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PACIFIC ENERGY PARTNERS LP

Form 425

November 02, 2006

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Pacific Energy Partners, L.P. Reports
Higher Earnings for Third Quarter 2006

LONG BEACH, Calif.--(BUSINESS WIRE)--Nov. 1, 2006--Pacific Energy Partners, L.P. (NYSE:PPX) ("Pacific Energy" or the "Partnership") announced that net income for the three months ended September 30, 2006, was \$19.2 million, or \$0.48 per limited partner unit, compared to net income of \$12.2 million, or \$0.39 per limited partner unit, for the three months ended September 30, 2005. Recurring net income for the three months ended September 30, 2006 was \$20.3 million, or \$0.51 per limited partner unit, compared to recurring net income of \$12.2 million, or \$0.39 per limited partner unit, for the corresponding period in 2005. All per unit amounts in the text of this news release are reported on a diluted basis.

The increase in recurring net income for the quarter ended September 30, 2006, reflects the benefit of the September 30, 2005, acquisition of refined products terminals and a refined products pipeline from Valero L.P., increased income from our California pipelines, increased margins from crude oil marketing activities and higher revenue from our Southern California terminals. Partially offsetting these increases was a decline in transportation revenue from the Partnership's Canadian pipeline operations. In addition, the Partnership incurred higher interest expense attributable to the financing of the refined products asset acquisition and increased general and administrative costs. There were approximately 28% more units outstanding in the third quarter of 2006 compared to the corresponding quarter in 2005.

Recurring net income for the third quarter of 2006 excludes \$1.1 million of transaction costs related to the planned merger with Plains All American Pipeline, L.P. ("Plains").

"We are very pleased with our third quarter results. Recurring net income was up 31 percent on a per unit basis versus the prior year quarter and also exceeded the guidance given in last quarter's earnings press release. Our core transportation and storage business performed well, and favorable market conditions allowed us to generate better than expected crude oil marketing income," stated Irv Toole, President and CEO of Pacific Energy. "Organic pipeline and terminal growth projects in both of our business units continue to progress and are a primary focus of the Partnership."

On October 20, 2006, Pacific Energy announced a cash distribution of \$0.5675 per unit for the third quarter of 2006, or \$2.27 per unit annualized. This is unchanged from the second quarter 2006 distribution level but is 10.7% higher than the third quarter 2005 distribution level. The distribution will be paid on November 13, 2006, to holders of record as of October 31, 2006.

Distributable cash flow available to the limited partners'

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interest for the third quarter of 2006 was \$26.9 million after deducting \$1.1 million in merger costs. On a diluted, weighted average, basis there were 39,321,000 limited partner units outstanding during the third quarter of 2006.

Earnings before interest, tax, depreciation and amortization expenses ("EBITDA") were \$40.7 million in the third quarter of 2006.

OPERATING RESULTS BY SEGMENT

WEST COAST BUSINESS UNIT

Operating income was \$24.2 million for the three months ended September 30, 2006, compared to \$9.8 million in the corresponding period in 2005. This increase was primarily due to the addition of the Northern California and East Coast terminals on September 30, 2005, improved operating income from California pipeline operations, higher tank revenue from Los Angeles area terminal operations, and increased margins from crude oil marketing activities.

The Northern California terminals are operating at capacity. Construction of 450,000 barrels of additional storage capacity at Martinez was completed in late September 2006, with lease revenue beginning October 1. As previously announced, due to strong customer demand, Pacific Energy increased its capital budget to provide for the construction of an additional 850,000 barrels of storage capacity at Martinez, which is under contract. It is projected that \$1.1 million of capital will be expended in 2006 for these tanks, with an additional \$27.1 million to be expended in 2007. Completion of 250,000 barrels is expected in the third quarter of 2007 and the remaining 600,000 barrels is expected to be completed in the fourth quarter of 2007.

The East Coast terminals are also operating near capacity. East Coast terminal income includes the benefit of expanded ethanol facilities, which began operations in the second quarter of 2006 and are now fully operational, and the start-up of ultra low sulfur diesel and jet fuel handling facilities.

Volumes transported to Los Angeles on the Partnership's crude oil pipelines for the three months ended September 30, 2006 were approximately 6% higher than in the third quarter of 2005, due to refinery maintenance and higher Outer Continental Shelf production volumes which were lower in 2005 due to maintenance downtime. In addition to the long-haul volume improvement, revenue increased as a result of a \$0.10 per barrel tariff increase effective May 1, 2006 on Line 2000. In addition, deliveries to Bakersfield refineries more than tripled from the prior year quarter as a result of pipeline modifications in the San Joaquin Valley that were completed on October 1, 2005, that increased delivery capacity to those refineries.

