

SUNOCO LOGISTICS PARTNERS L.P.

Form 10-Q

May 05, 2016

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 1-31219

SUNOCO LOGISTICS PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware 23-3096839
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3807 West Chester Pike, 19073
Newtown Square, PA
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (866) 248-4344

Former name, former address and former fiscal year, if changed since last report: Not Applicable

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At May 1, 2016, the number of the registrant's Common and Class B Units outstanding were 286,281,199 and 9,416,196, respectively.

SUNOCO LOGISTICS PARTNERS L.P.
INDEX

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015 (unaudited)	<u>2</u>
Condensed Consolidated Balance Sheets at March 31, 2016 and December 31, 2015 (unaudited)	<u>3</u>
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (unaudited)	<u>4</u>
Condensed Consolidated Statements of Equity for the Three Months Ended March 31, 2016 and 2015 (unaudited)	<u>5</u>
Notes to Condensed Consolidated Financial Statements (unaudited)	<u>6</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>25</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>33</u>
Item 4. Controls and Procedures	<u>35</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>36</u>
Item 1A. Risk Factors	<u>36</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>36</u>
Item 3. Defaults Upon Senior Securities	<u>36</u>
Item 4. Mine Safety Disclosures	<u>36</u>
Item 5. Other Information	<u>36</u>
Item 6. Exhibits	<u>37</u>
SIGNATURE	<u>38</u>

PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except per unit amounts, unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenues		
Sales and other operating revenue:		
Unaffiliated customers	\$1,668	\$2,453
Affiliates (Note 4)	109	119
Total Revenues	1,777	2,572
Costs and Expenses		
Cost of products sold	1,413	2,318
Operating expenses	23	40
Selling, general and administrative expenses	26	25
Depreciation and amortization expense	106	82
Impairment charge and other matters (Notes 6 and 16)	26	41
Total Costs and Expenses	1,594	2,506
Operating Income	183	66
Interest cost and debt expense, net	(65)	(50)
Capitalized interest	26	21
Other income	7	6
Income Before Provision for Income Taxes	151	43
Provision for income taxes (Note 8)	(5)	(6)
Net Income	146	37
Net income attributable to noncontrolling interests	(1)	(1)
Net Income Attributable to Sunoco Logistics Partners L.P.	145	36
Less: General Partner's interest	(90)	(60)
Limited Partners' interest	\$55	\$(24)
Net Income (Loss) Attributable to Sunoco Logistics Partners L.P. per Limited Partner unit (Note 5):		
Basic	\$0.18	\$(0.10)
Diluted	\$0.18	\$(0.10)
Weighted average Limited Partners' units outstanding (Note 5):		
Basic	282.5	231.0
Diluted	283.1	231.0
Net Income	\$146	\$37
Adjustment to affiliate's pension funded status	1	(1)
Other Comprehensive Income (Loss)	1	(1)
Comprehensive Income	147	36
Less: Comprehensive income attributable to noncontrolling interests	(1)	(1)
Comprehensive Income Attributable to Sunoco Logistics Partners L.P.	\$146	\$35

(See Accompanying Notes)

2

SUNOCO LOGISTICS PARTNERS L.P.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in millions, unaudited)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$43	\$37
Accounts receivable, affiliated companies (Note 4)	43	20
Accounts receivable, net	1,146	1,165
Inventories (Note 6)	683	607
Other current assets	15	19
Total Current Assets	1,930	1,848
Properties, plants and equipment	12,007	11,527
Less accumulated depreciation and amortization	(928)	(835)
Properties, plants and equipment, net	11,079	10,692
Investment in affiliates	911	802
Goodwill	1,358	1,358
Intangible assets, net (Note 7)	705	718
Other assets	71	71
Total Assets	\$16,054	\$15,489
Liabilities and Equity		
Accounts payable	\$1,342	\$1,251
Accounts payable, affiliated companies (Note 4)	20	39
Accrued liabilities	216	329
Accrued taxes payable (Note 8)	33	44
Total Current Liabilities	1,611	1,663
Long-term debt (Note 9)	5,968	5,591
Other deferred credits and liabilities	126	125
Deferred income taxes (Note 8)	254	254
Total Liabilities	7,959	7,633
Commitments and contingent liabilities (Note 10)		
Redeemable noncontrolling interests	15	15
Redeemable Limited Partners' interests (Note 11)	290	286
Total Equity	7,790	7,555
Total Liabilities and Equity	\$16,054	\$15,489
(See Accompanying Notes)		

