NuStar Energy L.P.
Form 10-Q
November 12, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

o 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 1-16417

NUSTAR ENERGY L.P.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 74-2956831 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 19003 IH-10 West<br>San Antonio, Texas | 78257 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (210) 918-2000

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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule12b-2 of the Exchange Act:

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | £ |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | 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 o No x

The number of common units outstanding as of October 31, 2013 was 77,886,078.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars, Except Unit Data)

| | September 30, 2013 (Unaudited) | December 31, 2012 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $24,519 | $83,602 |
| Accounts receivable, net of allowance for doubtful accounts of $959 and $808 as of September 30, 2013 and December 31, 2012, respectively | 242,203 | 387,943 |
| Receivable from related parties | 26,529 | 109,833 |
| Inventories | 122,998 | 173,228 |
| Income tax receivable | 25 | 1,265 |
| Other current assets | 41,188 | 65,238 |
| Assets held for sale | 2,847 | 118,334 |
| Total current assets | 460,309 | 939,443 |
| Property, plant and equipment, at cost | 4,528,950 | 4,287,859 |
| Accumulated depreciation and amortization | (1,167,100) | (1,049,399) |
| Property, plant and equipment, net | 3,361,850 | 3,238,460 |
| Intangible assets, net | 81,710 | 92,435 |
| Goodwill | 950,963 | 951,024 |
| Investment in joint ventures | 70,812 | 102,945 |
| Deferred income tax asset | 5,088 | 3,108 |
| Note receivable from related party | 146,472 | 95,711 |
| Other long-term assets, net | 165,456 | 189,963 |
| Total assets | $5,242,660 | $5,613,089 |
| Liabilities and Partners' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | $33,982 | $286,422 |
| Accounts payable | 222,360 | 397,633 |
| Payable to related party | 19,589 | 1,408 |
| Accrued interest payable | 26,384 | 23,741 |
| Accrued liabilities | 37,444 | 124,203 |
| Taxes other than income tax | 13,066 | 9,893 |
| Income tax payable | 3,878 | 2,671 |
| Total current liabilities | 356,703 | 845,971 |
| Long-term debt, less current portion | 2,439,696 | 2,124,582 |
| Long-term payable to related party | 29,637 | 18,071 |
| Deferred income tax liability | 29,455 | 32,114 |
| Other long-term liabilities | 6,190 | 7,356 |
| Commitments and contingencies (Note 5) | | |
| Partners' equity: | | |
| Limited partners (77,886,078 common units outstanding as of September 30, 2013 and December 31, 2012) | 2,374,962 | 2,573,263 |

| | | |
|---|---|---|
| General partner | 53,277 | 57,986 |
| Accumulated other comprehensive loss | (57,665) | (58,865) |
| Total NuStar Energy L.P. partners’ equity | 2,370,574 | 2,572,384 |
| Noncontrolling interest | 10,405 | 12,611 |
| Total partners’ equity | 2,380,979 | 2,584,995 |
| Total liabilities and partners’ equity | $5,242,660 | $5,613,089 |