Operating income for Los Angeles Basin terminals was higher compared to the corresponding quarter in 2005 due to increased tank utilization, higher rates on tank leases and lower operating expenses. The reactivation of 300,000 barrels of storage at the Alamitos terminal was completed in July 2006, and reactivation of a second 300,000 barrel tank is scheduled to be completed in the first quarter of 2007. Total capacity available to be leased after these reactivations will be 7.4 million barrels, with an additional 0.8 million barrels idle but available for reactivation in the future.

The Partnership's crude oil marketing income in the third quarter

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of 2006 was significantly higher than in the prior year quarter due to favorable margins and increased crude oil volumes.

The Partnership continues to advance the development of the Pier 400 deepwater import terminal in the Port of Los Angeles, with the draft environmental impact report expected to be released by the Port in the fourth quarter of 2006. This past quarter, efforts continued to be focused on finalizing environmental mitigation factors with the Port of Los Angeles and the Partnership's customers. The Partnership expects to receive the permits necessary to begin construction by mid-year 2007, with start-up of operations expected in the first quarter of 2009. The project, which will require a total estimated investment of \$315 million, is currently anticipated to include 4,000,000 barrels of storage capacity that will be constructed in two phases. Long term volume commitment agreements have been signed with subsidiaries of Valero Energy Corporation and ConocoPhillips, and it is anticipated that, with additional customer commitments currently being finalized, the estimated 250,000 barrels per day of offloading capacity will be fully subscribed.

ROCKY MOUNTAIN BUSINESS UNIT

Operating income was \$12.2 million for the three months ended September 30, 2006, compared to \$13.6 million in the corresponding period in 2005. The \$1.4 million decrease was primarily due to lower operating income for the Rangeland pipeline system in Alberta, partially offset by higher volumes on the Western Corridor system and the income contribution from the Rocky Mountain Products Pipeline that was part of the Valero L.P. acquisition. The decrease in Rangeland's third quarter 2006 income was due in part to the absence of an unusual item that benefited the 2005 quarter: the correction of an error in the procedures used to properly account for inventory and cost of goods sold that resulted in an increase in Rangeland's pre-tax income in the third quarter 2005 of \$1.2 million (\$0.7 million after tax).

Two major profit generating capital projects, the Salt Lake City pipeline expansion project and the Cheyenne pipeline project are proceeding on schedule and on budget. Construction of the first phase of the Salt Lake City pipeline expansion began in October 2006 and is scheduled to be completed around the end of this year. The second phase is expected to be completed in the fourth quarter of 2007. Total cost of this 93-mile, 16-inch pipeline, with a capacity of 95,000 barrels per day, is approximately \$77 million and is supported by firm, ten-year transportation agreements with four Salt Lake City refiners.

The Cheyenne Pipeline consists of a 24-inch crude oil pipeline, approximately 10 miles in length, from Guernsey, Wyoming, to Pacific Energy's Fort Laramie, Wyoming tank farm and a 16-inch crude oil pipeline, approximately 85 miles in length, from Fort Laramie to the Frontier Oil and Refining Company Cheyenne refinery. The project is on schedule to be completed in the second quarter of 2007 at a cost of approximately \$59 million and is supported by a firm ten-year commitment by Frontier Oil to ship 35,000 barrels per day on the pipeline, and lease approximately 300,000 barrels of storage capacity at Fort Laramie. The new pipeline system's initial capacity will be 55,000 barrels per day, expandable to a capacity of 90,000 barrels per day.

CORPORATE ITEMS

General and administrative expenses were \$5.6 million in the third

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quarter of 2006, approximately \$1.5 million higher than in the third quarter of 2005. This increase was associated with support of newly acquired assets, the Partnership's long term incentive plan, and an expense for the LB Pacific, LP ("LB Pacific") option plan introduced in the first quarter of 2006, the cost of which is required by generally accepted accounting principles to be recorded as a Pacific Energy expense even though the plan is funded by LB Pacific not the Partnership.

Interest expense was \$10.9 million for the third quarter of 2006, \$4.6 million greater than in the comparable period in 2005, due to the increase in debt for the Valero L.P. asset acquisition. Income tax expense was \$1.2 million lower compared to the third quarter of 2005, as a result of reduced Rangeland earnings.

NINE MONTH RESULTS

For the nine months ended September 30, 2006, net income was \$52.3 million, or \$1.31 per limited partner unit, compared to \$27.8 million, or \$0.96 per limited partner unit, for the nine months ended September 30, 2005. Recurring net income for the nine months ended September 30, 2006, was \$52.3 million, or \$1.31 per limited partner unit, compared with \$34.7 million, or \$1.13 per limited partner unit, for the nine months ended September 30, 2005. Recurring net income for the first nine months of 2006 reflects the benefit of nine months of operations in 2006 from the assets acquired from Valero L.P., increased margins from crude oil marketing activities, higher revenue and lower pipeline repair expenses for the California pipeline operations, increased pipeline revenue in the U.S. Rocky Mountain region, and higher Los Angeles area storage revenue. Partially offsetting these increases were increased interest and general and administrative expenses. In addition, there were approximately 31% more units outstanding in the nine months ended September 30, 2006 versus the comparable period of 2005.