SUNOCO LOGISTICS PARTNERS L.P.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in millions, unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net Income	\$ 146	\$ 37
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	106	82
Impairment charge and other matters	26	41
Deferred income tax benefit	—	(2)
Amortization of bond premium	(3)	(3)
Non-cash compensation expense	5	4
Equity in earnings of unconsolidated affiliates	(8)	(7)
Distributions from unconsolidated affiliates	5	5
Changes in working capital pertaining to operating activities:		
Accounts receivable, affiliated companies	(23)	(34)
Accounts receivable, net	(6)	286
Inventories	(102)	(180)
Accounts payable, affiliated companies	(19)	(4)
Accounts payable and accrued liabilities	(16)	(313)
Accrued taxes payable	(11)	(17)
Unrealized losses on commodity risk management activities	13	15
Other	7	14
Net cash provided by (used in) operating activities	120	(76)
Cash Flows from Investing Activities:		
Capital expenditures	(580)	(567)
Acquisitions	—	(131)
Change in long-term note receivable	(1)	(6)
Net cash used in investing activities	(581)	(704)
Cash Flows from Financing Activities:		
Distributions paid to limited and general partners	(216)	(146)
Distributions paid to noncontrolling interests	(1)	—
Net proceeds from issuance of limited partner units	301	689
Payments of statutory withholding on net issuance of limited partner units under LTIP	—	(8)
Repayments under credit facilities	(813)	(750)
Borrowings under credit facilities	1,193	950
Contributions attributable to acquisition from affiliate	3	3
Other	—	(5)
Net cash provided by financing activities	467	733
Net change in cash and cash equivalents	6	(47)
Cash and cash equivalents at beginning of period	37	101
Cash and cash equivalents at end of period	\$ 43	\$ 54
(See Accompanying Notes)		

SUNOCO LOGISTICS PARTNERS L.P.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(in millions, unaudited)

	Limited Partners	General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at January 1, 2015	\$5,752	\$ 925	\$ 1	\$ 60	\$6,738
Net Income (loss)	(24)	60	—	1	37
Adjustment to affiliate's pension funded status	—	—	(1)	—	(1)
Total comprehensive income (loss)	(24)	60	(1)	1	36
Issuance of limited partner units to the public	689	—	—	—	689
Non-cash compensation expense	4	—	—	—	4
Payments of statutory withholding on issuance under LTIP	(8)	—	—	—	(8)
Distributions	(92)	(54)	—	—	(146)
Contributions attributable to acquisition from affiliate	3	—	—	—	3
Acquisition of a noncontrolling interest in a consolidated subsidiary	(103)	(2)	—	(26)	(131)
Balance at March 31, 2015	\$6,221	\$ 929	\$ —	\$ 35	\$7,185
Balance at January 1, 2016	\$6,577	\$ 944	\$ —	\$ 34	\$7,555
Net Income	55	90	—	1	146
Adjustment to affiliate's pension funded status	—	—	1	—	1
Total comprehensive income	55	90	1	1	147
Issuance of limited partner units to the public	301	—	—	—	301
Non-cash compensation expense	5	—	—	—	5
Distribution equivalent rights	(1)	—	—	—	(1)
Payments of statutory withholding on issuance under LTIP	—	—	—	—	—
Distributions	(131)	(85)	—	(1)	(217)
Contributions attributable to acquisition from affiliate	3	—	—	—	3
Decrease attributable to Class B units	(4)	—	—	—	(4)
Other	—	1	—	—	1
Balance at March 31, 2016 (See Accompanying Notes)	\$6,805	\$ 950	\$ 1	\$ 34	\$7,790

SUNOCO LOGISTICS PARTNERS L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Basis of Presentation

Sunoco Logistics Partners L.P. (the "Partnership" or "SXL") is a publicly traded Delaware limited partnership that owns and operates a logistics business, consisting of geographically diverse portfolio of integrated pipeline, terminalling, and acquisition and marketing assets which are used to facilitate the purchase and sale of crude oil, natural gas liquids ("NGLs") and refined products. The Partnership conducts its business activities in 35 states located throughout the United States.