See Condensed Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Service revenues | $245,577 | $225,068 | $706,493 | $646,444 |
| Product sales | 534,433 | 1,368,688 | 1,977,423 | 4,324,465 |
| Total revenues | 780,010 | 1,593,756 | 2,683,916 | 4,970,909 |
| Costs and expenses: | | | | |
| Cost of product sales | 527,217 | 1,329,377 | 1,928,237 | 4,211,966 |
| Operating expenses: | | | | |
| Third parties | 88,974 | 105,165 | 255,490 | 293,012 |
| Related party | 31,517 | 36,872 | 97,647 | 108,636 |
| Total operating expenses | 120,491 | 142,037 | 353,137 | 401,648 |
| General and administrative expenses: | | | | |
| Third parties | 8,336 | 8,773 | 24,171 | 26,566 |
| Related party | 10,495 | 16,180 | 41,807 | 48,688 |
| Total general and administrative expenses | 18,831 | 24,953 | 65,978 | 75,254 |
| Depreciation and amortization expense | 47,597 | 38,037 | 137,185 | 125,538 |
| Asset impairment loss | — | — | — | 249,646 |
| Goodwill impairment loss | — | — | — | 22,132 |
| Gain on legal settlement | — | — | — | (28,738) |
| Total costs and expenses | 714,136 | 1,534,404 | 2,484,537 | 5,057,446 |
| Operating income (loss) | 65,874 | 59,352 | 199,379 | (86,537) |
| Equity in (loss) earnings of joint ventures | (5,358) | (951) | (26,629) | 3,816 |
| Interest expense, net | (31,078) | (23,894) | (93,601) | (68,118) |
| Interest income from related party | 1,828 | — | 4,560 | — |
| Other income (expense), net | 1,407 | (19,943) | 3,978 | (21,392) |
| Income (loss) from continuing operations before income tax (benefit) expense | 32,673 | 14,564 | 87,687 | (172,231) |
| Income tax (benefit) expense | (563) | 599 | 6,147 | 20,318 |
| Income (loss) from continuing operations | 33,236 | 13,965 | 81,540 | (192,549) |
| (Loss) income from discontinued operations, net of tax | — | (9,623) | 9,069 | (23,665) |
| Net income (loss) | 33,236 | 4,342 | 90,609 | (216,214) |
| Less net loss attributable to noncontrolling interest | (161) | (47) | (439) | (217) |
| Net income (loss) attributable to NuStar Energy L.P. | $33,397 | $4,389 | $91,048 | $(215,997) |
| Net income (loss) per unit applicable to limited partners: | | | | |
| Continuing operations | $0.28 | $0.04 | $0.61 | $(3.07) |
| Discontinued operations | — | (0.13) | 0.12 | (0.33) |
| Total (Note 10) | $0.28 | $(0.09) | $0.73 | $(3.40) |
| Weighted-average limited partner units outstanding | 77,886,078 | 72,383,578 | 77,886,078 | 71,302,538 |
| | | | | |
| Comprehensive income (loss) | $38,790 | $(4,018) | $90,042 | $(268,791) |
| Less comprehensive (loss) income attributable to noncontrolling interest | (729) | 66 | (2,206) | 780 |
| Comprehensive income (loss) attributable to | $39,519 | $(4,084) | $92,248 | $(269,571) |

NuStar Energy L.P.
See Condensed Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, Thousands of Dollars)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $90,609 | $(216,214) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 137,185 | 129,943 |
| Amortization of debt related items | 1,721 | (5,718) |
| (Gain) loss from sale or disposition of assets | (8,739) | 19,828 |
| Asset and goodwill impairment loss | — | 271,778 |
| Gain on legal settlement | — | (28,738) |
| Deferred income tax (benefit) expense | (3,815) | 1,403 |
| Equity in loss (earnings) of joint ventures | 26,629 | (3,816) |
| Distributions of equity in earnings of joint ventures | 5,787 | 6,364 |
| Changes in current assets and current liabilities (Note 11) | 116,838 | 108,750 |
| Other, net | 12,325 | (11,701) |
| Net cash provided by operating activities | 378,540 | 271,879 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (260,701) | (320,778) |
| Change in accounts payable related to capital expenditures | (2,879) | — |
| Investment in other long-term assets | — | (2,364) |
| Proceeds from sale or disposition of assets | 116,467 | 471,823 |
| Increase in note receivable from related party | (50,761) | (170,711) |
| Other, net | 156 | — |
| Net cash used in investing activities | (197,718) | (22,030) |
| Cash Flows from Financing Activities: | | |
| Proceeds from long-term debt borrowings | 1,299,220 | 1,805,168 |
| Proceeds from short-term debt borrowings | — | 71,880 |
| Proceeds from note offering, net of issuance costs | 687,151 | 247,408 |
| Long-term debt repayments | (1,897,182) | (2,287,178) |
| Short-term debt repayments | — | (71,880) |
| Proceeds from issuance of common units, net of issuance costs | — | 336,662 |
| Contributions from general partner | — | 7,121 |
| Distributions to unitholders and general partner | (294,153) | (267,228) |
| Payments for termination of interest rate swaps | (33,697) | (5,678) |
| Other, net | 3,168 | 363 |
| Net cash used in financing activities | (235,493) | (163,362) |
| Effect of foreign exchange rate changes on cash | (4,412) | 3,472 |
| Net (decrease) increase in cash and cash equivalents | (59,083) | 89,959 |
| Cash and cash equivalents as of the beginning of the period | 83,602 | 17,497 |
| Cash and cash equivalents as of the end of the period | $24,519 | $107,456 |