Recurring net income for the nine months ended September 30, 2006 excludes \$4.5 million of costs associated with the pending Plains merger transaction, and a \$4.6 million deferred tax benefit. Due to legislation enacted in the second quarter of 2006, both federal and Alberta corporate tax rates in Canada are being reduced, and Pacific Energy's deferred tax liability balance was required by accounting rules to be adjusted to reflect the new rates. Recurring net income for the nine months ended September 30, 2005 excludes a \$2.0 million expense for the insurance deductible associated with remediation of the March 2005 Line 63 oil release, a \$3.1 million expense related to accelerated vesting of restricted units under Pacific Energy's long-term incentive plan as a result of the change in control attributable to the purchase of Pacific Energy's general partner by LB Pacific, and \$1.8 million of expense from this general partner transaction required to be recorded as a partnership expense even though it was paid by the general partner, not the Partnership.

For the nine months ended September 30, 2006, total capital spending was \$67.5 million: \$57.5 million of expansion capital, \$4.1 million of sustaining capital (including \$1.5 million in the third quarter), and \$5.9 million of transition capital.

LOOKING FORWARD

For the quarter ending December 31, 2006, Pacific Energy is forecasting recurring net income of \$0.34 to \$0.40 per unit and EBITDA of \$34 million to \$38 million. Major maintenance expenses budgeted for

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2006 but not yet incurred will increase costs in the fourth quarter of 2006 and are reflected in the guidance for the quarter and full year. Sustaining capital expenditures for the fourth quarter of 2006 are expected to be \$2 million to \$3 million.

For full year 2006, Pacific Energy is forecasting recurring net income of \$1.65 to \$1.71 per unit and EBITDA of \$144 million to \$148 million. Capital expenditures for the full year are projected to be \$119 million, including \$105 million for expansion projects, \$7 million for transition capital projects and \$7 million for sustaining capital projects. The reduction in expansion capital spending over prior guidance reflects a change in timing of certain project expenditures from 2006 to 2007.

The guidance for recurring net income for the fourth quarter and full year 2006 does not include expenses related to the Plains merger transaction or the deferred tax benefit resulting from the change in Canadian tax rates. The guidance for EBITDA reflects \$1.3 million and \$5.8 million, for the fourth quarter and full year, respectively, for estimated merger expenses to be incurred prior to closing.

For more information about non-GAAP ("generally accepted accounting principles") measures, see the schedules accompanying this press release.

MERGER WITH PLAINS ALL AMERICAN PIPELINE, L.P.

On June 12, 2006, Pacific Energy announced that it had entered into an Agreement and Plan of Merger with Plains, pursuant to which the Partnership will be merged with and into Plains. A special meeting of unitholders of the Partnership to consider approval of the merger is scheduled to occur on November 9, 2006. The parties expect to complete the merger on November 15, 2006 assuming the proposals are approved by the unitholders and all other conditions to closing are satisfied.

OTHER MATTERS

Pacific Energy will host a conference call at 2:00 p.m. EDT (11:00 a.m. PDT) on Thursday, November 2, 2006, to discuss the results of the third quarter of 2006. Please join us at www.PacificEnergy.com for the live broadcast or dial in at 800-446-1671 or 847-413-3362 passcode 16033900. The call, with questions and answers, will continue to be available on Pacific Energy's web site following the call.

About Pacific Energy:

Pacific Energy is a master limited partnership headquartered in Long Beach, California, engaged principally in the business of gathering, transporting, storing and distributing crude oil, refined products and other related products. The Partnership generates revenues by transporting such commodities on its pipelines, by leasing capacity in its storage facilities and by providing other terminaling services. Pacific Energy also buys and sells crude oil, activities that are generally complementary to its crude oil operations. Pacific Energy conducts its business through two business units, the West Coast Business Unit, which includes activities in California and the Philadelphia, PA area, and the Rocky Mountain Business Unit, which includes activities in five Rocky Mountain states and Alberta, Canada.

For additional information about the Partnership, please visit www.PacificEnergy.com.