During the fourth quarter 2015, the Partnership realigned its reporting segments as a result of the continued investment in its organic growth capital program which has served to increase the integration that exists between its assets that service each commodity. This has also resulted in a shift in Management's strategic decision making process, resource allocation methodology, and assessment of the Partnership's financial results. The updated reporting segments are: Crude Oil, Natural Gas Liquids and Refined Products. The new segmentation provides the Partnership's investors with a more meaningful view of its business that is consistent with that of Management. For the purpose of comparability, all prior period segment disclosures have been recast to conform to the current presentation. Such recasts have no impact on previously reported consolidated earnings.

The consolidated financial statements reflect the results of the Partnership and its wholly-owned subsidiaries, including Sunoco Logistics Partners Operations L.P. (the "Operating Partnership"), the proportionate shares of the Partnership's undivided interests in assets, and the accounts of entities in which the Partnership has a controlling financial interest. A controlling financial interest is evidenced by either a voting interest greater than 50 percent or a risk and rewards model that identifies the Partnership or one of its subsidiaries as the primary beneficiary of a variable interest entity. At March 31, 2016, the Partnership held a controlling financial interest in Inland Corporation ("Inland"), Mid-Valley Pipeline Company ("Mid-Valley"), and Price River Terminal, LLC ("PRT"), and as such, these entities are reflected as consolidated subsidiaries of the Partnership. The Partnership is not the primary beneficiary of any variable-interest entities ("VIEs"). All significant intercompany accounts and transactions are eliminated in consolidation, and noncontrolling interests in net income and equity are shown separately in the condensed consolidated statements of comprehensive income and equity. Equity ownership interests in corporate joint ventures in which the Partnership does not have a controlling financial interest, but over which the Partnership can exercise significant influence, are accounted for under the equity method of accounting.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, which created Topic 842, Leases, and superseded the leases requirements in Topic 840. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Partnership is currently evaluating the impact that it will have on its consolidated financial statements and related disclosures.

In May 2014, the FASB codified guidance in ASU 2014-09 related to the recognition of revenue from contracts with customers. The new guidance outlines the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods, with early adoption permitted. The Partnership is currently assessing the impact, if any, that adoption of new guidance will have on its consolidated financial position and results of operations.

In the fourth quarter 2015, the Partnership adjusted its presentation of costs associated with issuances of debt in response to the early adoption of ASU 2015-03. This guidance requires costs incurred to issue certain debt instruments to be reflected as a reduction of the reported long-term debt liability within the consolidated balance sheet, as opposed to being reported as an asset. All prior periods are reported presenting the impact of ASU 2015-03. The adoption did not impact the Partnership's overall financial position or results of operations.

The Partnership also adjusted its balance sheet presentation of deferred tax assets and liabilities in response to the early adoption of ASU 2015-17. This guidance requires all deferred tax assets and liabilities to be presented as noncurrent within the consolidated balance sheet, and is retrospectively applied to all prior reporting periods presented. This change did not impact the Partnership's financial position or results of operations.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim financial reporting. They do not include all disclosures normally made in annual financial statements contained in Form 10-K. The accompanying condensed consolidated balance sheet at December 31, 2015 has been derived from the Partnership's audited financial statements for the year ended December 31, 2015. In management's opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal, recurring nature. Results for the three months ended March 31, 2016 are not necessarily indicative of results for the full year 2016.

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current-year presentation.