See Condensed Notes to Consolidated Financial Statements.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION AND BASIS OF PRESENTATION

### Organization and Operations

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and fuels marketing. Unless otherwise indicated, the terms “NuStar Energy,” “the Partnership,” “we,” “our” and “us” are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 15.0% total interest in us as of September 30, 2013.

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). We have three business segments: storage, pipeline and fuels marketing.

### Basis of Presentation

These unaudited condensed consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Noncontrolling interests are separately disclosed on the financial statements. Inter-partnership balances and transactions have been eliminated in consolidation. We account for investments in 50% or less-owned entities using the equity method.

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and all disclosures are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and nine months ended September 30, 2013 and 2012 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited condensed consolidated financial statements. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated financial statements as of that date. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

### New Accounting Pronouncements

Balance Sheet Offsetting. In December 2011, the Financial Accounting Standards Board (FASB) amended the disclosure requirements with respect to offsetting assets and liabilities. The amended guidance requires new disclosures to enable users of financial statements to reconcile differences in the offsetting requirements under U.S. GAAP and International Financial Reporting Standards. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB further amended and clarified the scope of balance sheet offsetting disclosure requirements. The amended guidance limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The disclosures are required irrespective of whether the transactions are offset in the consolidated balance sheets. The amended guidance is effective for annual and interim reporting periods beginning on or after January 1, 2013, and retrospective application is required. Accordingly, we adopted the amended guidance January 1, 2013, and it did not have a material impact on our disclosures.

Other Comprehensive Income. In February 2013, the FASB further amended the disclosure requirements for the presentation of comprehensive income. The amended guidance requires that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The amended guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. Accordingly, we adopted the amended guidance January 1, 2013, and it did not have a material impact on our disclosures.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 2. DISPOSITIONS

San Antonio Refinery
On January 1, 2013, we sold our fuels refinery in San Antonio, Texas (the San Antonio Refinery) and related assets, which included inventory, a terminal in Elmendorf, Texas and a pipeline connecting the terminal and refinery for approximately $117.0 million (the San Antonio Refinery Sale), and the purchaser assumed certain related liabilities. We have presented the results of operations for the San Antonio Refinery and related assets, previously reported in the fuels marketing and pipeline segments, as discontinued operations for all periods presented. For the three and nine months ended September 30, 2012, we allocated interest expense of $1.0 million and $2.9 million, respectively, to discontinued operations based on the ratio of net assets sold to consolidated net assets. We recognized a gain of $9.3 million on the sale, which is included in discontinued operations for the nine months ended September 30, 2013.

The following table summarizes the results from discontinued operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands of Dollars) | | | |
| Revenues | $— | $151,010 | $185 | $411,454 |
| Income (loss) before income tax expense | $— | $(9,600) | $9,069 | $(23,629) |

As of December 31, 2012, we reclassified the assets related to the San Antonio Refinery as “Assets held for sale” on the consolidated balance sheet. The liabilities held for sale related to the San Antonio Refinery are included within “Accrued liabilities” on the consolidated balance sheet. The total assets and liabilities held for sale consisted of the following:

| | December 31, 2012 |
|---|---|
| | (Thousands of Dollars) |
| Inventories | $15,939 |
| Property, plant and equipment, net | 93,899 |
| Other long-term assets, net | 5,650 |
| Assets held for sale | $115,488 |
| | |
| Accrued liabilities (environmental reserve) | $289 |
| Other long-term liabilities (environmental reserve) | 7,621 |
| Liabilities held for sale | $7,910 |