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Investor Notice:

Pacific Energy and Plains All American Pipeline, L.P. have filed a joint proxy statement/prospectus and other documents with the Securities and Exchange Commission ("SEC") with respect to the proposed merger of Pacific Energy with and into Plains, which joint proxy statement/prospectus has been declared effective by the SEC. The definitive joint proxy statement/prospectus has been sent to security holders of Pacific Energy and Plains seeking their approval of the merger and related transactions. Investors and security holders are urged to carefully read the joint proxy statement/prospectus because it contains important information, including detailed risk factors, regarding Pacific Energy, Plains and the merger. Investors and security holders may obtain a free copy of the definitive joint proxy statement/prospectus and other documents containing information about Pacific Energy and Plains, without charge, at the SEC's web site at www.sec.gov. Copies of the definitive joint proxy statement/prospectus and the SEC filings that are incorporated by reference in the joint proxy statement/prospectus may also be obtained free of charge by directing a request to Pacific Energy or Plains. Pacific Energy or Plains and the officers and directors of the respective general partners of Pacific Energy or Plains may be deemed to be participants in the solicitation of proxies from their security holders in connection with the proposed transaction. Information about these persons can be found in Pacific Energy's or Plains' respective Annual Reports on Form 10-K filed with the SEC, and additional information about such persons may be obtained from the joint proxy statement/prospectus.

Cautionary Statement Regarding Forward-Looking Statements:

This news release may include "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included or incorporated herein may constitute forward-looking statements. Although Pacific Energy believes that the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. The forward-looking statements involve risks and uncertainties that may affect Pacific Energy's operations and financial performance. Among the factors that could cause results to differ materially are those risks discussed in Pacific Energy's filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2005, and including the definitive joint proxy statement/prospectus referred to in this press release.

PACIFIC ENERGY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Amounts in thousands, except per unit amounts)

Three Months Ended September 30,		Nine Months Ended September 30,	
2006	2005	2006	2005

Operating revenues:
Pipeline transportation

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revenue	\$36,995	\$27,283	\$105,652	\$83,067
Storage and terminaling revenue	23,467	9,731	65,420	30,923
Pipeline buy/sell transportation revenue	10,010	11,683	31,136	28,905
Crude oil sales, net of purchases	9,924	5,823	27,453	13,647
	-----	-----	-----	-----
Net revenues	80,396	54,520	229,661	156,542
	-----	-----	-----	-----
Expenses:				
Operating	34,046	25,019	99,120	72,065
General and administrative	5,649	4,115	18,236	12,987
Depreciation and amortization	10,398	6,560	30,692	19,695
Merger costs(1)	1,112	--	4,529	--
Accelerated long-term incentive plan compensation expense(2)	--	--	--	3,115
Line 63 oil release costs(3)	--	--	--	2,000
Reimbursed general partner transaction costs(4)	--	--	--	1,807
	-----	-----	-----	-----
Total expenses	51,205	35,694	152,577	111,669
	-----	-----	-----	-----
Share of net income of Frontier	373	516	1,246	1,363
	-----	-----	-----	-----
Operating income	29,564	19,342	78,330	46,236
Net interest expense	(10,853)	(6,237)	(30,029)	(17,679)
Other income	720	494	1,455	1,387
	-----	-----	-----	-----
Income before income tax expense	19,431	13,599	49,756	29,944
	-----	-----	-----	-----
Income tax benefit (expense):				
Current	(485)	(1,411)	(2,288)	(1,898)
Deferred(5)	289	(22)	4,824	(239)
	-----	-----	-----	-----
	(196)	(1,433)	2,536	(2,137)
	-----	-----	-----	-----
Net income	\$19,235	\$12,166	\$52,292	\$27,807
	=====	=====	=====	=====
Net income (loss) for the general partner interest(6)	\$347	\$243	\$720	\$(1,215)
	=====	=====	=====	=====
Net income for the limited partner interests(6)	\$18,888	\$11,923	\$51,572	\$29,022
	=====	=====	=====	=====
Basic net income per limited partner unit	\$0.48	\$0.39	\$1.31	\$0.97
	=====	=====	=====	=====
Diluted net income per limited partner unit	\$0.48	\$0.39	\$1.31	\$0.96
	=====	=====	=====	=====

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Weighted average units
outstanding:

Basic	39,307	30,761	39,305	30,051
Diluted	39,321	30,762	39,332	30,089

PACIFIC ENERGY PARTNERS, L.P.
(Unaudited)
(Amounts in thousands)
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2006	December 31, 2005
	-----	-----
Assets		
Current assets	\$265,226	\$192,115
Property and equipment, net	1,252,750	1,185,534
Intangible assets	67,639	69,180
Investment in Frontier Pipeline Company	8,651	8,156
Other assets	17,957	21,467
	-----	-----
Total assets	\$1,612,223	\$1,476,452
	=====	=====
Liabilities and Partners' Capital		
Current liabilities	\$204,160	\$156,187
Long-term debt	669,163	565,632
Deferred income taxes	32,560	35,771
Environmental and other long-term liabilities	17,416	20,623
Partners' capital	688,924	698,239
	-----	-----
Total liabilities and partners' capital	\$1,612,223	\$1,476,452
	=====	=====

