of estimation and our assessment of the ultimate outcome. As new information becomes available in future periods, we may change our recovery estimates.

Pier 400

We are endeavoring to develop a deepwater petroleum import terminal at Pier 400 and Terminal Island in the Port of Los Angeles ("POLA") to handle marine receipts of crude oil and refinery feedstocks. As currently envisioned, the project would include a deep water berth, high capacity transfer infrastructure and storage tanks, with a pipeline distribution system that would connect to various customers, some directly, and some through our Pacific Terminals storage and distribution system. We would construct the transfer infrastructure, including a large diameter pipeline system for receiving bulk petroleum liquids from marine vessels, and the storage tanks. If successful, this project would allow us to participate in the Los Angeles basin marine import business, which is growing as a result of a decline in both California production and imports from Alaska.

We initiated the environmental review and permitting for the Pier 400 project in June 2004 and expect to have the permits necessary for construction to begin in mid-2006. We entered into a project development agreement with two subsidiaries of Valero Energy Corporation that defines the facilities that we are to construct in the POLA. We and Valero Energy Corporation have also entered into a terminaling services agreement with a 30-year, 50,000 bpd volume commitment from Valero Energy Corporation to support the terminal. These agreements are subject to the satisfaction of various conditions, including the execution of additional project related agreements and the achievement of certain milestones, some of which have not been satisfied. We are negotiating these additional agreements and an extension of the project milestones with Valero Energy Corporation, and we expect to reach an agreement.

Final construction of the Pier 400 project is subject to the completion of a land lease agreement with the POLA, receipt of environmental permits and other approvals, securing additional customer commitments, updating engineering and project cost estimates, ongoing feasibility evaluation, and financing. A final decision to proceed is expected to be made in the first quarter of 2006. We expect construction of the Pier 400 terminal to be completed and placed in service in late 2007.

We have capitalized approximately $12.7 million on the Pier 400 project through June 30, 2005, including $2.2 million for the six months ended June 30, 2005. These expenditures include $6.3 million for emission reduction credits, an asset that is re-saleable if the project does not proceed. We are funding pre-construction costs through mid-2006 from our revolving credit facility. We have not yet finalized our financing plan for this project; however, construction of the Pier 400 terminal will likely be financed through a combination of debt and proceeds from the issuance of additional partnership units, including common units.

Hurricane Katrina

Neither our existing assets nor the Valero Assets are located in the Gulf Coast and therefore were not directly affected by Hurricane Katrina. However, we may be adversely affected in the future by supply disruptions for refined products resulting from the hurricane. The hurricane has at least temporarily shut down a significant portion of Gulf Coast refining capacity, which may reduce the supply of refined products and increase the costs of refined products.

Business Strategy

Our principal business objective is to achieve sustainable long-term growth of cash distributions to our unitholders by being a leading provider of pipeline transportation, storage and other midstream services to the North American energy industry. We strive to operate safely, protecting the environment and the communities in which we operate, while maintaining the operational integrity of our facilities. We seek to realize our business objective by executing the following strategies:

Leverage our strategic position in core market areas to maximize throughput on our pipelines and utilization of our storage facilities. As the owner and operator of the only two common carrier crude oil pipelines transporting crude oil produced in the San Joaquin Valley and in the two primary California OCS producing fields to the Los Angeles Basin and to Bakersfield, we believe we are well positioned to capitalize on the changing and growing needs of the refineries that serve California, the largest gasoline market in the United States. We continually seek opportunities to increase the crude oil throughput on our pipelines, to maximize the utilization of our storage facilities and to increase the capacity of our storage facilities. We believe that the strategic position of our California pipelines and storage facilities creates other development opportunities that will help us maintain and increase cash flows.

Our Rocky Mountain pipelines also serve major markets in the U.S. Rocky Mountain region, which continue to have a growing population and an increasing demand for refined products. The

Rocky Mountain pipeline network is strategically situated to take advantage of increasing production of synthetic crude oil in Canada and growing demand for refined products in Salt Lake City and throughout the U.S. Rocky Mountain region. We believe crude oil throughput on our pipelines and our revenue will increase as refinery demand in the region continues to grow and imports of Canadian crude oil, including synthetic crude oil, replace declining crude oil production in the U.S. Rocky Mountain region. With the acquisition in 2004 of the Rangeland and MAPL pipelines in Alberta, we now have an integrated pipeline corridor from Edmonton, Alberta, a primary oil hub, to the major refining centers in the U.S. Rocky Mountain region.