## 3. INVENTORIES

Inventories consisted of the following:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (Thousands of Dollars) | |
| Crude oil | $8,112 | $447 |
| Finished products | 106,997 | 164,894 |
| Materials and supplies | 7,889 | 7,887 |
| Total | $122,998 | $173,228 |

4. DEBT

Revolving Credit Agreement

During the nine months ended September 30, 2013, our $1.5 billion five-year revolving credit agreement (the 2012 Revolving Credit Agreement) was reduced by $154.3 million, primarily as a result of applying a portion of the proceeds from the issuance of NuStar Logistics’ 6.75% senior notes in August 2013. The 2012 Revolving Credit Agreement bears interest, at our option, based on either an alternative base rate or a LIBOR-based rate. The interest rate on the 2012 Revolving Credit Agreement is subject to adjustment if our debt rating is downgraded (or subsequently upgraded) by certain credit rating agencies. As of September 30, 2013, our weighted average interest rate was 2.4%.

The 2012 Revolving Credit Agreement contains customary restrictive covenants, including requiring us to maintain, as of the end of each rolling period, which consists of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2012 Revolving Credit Agreement) not to exceed 5.00-to-1.00. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the 2012 Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of September 30, 2013, our consolidated debt coverage ratio was 4.3x, and we had $1,055.5 million available for borrowing.

6.75% Senior Notes

On August 19, 2013, NuStar Logistics issued $300.0 million of 6.75% senior notes due February 1, 2021 (the 6.75% Senior Notes). We received proceeds of approximately $296.3 million, net of the underwriters' discount and deferred issuance costs of $3.7 million, which we used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The interest on the 6.75% Senior Notes is payable semi-annually in arrears on February 1 and August 1 of each year beginning on February 1, 2014.

The 6.75% Senior Notes rank equally with existing senior unsecured indebtedness of NuStar Logistics and do not have sinking fund requirements. The 6.75% Senior Notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy and NuPOP. NuPOP will be released from its guarantee when it no longer guarantees any obligations of NuStar Energy, or any of its subsidiaries, including NuStar Logistics, under any bank facility or public debt instrument. The 6.75% Senior Notes contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the notes. In addition, the 6.75% Senior Notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens, to engage in certain sale-leaseback transactions and to engage in certain consolidations, mergers or asset sales. At the option of NuStar Logistics, the 6.75% Senior Notes may be redeemed in whole or in part at any time at a redemption price, which may include a make-whole premium, plus accrued and unpaid interest to the redemption date.

7.625% Fixed-to-Floating Rate Subordinated Notes

On January 22, 2013, NuStar Logistics issued $402.5 million of 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 (the Subordinated Notes), including the underwriters' option to purchase up to an additional $52.5 million principal amount of the notes, which was exercised in full. We received proceeds of approximately $390.9 million, net of $11.6 million of deferred issuance costs, which we used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The Subordinated Notes are fully and unconditionally guaranteed on an unsecured and subordinated basis by NuStar Energy and NuPOP.

The Subordinated Notes bear interest at a fixed annual rate of 7.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2013 and ending on January 15, 2018. Thereafter, the Subordinated Notes will bear interest at an annual rate equal to the sum of the three-month LIBOR rate for the related quarterly interest period, plus 6.734% payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2018, unless payment is deferred in accordance with the terms of the notes. NuStar Logistics may elect to defer interest payments on the Subordinated Notes on one or more occasions for up to five consecutive years. Deferred interest will accumulate additional interest at a rate equal to the interest rate then applicable to the Subordinated Notes until paid. If NuStar Logistics elects to defer interest payments, NuStar Energy cannot declare or make cash distributions to its unitholders during the period interest is deferred.