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$52,292	\$27,807
Depreciation, amortization, non-cash employee compensation under long-term incentive plan, deferred income taxes and Frontier adjustment	27,458	24,256
Working capital adjustments	(30,259)	13,592
	-----	-----
Net cash provided by operating activities	49,491	65,655
	-----	-----
Cash flows from investing activities:		
Acquisition	(2,365)	(461,165)
Net additions to property and equipment	(67,522)	(27,265)
Additions to pipeline linefill and minimum tank inventory	(16,106)	--
Other	181	--
	-----	-----
Net cash used in investing activities	(85,812)	(488,430)

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Cash flows from financing activities:		
Issuance of common units, net of fees and offering expenses	--	289,122
Capital contribution from the general partner	--	8,569
Net proceeds from senior notes offering	--	170,997
Proceeds from bank credit facilities	182,094	203,291
Repayment of bank credit facilities	(81,463)	(195,661)
Deferred financing costs	--	(4,676)
Distributions to partners	(68,714)	(46,224)
Issuance of common units pursuant to exercise of unit option	--	707
Related parties	(28)	(1,171)
Net cash provided by financing activities	31,889	424,954
Effect of exchange rate changes on cash	83	213
Net increase in cash and cash equivalents	(4,349)	2,392
Cash and cash equivalents, beginning of period	18,064	23,383
Cash and cash equivalents, end of period	\$13,715	\$25,755

PACIFIC ENERGY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND OPERATING HIGHLIGHTS BY SEGMENT

Three Months Ended September 30, 2006 and 2005
(Unaudited)
(Amounts in thousands)

	West Coast Business Unit	Rocky Mountain Business Unit	Intersegment and Intra-segment Eliminations	Total
Three Months Ended September 30, 2006:				
Revenues:				
Pipeline transportation revenue	\$18,224	\$21,500	\$(2,729)	\$36,995
Storage and terminaling revenue	23,467	--	--	23,467
Pipeline buy/sell transportation revenue	--	10,010	--	10,010
Crude oil sales, net of purchases	9,494	572	(142)	9,924
Net revenue	51,185	32,082	--	80,396
Expenses:				
Operating expenses	21,505	15,412	(2,871)	34,046
Depreciation and amortization	5,528	4,870	--	10,398
Total expenses	27,033	20,282	--	44,444
Share of net income of Frontier	--	373	--	373

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Operating income (7)	----- \$24,152	----- \$12,173	----- \$36,325	----- =====
Operating Data (barrels per day, in thousands)				
Line 2000 and Line 63 pipeline systems	111.0			
Rangeland pipeline system:				
Sundre - North		19.7		
Sundre - South		48.5		
Western Corridor system		26.6		
Salt Lake City Core system		126.7		
Frontier Pipeline		46.2		
Rocky Mountain Products Pipeline(8)		59.2		
Three Months Ended September 30, 2005:				
Revenues:				
Pipeline transportation revenue	\$13,887	\$14,887	\$(1,491)	\$27,283
Storage and terminaling revenue	9,731	--		9,731
Pipeline buy/sell transportation revenue	--	11,683		11,683
Crude oil sales, net of purchases	5,690	163	(30)	5,823
Net revenue	29,308	26,733		54,520
Expenses:				
Operating expenses	16,004	10,536	(1,521)	25,019
Depreciation and amortization	3,491	3,069		6,560
Total expenses	19,495	13,605		31,579
Share of net income of Frontier	--	516		516
Operating income (7)	----- \$9,813	----- \$13,644	----- \$23,457	----- =====

Operating Data (barrels per day, in thousands)				
Line 2000 and Line 63 pipeline systems	104.4			
Rangeland pipeline system:				
Sundre - North		19.3		
Sundre - South		48.1		
Western Corridor system		26.8		
Salt Lake City Core system		125.6		
Frontier Pipeline		49.6		
Rocky Mountain Products Pipeline(8)		--		

PACIFIC ENERGY PARTNERS, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND OPERATING HIGHLIGHTS BY SEGMENT
Nine Months Ended September 30, 2006 and 2005

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(Unaudited)
(Amounts in thousands)

	West Coast Business Unit	Rocky Mountain Business Unit	Intersegment and Intrasegment Eliminations	Total
Nine Months Ended September 30, 2006:				
Revenues:				
Pipeline transportation revenue	\$52,083	\$60,790	\$(7,221)	\$105,652
Storage and terminaling revenue	65,420	--		65,420
Pipeline buy/sell transportation revenue	--	31,136		31,136
Crude oil sales, net of purchases	26,000	1,860	(407)	27,453
Net revenue	143,503	93,786		229,661
Expenses:				
Operating expenses	63,200	43,548	(7,628)	99,120
Depreciation and amortization	16,534	14,158		30,692
Total expenses	79,734	57,706		129,812
Share of net income of Frontier	--	1,246		1,246
Operating income (7)	\$63,769	\$37,326		\$101,095