2. Changes in Business and Other Matters

In October 2015, the Partnership finalized its participation in the Bakken Pipeline project with Energy Transfer Partners, L.P. ("ETP") and Phillips 66. The Partnership obtained a 30 percent economic interest in the project which, combined with ETP's 45 percent interest, will be a consolidated subsidiary of ETP. The project consists of existing and newly constructed pipelines that are expected to provide aggregate takeaway capacity of approximately 450 thousand barrels per day of crude oil from the Bakken/Three Forks production area in North Dakota to key refinery and terminalling hubs in the Midwest and Gulf Coast, including the Partnership's Nederland terminal. The ultimate takeaway capacity target for the project is 570 thousand barrels per day. The Partnership expects to reach agreement to become the operator of the pipeline system, which is expected to begin commercial operations in the fourth quarter of 2016.

In exchange for its 30 percent economic interest in the project, the Partnership issued 9.4 million Class B units to ETP, representing limited partner interests in the Partnership, and paid \$382 million in cash to cover the Partnership's proportionate share of contributions at the time of closing. Since the interest in the project was acquired from a related party, the Partnership's initial investment was recorded at ETP's historical carrying value. Subsequent contributions will be made by the joint partners in proportion to their respective economic ownership interests. The Partnership's investment in the Bakken Pipeline project is reflected as an equity method investment within the Crude Oil segment. See Note 11 for additional information on the issuance of the Class B units.

In July 2015, the Partnership entered into an agreement with ETP and Phillips 66 to participate in the Bayou Bridge Pipeline project. The Partnership obtained a 30 percent economic interest in the project which, combined with ETP's 30 percent interest, will be a consolidated subsidiary of ETP. The project consists of a newly constructed pipeline that will deliver crude oil from Nederland, Texas to refinery markets in Louisiana. Commercial operations from Nederland, Texas to Lake Charles, Louisiana commenced in the second quarter 2016, with continued progress on construction of the pipeline segment to St. James, Louisiana. The Partnership is the operator of the pipeline and will continue to fund its proportionate share of the cost of the project, which is accounted for as an equity method investment within the Partnership's Crude Oil segment.

In connection with the formation of Bayview Refining Company, LLC ("Bayview") in the second quarter 2014, the joint owners agreed to guarantee the obligations of the entity with respect to certain third-party operating agreements over a ten-year term. The fair value of the liability recognized in connection with the guarantee was not material in relation to the Partnership's financial position at March 31, 2016. The Partnership's note receivable from the joint owner of Bayview is reflected in other assets in the condensed consolidated balance sheet.

No pro forma information has been presented, as the impact of these investments was not material to the Partnership's consolidated financial position or results of operations.

3. Acquisitions

In January 2015, the Partnership acquired the remaining noncontrolling interest in West Texas Gulf Pipe Line Company ("West Texas Gulf"), from the Southwest Pipeline Holding Company for \$131 million. The acquisition of the remaining ownership interest reduced noncontrolling interest and partners' equity by \$26 and \$105 million, respectively, in the first quarter 2015.

No pro forma information has been presented, as the impact of this acquisition was not material in relation to the Partnership's consolidated financial position or results of operations.

7

4. Related Party Transactions

The Partnership is a consolidated subsidiary of ETP. ETP and one of its affiliates own Sunoco Partners LLC, the Partnership's general partner, and a 26 percent limited partner interest in the Partnership, including the Class B units issued in October 2015. The Partnership has various operating and administrative agreements with ETP and its affiliates, which include the agreements described below.

Administrative Services

The Partnership has no employees. The operations of the Partnership are carried out by employees of the general partner. The Partnership reimburses the general partner and its affiliates for certain costs and direct expenses incurred on the Partnership's behalf. These costs may be increased if the acquisition or construction of new businesses or assets requires an increase in the level of services received by the Partnership.

The Partnership pays ETP and its affiliates an annual administrative fee for expenses incurred by ETP and its affiliates to perform certain centralized corporate functions, such as legal, accounting, information technology, insurance, office space rental, and other corporate services, including the administration of employee benefit plans. This fee does not include the salaries or wages of employees of the general partner, or the cost of employee benefits or shared insurance. The Partnership's share of allocated ETP employee benefit plan expenses, including defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans and other such benefits are reflected in operating expenses and selling, general and administrative expenses in the condensed consolidated statements of comprehensive income.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

The Partnership is party to various agreements with ETP and its affiliates to supply crude oil and refined products, as well as to provide pipeline and terminalling services. The revenues associated with these activities are reflected as affiliated revenues in the condensed consolidated statements of comprehensive income.