The Subordinated Notes do not have sinking fund requirements and are subordinated to existing senior unsecured indebtedness of NuStar Logistics and NuPOP. The Subordinated Notes do not contain restrictions on NuStar Logistics' ability to incur additional indebtedness, including debt that ranks senior in priority of payment to the notes. In addition, the Subordinated Notes do not limit NuStar Logistics' ability to incur indebtedness secured by certain liens or to engage in certain sale-leaseback transactions. At the option of NuStar Logistics, the Subordinated Notes may be redeemed in whole or in part at any time at a redemption price, which may include a make-whole premium, plus accrued and unpaid interest to the redemption date.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, tax-exempt revenue bonds (the GoZone Bonds) associated with our St. James, Louisiana terminal expansions. The GoZone Bonds bear interest based on a weekly tax-exempt bond market interest rate, and we pay interest monthly. The interest rate was 0.1% as of September 30, 2013. Following the issuance, the proceeds were deposited with a trustee and are disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansions. We include the amount remaining in trust in "Other long-term assets, net," and we include the amount of bonds issued in "Long-term debt, less current portion" on the consolidated balance sheets. For the nine months ended September 30, 2013, we received $38.5 million from the trustee. As of September 30, 2013, the amount remaining in trust totaled $88.1 million.

Other
In February 2013, we repaid the remaining principal balance of $0.6 million on our $12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas. During the nine months ended September 30, 2013, we repaid NuStar Logistics' $229.9 million of 6.05% senior notes due March 15, 2013 and NuPOP's $250.0 million of 5.875% senior notes due June 1, 2013 with borrowings under our 2012 Revolving Credit Agreement.

In January 2013, Moody's Investor Service lowered our credit rating to Ba1 from Baa3. This downgrade caused the interest rates on the 2012 Revolving Credit Agreement, NuStar Terminals Limited's £21 million amended and restated term loan agreement and NuStar Logistics' $350.0 million of 7.65% senior notes due 2018 to increase by 0.375%, 0.375% and 0.25%, respectively, effective January 2013. This downgrade may also require us to provide additional credit support for certain contracts, although as of September 30, 2013, we have not been required to provide any additional credit support.

## 5. COMMITMENTS AND CONTINGENCIES

Contingencies
We have contingent liabilities resulting from various litigation, claims and commitments. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of September 30, 2013, we have accrued $0.6 million for contingent losses. The amount that will ultimately be paid related to these matters may differ from the recorded accruals, and the timing of such payments is uncertain. In addition, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

Commitments
On November 6, 2013, we came to a mutual agreement with PDVSA-Petróleo S.A. (PDVSA) to terminate that certain Crude Oil Sales Agreement dated effective as of March 1, 2008 (the CSA). We previously amended the CSA to reduce the crude oil purchase obligations from 75,000 barrels per day to 30,000 barrels per day, which remains in effect for the remainder the year. The termination is effective January 1, 2014, and will also terminate our crude oil supply agreement with NuStar Asphalt LLC (Asphalt JV) effective January 1, 2014. See Note 8. Related Party Transactions for a discussion of our crude oil supply agreement with Asphalt JV.

## 6. FAIR VALUE MEASUREMENTS

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices for identical assets or liabilities in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active; and Level 3, defined as unobservable inputs in which little or no market data exists. We consider counterparty credit risk and our own credit risk in the determination of all estimated fair values.

Product Imbalances. We value our assets and liabilities related to product imbalances using quoted market prices in active markets as of the reporting date.

Interest Rate Swaps. We estimate the fair value of both our fixed-to-floating and forward-starting interest rate swaps using discounted cash flows, which used observable inputs such as time to maturity and market interest rates.