Operating Data (barrels per day, in thousands)

Line 2000 and Line 63 pipeline systems	112.6
Rangeland pipeline system:	
Sundre - North	21.9
Sundre - South	44.5
Western Corridor system	26.3
Salt Lake City Core system	125.3
Frontier Pipeline	46.6
Rocky Mountain Products Pipeline(8)	60.3

Nine Months Ended September 30, 2005:

Revenues:				
Pipeline transportation revenue	\$46,525	\$41,348	\$(4,806)	\$83,067
Storage and terminaling revenue	31,073	--	(150)	30,923
Pipeline buy/sell transportation revenue	--	28,905		28,905
Crude oil sales, net of purchases	13,368	369	(90)	13,647

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Net revenue	90,966	70,622		156,542
Expenses:				
Operating expenses	46,507	30,604	(5,046)	72,065
Line 63 oil release costs(3)	2,000	--		2,000
Depreciation and amortization	10,497	9,198		19,695
Total expenses	59,004	39,802		93,760
Share of net income of Frontier	--	1,363		1,363
Operating income(7)	\$31,962	\$32,183		\$64,145

Operating Data (barrels per day, in thousands)

Line 2000 and Line 63 pipeline systems	120.8	
Rangeland pipeline system:		
Sundre - North		21.3
Sundre - South		45.3
Western Corridor system		24.0
Salt Lake City Core system		119.8
Frontier Pipeline		46.4
Rocky Mountain Products Pipeline(8)		--

PACIFIC ENERGY PARTNERS, L.P.

(Unaudited)
(Amounts in thousands)

RECONCILIATION OF OPERATING INCOME BY SEGMENT TO CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating income by Business Unit:				
West Coast Business Unit	\$24,152	\$9,813	\$63,769	\$31,962
Rocky Mountain Business Unit	12,173	13,644	37,326	32,183
	36,325	23,457	101,095	64,145
General expenses and other income (expense):(7)				
General and administrative expense	(5,649)	(4,115)	(18,236)	(12,987)
Merger costs(1)	(1,112)	--	(4,529)	--
Accelerated long-term incentive plan compensation expense(2)	--	--	--	(3,115)

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Reimbursed general partner transaction costs(4)	--	--	--	(1,807)
Interest expense	(10,853)	(6,237)	(30,029)	(17,679)
Other income	720	494	1,455	1,387
Income tax benefit (expense) (5)	(196)	(1,433)	2,536	(2,137)
Net income	\$19,235	\$12,166	\$52,292	\$27,807

LIMITED PARTNERS AND GENERAL PARTNER ALLOCATION OF NET INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income for the limited partner interests:				
Net income	\$19,235	\$12,166	\$52,292	\$27,807
Costs allocated to general partner:				
LBP Option Plan costs(9)	370	--	1,250	--
Senior Notes consent solicitation and other costs	--	--	--	893
Severance costs	--	--	--	914
Total costs allocated to general partner	370	--	1,250	1,807
Income before costs allocated to general partner	19,605	12,166	53,542	29,614
Less: General partner incentive distribution rights paid	(331)	--	(917)	--
Subtotal	19,274	12,166	52,625	29,614
Less: General partner 2% ownership	(386)	(243)	(1,053)	(592)
Net income allocated to limited partners	\$18,888	\$11,923	\$51,572	\$29,022
Net income for the general partner interest:				
General partner 2% ownership	\$386	\$243	\$1,053	\$592
Incentive distribution payments to general partner	331	--	917	--
Costs allocated to general partner	(370)	--	(1,250)	(1,807)
Net income (loss) allocated to general partner	\$347	\$243	\$720	\$(1,215)

PACIFIC ENERGY PARTNERS, L.P.

(Unaudited)

(Amounts in thousands, except per unit amounts)

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RECONCILIATION OF NET INCOME TO RECURRING NET INCOME (10)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$19,235	\$12,166	\$52,292	\$27,807
Add: Merger costs(1)	1,112	--	4,529	--
Add: Accelerated long-term incentive plan compensation expense(2)	--	--	--	3,115
Add: Line 63 oil release costs(3)	--	--	--	2,000
Add: Reimbursed general partner transaction costs(4)	--	--	--	1,807
Less: Deferred tax rate adjustment(5)	--	--	(4,560)	--
Recurring net income	\$20,347	\$12,166	\$52,261	\$34,729
Recurring net income for the general partner interest	\$369	\$243	\$719	\$695
Recurring net income for the limited partner interest	\$19,978	\$11,923	\$51,542	\$34,034
Basic and diluted recurring net income per limited partner unit	\$0.51	\$0.39	\$1.31	\$1.13

RECONCILIATION OF NET INCOME TO EBITDA (11)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$19,235	\$12,166	\$52,292	\$27,807
Interest expense	10,853	6,237	30,029	17,679
Depreciation and amortization	10,398	6,560	30,692	19,695
Income tax (benefit) expense	196	1,433	(2,536)	2,137
EBITDA	\$40,682	\$26,396	\$110,477	\$67,318

PACIFIC ENERGY PARTNERS, L.P.