Acquisitions

See Note 2 for additional information related to the Partnership's participation in the Bayou Bridge and Bakken pipeline projects.

Capital Contributions

In connection with the acquisition of the Marcus Hook Facility in the second quarter 2013, the Partnership will be reimbursed \$40 million by an affiliate of ETP for certain operating expenses of the facility through March 31, 2017. The reimbursement proceeds are reflected as contributions to equity within the condensed consolidated statements of equity.

5. Net Income Attributable to Sunoco Logistics Partners L.P. per Limited Partner Unit

The general partner's interest in net income attributable to SXL consists of its general partner interest and "incentive distributions," which are increasing percentages of up to 50 percent of quarterly distributions in excess of \$0.0833 per common unit (Note 12). The general partner was allocated net income attributable to SXL of \$90 and \$60 million (representing 62 and 167 percent of total net income attributable to SXL) for the three months ended March 31, 2016 and 2015, respectively. Diluted net income attributable to SXL per limited partner unit is calculated by dividing the limited partners' interest in net income attributable to SXL by the sum of the weighted average number of common and Class B units outstanding and the dilutive effect of unvested incentive unit awards (Note 13).

In the first quarter 2016, net income attributable to SXL was reduced by \$4 million in determining earnings per limited partner unit in accordance with accounting guidance applicable to the Class B units, which are reflected as redeemable limited partner interests.

The following table sets forth the reconciliation of the weighted average number of limited partner and Class B units used to compute basic net income attributable to SXL per limited partner unit to those used to compute diluted net income attributable to SXL per limited partner unit for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016 2015 (in millions)	
Weighted average number of units outstanding, basic	282.5	231.0
Add effect of dilutive incentive awards ⁽¹⁾	0.6	—
Weighted average number of units, diluted	283.1	231.0

Unvested incentive unit awards are not included within the calculation of the dilutive weighted average number of ⁽¹⁾ units for the three months ended March 31, 2015 since the effect on the net loss attributable to SXL per limited partner unit would have been antidilutive.

6. Inventories

The components of inventories are as follows:

	March 31, 2016 2015 (in millions)	
Crude oil	\$453	\$ 424
NGLs	83	83
Refined products	130	83
Refined products additives	2	3
Materials, supplies and other	15	14
Total Inventories	\$683	\$ 607

The Partnership's lower of cost or market ("LCM") reserves totaled \$405 and \$41 million, respectively, on its crude oil and NGLs inventories at March 31, 2016. At December 31, 2015, the LCM reserves totaled \$381, \$37 and \$2 million on the Partnership's crude oil, NGLs and refined products inventories, respectively.

7. Goodwill and Intangible Assets

Intangible Assets

The components of intangible assets are as follows:

	Weighted Average Amortization Period (in years)	March 31, December 31, 2016 2015 (in millions)	
Gross			
Customer relationships	18	\$836	\$ 836
Technology	10	47	47
Total gross		883	883
Accumulated amortization			
Customer relationships		(161)	(149)
Technology		(17)	(16)
Total accumulated amortization		(178)	(165)
Total Net		\$705	\$ 718

Amortization expense was \$13 million for the three months ended March 31, 2016 and 2015. The Partnership forecasts annual amortization expense of \$51 million for each year through the year 2020, for its intangible assets. Intangible assets associated with rights of way are included in properties, plants and equipment in the Partnership's condensed consolidated balance sheets.

Goodwill

Goodwill, which represents the excess of the purchase price in a business combination over the fair value of net assets acquired, is tested for impairment annually in the fourth quarter, or more often if events or changes in circumstances indicate that the carrying value of goodwill may exceed its estimated fair value. The Partnership's goodwill balance was \$1,358 million at March 31, 2016 and December 31, 2015. The Partnership will continue to monitor the volatility in the energy markets and the impact it could have on the estimated fair value of its reporting segments. It is possible that continued negative volatility within these markets could change the Partnership's conclusion regarding whether goodwill is impaired.