Commodity Derivatives. We base the fair value of certain of our commodity derivative instruments on quoted prices on an exchange; accordingly, we include these items in Level 1 of the fair value hierarchy. We also have derivative instruments for which we determine fair value using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments. Therefore, we include these derivative instruments in Level 2 of the fair value hierarchy. See Note 7. Derivatives and Risk Management Activities for a discussion of our derivative instruments.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following assets and liabilities are measured at fair value:

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (Thousands of Dollars) | | | |
| Other current assets: | | | | |
| Product imbalances | $970 | $— | $— | $970 |
| Commodity derivatives | 202 | 4,200 | — | 4,402 |
| Other long-term assets, net: | | | | |
| Commodity derivatives | — | 6,575 | — | 6,575 |
| Accrued liabilities: | | | | |
| Product imbalances | (1,476) | — | — | (1,476) |
| Commodity derivatives | — | (5,006) | — | (5,006) |
| Contingent consideration | — | — | (2,818) | (2,818) |
| Other long-term liabilities: | | | | |
| Commodity derivatives | — | (208) | — | (208) |
| Total | $(304) | $5,561 | $(2,818) | $2,439 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (Thousands of Dollars) | | | |
| Other current assets: | | | | |
| Product imbalances | $1,232 | $— | $— | $1,232 |
| Commodity derivatives | 1,001 | 8,357 | — | 9,358 |
| Other long-term assets, net: | | | | |
| Commodity derivatives | — | 9,206 | — | 9,206 |
| Accrued liabilities: | | | | |
| Product imbalances | (1,686) | — | — | (1,686) |
| Commodity derivatives | — | (19,210) | — | (19,210) |
| Interest rate swaps | — | (40,911) | — | (40,911) |
| Contingent consideration | — | — | (9,600) | (9,600) |
| Total | $547 | $(42,558) | $(9,600) | $(51,611) |

Contingent Consideration
On December 13, 2012, NuStar Logistics acquired certain assets, including 100% of the partnership interest in TexStar Crude Oil Pipeline, LP, from TexStar Midstream Services, LP and certain of its affiliates (collectively, TexStar) for approximately $325.0 million (the TexStar Asset Acquisition), including contingent consideration.

In connection with the TexStar Asset Acquisition, we could be obligated to pay additional consideration to TexStar. Such obligations are dependent upon the cost of work required to complete certain assets and obtain outstanding real estate rights (collectively, the Contingent Consideration). We estimated the fair value of the Contingent Consideration using a probability-weighted discounted cash flow model, which reflects possible outcomes and our estimates of the probabilities of those outcomes. Our estimate of the fair value is based on significant inputs not observable in the market and thus falls within Level 3 of the fair value hierarchy. The probability-weighted cash flows were discounted using a discount rate of 11%.

Based on our assessment of the costs necessary to complete the assets in accordance with our agreement with TexStar, and considering the probability of possible outcomes, we determined that it is unlikely we would be obligated to pay a portion of the Contingent Consideration. The undiscounted amount of potential future payments that we could be required to make under the applicable agreements is between $0 and $9.3 million.

The following table summarizes the activity in our Level 3 liabilities for contingent consideration:

| | Nine Months Ended September 30, 2013 |
|---|---|
| | (Thousands of Dollars) |
| Beginning balance | $9,600 |
| Amounts settled | (1,114) |
| Changes in fair value recorded in earnings: | |
| Operating expenses | (6,500) |
| Interest expense, net | 832 |
| Ending balance | $2,818 |

Fair Value of Financial Instruments

We recognize cash equivalents, receivables, note receivables from related parties, payables and debt in our consolidated balance sheets at their carrying amount. The fair values of these financial instruments, except for a note receivable from related party and debt, approximate their carrying amounts. The estimated fair value and carrying amounts of the note receivable from related party and debt were as follows:

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Fair Value | Carrying Amount | Fair Value | Carrying Amount |
| | (Thousands of Dollars) | | | |
| Debt | $2,429,001 | $2,473,678 | $2,377,120 | $2,411,004 |
| Note receivable from related party | $109,505 | $146,472 | $91,705 | $95,711 |

We estimated the fair value of our publicly-traded senior notes based upon quoted prices in active markets; therefore, we determined that the fair value of our publicly traded senior notes falls in Level 1 of the fair value hierarchy. For our other debt, for which a quoted market price is not available, we estimated the fair value using a discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements and determined that the fair value falls in Level 2 of the fair value hierarchy.