RECONCILIATION OF NET INCOME TO DISTRIBUTABLE CASH FLOW (12)

(Unaudited)
(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005

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Net income	\$19,235	\$12,166	\$52,292	\$27,807
Depreciation and amortization	10,398	6,560	30,692	19,695
Amortization of debt issue costs and accretion of discount on long-term debt	625	487	1,847	1,424
Non-cash employee compensation under long-term incentive plan	236	--	732	1,429
Costs allocated to general partner(6)	370	--	1,250	1,807
Deferred income tax expense (benefit) (5)	(289)	22	(4,824)	239
Sustaining capital expenditures	(1,502)	(2,243)	(4,148)	(3,070)
	-----	-----	-----	-----
Distributable cash flow	29,073	16,992	77,841	49,331
Less: net (increase) decrease in operating assets and liabilities	(22,783)	165	(30,259)	13,592
Less: share of income of Frontier	(373)	(516)	(1,246)	(1,363)
Add: distributions from Frontier	--	667	622	1,317
Less: non-cash employee compensation under long-term incentive plan added (deducted) above	(236)	--	(732)	(1,429)
Add: employee compensation under long-term incentive plan	236	--	782	2,886
Less: costs reimbursed by general partner	--	--	--	(1,807)
Add: other non-cash adjustments	(16)	(40)	(1,665)	58
Add: sustaining capital expenditures	1,502	2,243	4,148	3,070
	-----	-----	-----	-----
Net cash provided by operating activities	\$7,403	\$19,511	\$49,491	\$65,655
	=====	=====	=====	=====
Total distributable cash flow	\$29,073	\$16,992	\$77,841	\$49,331
General partner interest in distributable cash flow	(2,192)	(458)	(4,423)	(1,659)
	-----	-----	-----	-----
Limited partner interest in distributable cash flow	\$26,881	\$16,534	\$73,418	\$47,672
	=====	=====	=====	=====

PACIFIC ENERGY PARTNERS, L.P.

RECONCILIATION OF RECURRING NET INCOME GUIDANCE TO NET INCOME GUIDANCE AND EBITDA GUIDANCE (13)
(Unaudited)

(Amounts in millions)

	Three Months Ending December 31, 2006		Year Ending December 31, 2006	
	Low	High	Low	High
	-----	-----	-----	-----
Recurring net income guidance (14)	\$13.7	\$16.0	\$65.9	\$68.2
Less: Merger costs	(1.4)	(1.2)	(5.9)	(5.7)
Add: Deferred tax rate adjustment	--	--	4.6	4.6

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Net income guidance(15)	\$12.3	\$14.8	\$64.6	\$67.1
Add: Depreciation and amortization	10.6	11.0	41.3	41.7
Add: Interest expense	10.8	11.5	40.8	41.5
Add: Income tax expense (benefit)(16)	--	0.2	(2.5)	(2.3)
Earnings before interest, tax, depreciation and amortization (EBITDA)	\$33.7	\$37.5	\$144.2	\$148.0

PACIFIC ENERGY PARTNERS, L.P.

NOTES TO FINANCIAL SCHEDULES (Unaudited)

(Amounts in millions, except volume data)

(1) On June 12, 2006, we announced that we had entered into a merger agreement with Plains All American Pipeline, L.P. ("PAA"), pursuant to which we will be merged into PAA. PAA will acquire common units (except for common units purchased from LB Pacific, LP) of Pacific Energy through a tax-free unit-for-unit merger in which each unitholder of Pacific Energy will receive 0.77 newly issued PAA common units for each Pacific Energy common unit. Under the terms of a separate agreement, PAA will acquire from LB Pacific, LP and its affiliates ("LB Pacific") the general partner interest and incentive distribution rights of the Partnership as well as 5.2 million common units and 5.2 million subordinated units for a total of \$700 million in cash. For the three and nine months ended September 30, 2006, we incurred \$1.1 million and \$4.5 million, respectively, in professional fees and other costs directly related to the merger.

(2) On March 3, 2005, in connection with a change in control of the Partnership's general partner, all restricted units outstanding under the Long-Term Incentive Plan immediately vested pursuant to the terms of the grants. The Partnership recognized compensation expense of \$3.1 million relating to the accelerated vesting. Of this compensation expense, \$0.6 million was considered operating expense and \$2.5 million was general and administrative expense.