8. Income Taxes

The Partnership is not a taxable entity for U.S. federal income tax purposes, or for the majority of states that impose income taxes. Rather, income taxes are generally assessed at the partner level. There are some states in which the Partnership operates where it is subject to state and local income taxes. Substantially all of the income tax amounts reflected in the Partnership's condensed consolidated financial statements are related to the operations of Inland, Mid-Valley and West Texas Gulf, all of which are entities subject to income taxes for federal and state purposes at the corporate level. The effective tax rates for these entities approximate the federal statutory rate of 35 percent. In taxable jurisdictions, the Partnership records deferred income taxes on all significant temporary differences between the book basis and the tax basis of assets and liabilities. The net deferred tax liabilities reflected in the condensed consolidated balance sheets are derived principally from the differences in the book and tax bases of properties, plants and equipment of Inland, Mid-Valley and West Texas Gulf.

9. Debt

The components of the Partnership's debt balance are as follows:

	March 31, 2016	December 31, 2015
Credit Facilities	(in millions)	
\$2.50 billion Credit Facility, due March 2020	\$942	\$ 562
Senior Notes		
Senior Notes - 6.125%, due May 2016 ⁽¹⁾	175	175
Senior Notes - 5.50%, due February 2020	250	250
Senior Notes - 4.40%, due April 2021	600	600
Senior Notes - 4.65%, due February 2022	300	300
Senior Notes - 3.45%, due January 2023	350	350
Senior Notes - 4.25% due April 2024	500	500
Senior Notes - 5.95%, due December 2025	400	400
Senior Notes - 6.85%, due February 2040	250	250
Senior Notes - 6.10%, due February 2042	300	300
Senior Notes - 4.95%, due January 2043	350	350
Senior Notes - 5.30% due April 2044	700	700
Senior Notes - 5.35% due May 2045	800	800
Unamortized fair value adjustments ⁽²⁾	90	93
Total debt	6,007	5,630
Less:		
Unamortized bond discount and debt issuance costs ⁽³⁾	(39)	(39)
Long-term debt	\$5,968	\$ 5,591

(1) The 6.125 percent Senior Notes were classified as long-term debt at March 31, 2016 as the Partnership has the ability and intent to refinance such borrowings on a long-term basis.

(2) Represents fair value adjustments on senior notes resulting from the application of push-down accounting in connection with the acquisition of the Partnership's general partner by ETP on October 5, 2012.

In the fourth quarter 2015, the Partnership adopted accounting guidance which requires certain debt issuance costs to be reflected as a reduction in the total long-term debt liability for all periods presented. The net long-term debt balance now includes \$31 and \$32 million of debt issuance costs at March 31, 2016 and December 31, 2015, respectively. Refer to Note 1 for additional information.

Credit Facilities

In March 2015, the Operating Partnership amended and restated its \$1.50 billion Credit Facility, which was scheduled to mature in November 2018. The amended and restated credit facility is a \$2.50 billion unsecured revolving credit agreement (the "\$2.50 billion Credit Facility"), which matures in March 2020, that will continue to fund the Partnership's working capital requirements, finance acquisitions and capital projects, and be used for general partnership purposes. The \$2.50 billion Credit Facility contains an "accordion" feature, under which the total aggregate commitment may be extended to \$3.25 billion under certain conditions. In June 2015, the \$2.50 billion Credit Facility was amended to create a segregated tranche of borrowings that will be guaranteed by ETP. The amendment did not modify the outstanding borrowings, total capacity or terms of the facility. In September 2015, the Operating Partnership initiated a commercial paper program under the borrowing limits established by its \$2.50 billion Credit Facility. The \$2.50 billion Credit Facility bears interest at LIBOR or the Base Rate (as defined in the facility), each plus an applicable margin. The credit facility may be repaid at any time.

The \$2.50 billion Credit Facility contains various covenants, including limitations on the creation of indebtedness and liens, and related to the operation and conduct of the business of the Partnership and its subsidiaries. The credit facility also limits the Partnership, on a rolling four quarter basis, to a maximum total consolidated debt to consolidated

Adjusted EBITDA ratio, as defined in the underlying credit agreement, of 5.0 to 1, which can generally be increased to 5.5 to 1 during an acquisition period. The Partnership's ratio of total consolidated debt, excluding net unamortized fair value adjustments, to consolidated Adjusted EBITDA was 3.5 to 1 at March 31, 2016, as calculated in accordance with the credit agreement.