The Valero Assets are also located in highly desirable locales for refined product demand. Both the Martinez and Richmond terminals are located in the growing San Francisco Bay area and are well positioned to participate in the increasing imports of refined products, feedstocks and ethanol, and in the case of the Martinez terminal, crude oil. The East Coast terminals are located in the densely populated Philadelphia, Pennsylvania area and are connected to the Colonial and Sun pipelines, two of the major transporters of refined products to the Northeastern region of the United States. The Paulsboro, New Jersey terminal is located on the Delaware River, with excellent deepwater access to accommodate vessels up to 100,000 deadweight tons.

Control our operating and capital costs while maintaining the safety and operational integrity of our assets. We focus on managing our operating and sustaining capital costs, while fulfilling our responsibility to maintain the operational integrity of our assets in order to operate safely, and to protect the environment, our employees, and the communities in which we operate.

Pursue strategic and accretive acquisitions and new development projects that enhance and expand our core business. We intend to pursue acquisitions of additional midstream assets, including pipelines and storage and terminal facilities that are accretive to our cash flow and complement our existing business, with an emphasis on opportunities where supply and demand imbalances exist or where demand is not being met. We believe midstream assets will continue to be available for purchase as the major integrated energy companies divest noncore assets. We have three principal objectives in pursuing acquisitions:

- provide for long-term growth in our cash distributions on a per unit basis;
- strengthen and enhance our existing business units; and
- expand outside our existing business units into the refined products and natural gas transportation and storage segments of the energy industry.

We will also seek to capitalize on our experience in the development and construction of new midstream projects that are complementary to our core market assets.

We have been successful in the execution of this strategy of acquisition and development and believe our acquisition history, reputation and project development experience will provide us with attractive opportunities in the future. The following transactions and activities demonstrate our experience in acquisition and development:

- in February 1999, we completed the construction of Line 2000 at a cost of approximately $275 million;
- in May 1999, we acquired the Line 63 system in exchange for an interest in Pacific Pipeline System LLC ("PPS");
- in June 2001, we acquired the ownership interest in PPS that was held by a third party, increasing our ownership interest in PPS to 100%, for approximately $47 million;
- in June 2001, we acquired the Pacific Marketing and Transportation LLC ("PMT") gathering and blending system for approximately $14 million;

- in December 2001, we acquired an additional 9.72% partnership interest in Frontier for approximately $9 million, increasing our ownership interest to 22.22% from 12.5%;

- in March 2002, we acquired the Western Corridor and Salt Lake City Core systems for approximately $107 million;

- in July 2003, we acquired the Pacific Terminals storage and distribution system for approximately $173 million;

- in February 2004, we completed a feasibility study and commenced the development phase of our Pier 400 project;

- in May 2004, we acquired the Rangeland pipeline system for approximately $118 million;

- in June 2004, we acquired the MAPL pipeline for approximately $27 million; and

- in July 2005, we entered into the Asset Purchase Agreement with the Sellers to acquire the Valero Assets for approximately $455 million.

Minimize our exposure to commodity price volatility. We have historically managed our business to minimize our direct exposure to volatile commodity prices. We believe this strategy of minimizing our exposure to commodity price volatility will continue to enhance our ability to generate stable cash flow.

We do not take title to the crude oil we transport on our pipelines and store in our storage facilities, except with respect to our crude oil buying, gathering, blending and selling activities in California, and to a lesser extent other areas, which, in the aggregate, currently represent a small percentage of net revenue, and for purchases in connection with the operation of the Rangeland system in Canada. The Rangeland system operates as a proprietary system and, accordingly, we take title to the crude oil, condensate and butane that is gathered and transported on it. However, over 90% of the purchase contracts have concurrent sales contracts with the same counterparty and only a net payment is made to settle the monthly activity, thereby minimizing commodity price and credit risks. The contracts associated with the Valero Assets are all fee-based.

Competitive Strengths

We believe our b