(3) On March 23, 2005, there was an oil release of approximately 3,400 barrels in northern Los Angeles County. Although this event involved an outlay of cash, we believe these costs are unusual and are not indicative of the Partnership's recurring earnings.

(4) In 2005, our general partner reimbursed us \$1.8 million for transaction costs incurred in connection with the change in control of our general partner. Generally accepted accounting principles require us to record an expense with the reimbursement shown as a partner's capital contribution.

(5) During the nine months ended September 30, 2006, we recognized into earnings a \$4.6 million deferred tax benefit to adjust our deferred tax liability for recently enacted reductions in the Canadian provincial and federal income tax rates.

(6) See "Limited Partners and General Partner Allocation of Net

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Income" schedule included herein.

(7) General and administrative expenses, merger costs, accelerated long-term incentive plan expense, reimbursed general partner transaction costs, net interest expense, other income and income tax expense are not allocated among the West Coast and Rocky Mountain business units.

(8) The Rocky Mountain Products Pipeline was purchased on September 30, 2005.

(9) In January 2006, LB Pacific, LP ("LBP"), the owner of our General Partner, granted options under its LBP Option Plan (the "Plan") to certain of our officers and key employees. Under the Plan, participants are granted options to acquire partnership interests in LBP. We are not obligated to pay any amounts to LBP for the benefits granted or paid to our officers and key employees under the Plan, although generally accepted accounting principles require that we record an expense in the Partnership's financial statements with a corresponding increase in the general partner's capital account. For the three and nine months ended September 30, 2006, we recorded compensation expense of \$0.4 million and \$1.3 million, respectively, relating to the LBP Option Plan.

(10) Recurring net income is a non-GAAP financial measure. This measure is used to more precisely compare year over year net income by eliminating one-time, non-recurring charges. You should not consider recurring net income as an alternative to net income, income before taxes, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. Our recurring net income may not be comparable to similarly titled measures of other entities.

(11) EBITDA (earnings before interest, taxes, depreciation and amortization expense) is used as a supplemental performance measure by management to assess (i) the financial performance of our assets without regard to financing methods, capital structures or historical cost basis, (ii) the ability of our assets to generate cash sufficient to pay interest cost and support our indebtedness, (iii) our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard to financing and capital structure, and (iv) the viability of projects and the overall rates of return on alternative investment opportunities. You should not consider EBITDA as an alternative to net income, income before taxes, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. Our EBITDA may not be comparable to similarly titled measures of other entities. Additional information regarding EBITDA is included in our annual report on Form 10-K for the year ended December 31, 2005. For the three and nine months ended September 30, 2006, EBITDA has been reduced by \$1.1 million and \$4.5 million, respectively, for costs directly related to the proposed merger with Plains All American Pipeline, L.P. For the nine months ended September 30, 2005, EBITDA was reduced by \$3.1 million of compensation expense relating to the accelerated vesting of our long term incentive compensation plan, \$2.0 million of oil release costs and \$1.8 million of general partner costs that was required by GAAP to be recorded in our income statement. There was no unusual impact on EBITDA for the three months ended September 30, 2005.

(12) Distributable Cash Flow provides additional information for

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evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. You should not consider Distributable Cash Flow as an alternative to net income, income before taxes, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. Our Distributable Cash Flow may not be comparable to similarly titled measures of other entities. Additional information regarding distributable cash flow is included in our annual report on Form 10-K for the year ended December 31, 2005.

(13) The guidance for the three months ending December 31, 2006 and for the twelve months ending December 31, 2006 are based on assumptions and estimates that we believe are reasonable given our assessment of historical trends, business cycles and other information reasonably available. However, our assumptions and future performance are both subject to a wide range of business risks and uncertainties so no assurance can be provided that actual performance will fall within the guidance ranges. Please see "Forward-Looking Statements" above. These risks and uncertainties, as well as other unforeseeable risks and uncertainties, could cause our actual results to differ materially from those in the table. This financial guidance is given as of the date hereof, based on information known to us as of November 1, 2006. We undertake no obligation to publicly update or revise any forward-looking statements.

(14) Recurring net income guidance for the twelve months ending December 31, 2006 excludes \$4.5 million of merger costs and a \$4.6 million deferred tax benefit to adjust our deferred tax liability for reductions in the Canadian provincial and federal income tax rates that were enacted into law in the second quarter of 2006.

(15) Included in the net income guidance for the year ending December 31, 2006 is forecast general and administrative expense of \$23 million to \$24 million.

(16) Included for the year ending December 31, 2006 is forecast cash tax expense of \$2.7 million and forecast deferred tax benefit of \$5.1 million.

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