10. Commitments and Contingent Liabilities

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or otherwise relate to the protection of the environment. These laws and regulations can result in liabilities and loss contingencies for remediation at the Partnership's facilities and at third-party or formerly owned sites. At March 31, 2016 and December 31, 2015, there were accrued liabilities for environmental remediation in the condensed consolidated balance sheets of \$5 and \$6 million, respectively. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, since there are no unasserted claims that are probable of settlement or are reasonably estimable, nor have any recoveries from insurance been assumed. Charges against income for environmental remediation totaled \$2 and \$3 million for the three months ended March 31, 2016 and 2015, respectively. The Partnership maintains insurance programs that cover certain of its existing or potential environmental liabilities. Claims for recovery of environmental liabilities and previous expenditures that are probable of realization were not material in relation to the Partnership's consolidated financial position at March 31, 2016. Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites; the determination of the extent of the contamination at each site; the timing and nature of required remedial actions; the technology available and needed to meet the various existing legal requirements; the nature and extent of future environmental laws, inflation rates and the determination of the Partnership's liability at multi-party sites, if any, in light of uncertainties with respect to joint and several liability; and the number, participation levels and financial viability of other parties. Management believes it is reasonably possible that additional environmental remediation losses will be incurred. At March 31, 2016, the aggregate of the estimated maximum additional reasonably possible losses, which relate to numerous individual sites, totaled \$8 million.

The Partnership is a party to certain pending and threatened claims. Although the ultimate outcome of these claims cannot be ascertained at this time, nor can a range of reasonably possible losses be determined, it is reasonably possible that some portion of them could be resolved unfavorably for the Partnership. Management does not believe that any liabilities which may arise from such claims or the environmental matters discussed above would be material in relation to the Partnership's financial position, results of operations or cash flows at March 31, 2016. Furthermore, management does not believe that the overall costs for such matters will have a material impact, over an extended period of time, on the Partnership's financial position, results of operations or cash flows.

Sunoco, Inc. ("Sunoco") has indemnified the Partnership for 30 years for environmental and toxic tort liabilities related to the assets contributed to the Partnership that arose from the operation of such assets prior to the closing of the February 2002 initial public offering ("IPO"). Sunoco has also indemnified the Partnership for 100 percent of all losses asserted within the first 21 years after the closing of the IPO. Sunoco's share of the liability for claims asserted thereafter will decrease by 10 percent per year. For example, for a claim asserted during the twenty-third year after the closing of the IPO, Sunoco would be required to indemnify the Partnership for 80 percent of its loss. There is no monetary cap on the amount of indemnity coverage provided by Sunoco. The Partnership has agreed to indemnify Sunoco for events and conditions associated with the operation of the Partnership's assets that occur on or after the closing of the IPO and for environmental and toxic tort liabilities to the extent that Sunoco is not required to indemnify the Partnership.

Management of the Partnership does not believe that any liabilities which may arise from claims indemnified by Sunoco would be material in relation to the Partnership's financial position, results of operations or cash flows at March 31, 2016. There are certain other pending legal proceedings related to matters arising after the IPO that are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material in relation to the Partnership's financial position, results of operations or cash flows at March 31, 2016.

11. Equity

The changes in the number of common units outstanding from January 1, 2015 through March 31, 2016 are as follows:

	Common Units (in millions)
Balance at January 1, 2015	226.1
Units issued in public offering	15.5
Units issued under ATM program	26.8
Units issued under incentive plans	0.4
Balance at December 31, 2015	268.8
Units issued in public offering	—
Units issued under ATM program	12.1
Units issued under incentive plans	—
Balance at March 31, 2016	280.9

The Partnership maintains an at-the-market equity offering program ("ATM" program) which allows it to issue common units directly to the public and raise capital in a timely and efficient manner to finance its growth capital program, while supporting the Partnership's investment grade credit ratings. For the three months ended March 31, 2016 and 2015, the Partnership issued 12.1 and 3.4 million common units under this program, for proceeds of \$301 and \$142 million, net of \$3 and \$2 million in fees and commissions to managers, respectively.

In March 2015, the Partnership completed an overnight public offering of 13.5 million common units for net proceeds of \$547 million. The net proceeds from this offering were used to repay outstanding borrowings under the Partnership's revolving credit facility and for general partnership purposes. In April 2015, an additional 2.0 million common units were issued for net proceeds of \$82 million related to the exercise of an option in connection with the March 2015 offering.

In October 2015, the Partnership issued 9.4 million Class B units to ETP in conjunction with the purchase of a 30 percent ownership interest in the Bakken pipeline. The Class B units represent a new class of limited partner interests in the Partnership which are not entitled to receive quarterly distributions that are made on the Partnership's common units, but are otherwise entitled to share in earnings pro-rata with common units. The Class B units will automatically convert to common units on a one-for-one basis in the third quarter 2017. However, the Partnership can exercise an option to call the Class B units for \$300 million. If not exercised, ETP can exercise a put right during the third quarter 2017, effective prior to the one-for-one conversion date, for the greater of \$313.5 million or the fair market value of the units, as defined in the unitholder agreement. As a result of the available put option, the amount attributable to the Class B units is excluded from total equity and instead reflected as redeemable interests in the Partnership's condensed consolidated balance sheet.

12. Cash Distributions

Within 45 days after the end of each quarter, the Partnership distributes all cash on hand at the end of the quarter, less reserves established by the general partner at its discretion. This is defined as "available cash" in the partnership agreement. The general partner has broad discretion to establish cash reserves that it determines are necessary or appropriate to properly conduct the Partnership's business. The Partnership will make quarterly distributions to the extent there is sufficient cash from operations after the establishment of cash reserves and the payment of fees and expenses, including payments to the general partner.

If cash distributions exceed \$0.0833 per unit in a quarter, the general partner will receive increasing percentages, up to 50 percent, of the cash distributed in excess of that amount. These distributions are referred to as "incentive distributions." The percentage interests for the unitholders and the general partner for the minimum quarterly distribution are also applicable to the quarterly distribution amounts that are less than the minimum quarterly distribution.

The following table shows the target distribution levels and distribution "splits" between the general partner and the holders of the Partnership's common units through March 31, 2016:

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions			
		General Partner	Unitholders		
Minimum Quarterly Distribution	\$0.0750	2 %	98 %		
First Target Distribution	up to \$0.0833	2 %	98 %		
Second Target Distribution	above \$0.0833 up to \$0.0958	15 % ⁽¹⁾	85 %		
Third Target Distribution	above \$0.0958 up to \$0.2638	37 % ⁽¹⁾	63 %		
Thereafter	above \$0.2638	50 % ⁽¹⁾	50 %		

⁽¹⁾ Includes general partner interest.

The distributions paid by the Partnership for the periods presented were as follows:

Cash Distribution Payment Date	Cash Distribution per Limited Partner Unit	Total Cash Distribution to the Limited Partners (in millions)	Total Cash Distribution to the General Partner (in millions)
February 12, 2016	\$ 0.4790	\$ 131	\$ 85
November 13, 2015	\$ 0.4580	\$ 119	\$ 76
August 14, 2015	\$ 0.4380	\$ 111	\$ 69
May 15, 2015	\$ 0.4190	\$ 103	\$ 62
February 13, 2015	\$ 0.4000	\$ 92	\$ 54

On April 28, 2016, the Partnership's general partner announced a cash distribution of \$0.489 per common unit (\$1.96 annualized), representing the distribution for the first quarter 2016. The \$232 million distribution, including \$92 million to the general partner for its interests and incentive distribution rights, will be paid on May 13, 2016 to unitholders of record on May 9, 2016.

13. Management Incentive Plan

Sunoco Partners LLC, the general partner of the Partnership, has adopted the Sunoco Partners LLC Long-Term Incentive Plan ("LTIP") for employees and directors of the general partner who perform services for the Partnership.