We estimated the fair value of the note receivable from related party using discounted cash flows, which use inputs such as time to maturity and estimated market interest rates, and determined the fair value falls in Level 3 of the fair value hierarchy. See Note 8. Related Party Transactions for additional information on the note receivable from Asphalt JV.

7. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to manage our exposure to commodity price risk and interest rate risk. Our risk management policies and procedures are designed to monitor interest rates, futures and swap positions and over-the-counter positions, as well as physical volumes, grades, locations and delivery schedules, to help ensure that our hedging activities address our market risks. Our risk management committee oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

Interest Rate Risk

We were a party to certain interest rate swap agreements to manage our exposure to changes in interest rates, which included forward-starting interest rate swap agreements related to the interest payments associated with forecasted probable debt issuances in 2013. We entered into these swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. These swaps qualified, and we designated them, as cash flow hedges of future interest payments associated with forecasted debt issuances. In connection with the maturity of the 6.05% senior notes due March 15, 2013 and 5.875% senior notes due June 1, 2013, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of $275.0 million. We paid $33.7 million in connection with the terminations, which we reclassify out of “Accumulated other comprehensive loss” and into “Interest expense, net” as the interest payments occur or if the interest payments are probable not to occur. During the second quarter of 2013, we determined that one forecasted interest payment was probable not to occur, and we reclassified $2.0 million out of “Accumulated other comprehensive loss” to “Interest expense, net.” As of September 30, 2013, we had no forward-starting interest rate swaps.

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We were also a party to fixed-to-floating interest rate swap agreements associated with a portion of our fixed-rate senior notes, which we accounted for as fair value hedges. We terminated all remaining fixed-to-floating interest rate swap agreements during the year ended December 31, 2012.

Commodity Price Risk
We are exposed to market risks related to the volatility of crude oil and refined product prices. In order to reduce the risk of commodity price fluctuations with respect to our crude oil and finished product inventories and related firm commitments to purchase and/or sell such inventories, we utilize commodity futures and swap contracts, which qualify, and we designate as, fair value hedges. Derivatives that are intended to hedge our commodity price risk, but fail to qualify as fair value or cash flow hedges, are considered economic hedges, and we record associated gains and losses in net income.

To determine the volume represented by commodity contracts, we combined the volume of our long and short open positions on an absolute basis, which totaled 20.9 million barrels and 22.7 million barrels as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013 and December 31, 2012, we had $4.5 million and $6.2 million, respectively, of margin deposits related to our derivative instruments.

The fair values of our derivative instruments included in our consolidated balance sheets were as follows:

| | Balance Sheet Location | Asset Derivatives September 30, 2013 | Asset Derivatives December 31, 2012 | Liability Derivatives September 30, 2013 | Liability Derivatives December 31, 2012 |
|---|---|---|---|---|---|
| | | (Thousands of Dollars) | | | |
| Derivatives Designated as Hedging Instruments: | | | | | |
| Commodity contracts | Other current assets | $412 | $1,471 | $— | $(811) |
| Interest rate swaps | Accrued liabilities | — | — | — | (40,911) |
| Total | | 412 | 1,471 | — | (41,722) |
| Derivatives Not Designated as Hedging Instruments: | | | | | |
| Commodity contracts | Other current assets | 19,120 | 22,269 | (15,130) | (13,571) |
| Commodity contracts | Other long-term assets, net | 18,034 | 39,322 | (11,459) | (30,116) |
| Commodity contracts | Accrued liabilities | 7,199 | 17,406 | (12,205) | (36,616) |
| Commodity contracts | Other long-term liabilities | 7,165 | — | (7,373) | — |
| Total | | 51,518 | 78,997 | (46,167) | (80,303) |
| Total Derivatives | | $51,930 | $80,468 | $(46,167) | $(122,025) |

Certain of our derivative instruments are eligible for offset in the consolidated balance sheets and subject to master netting arrangements. Under our master netting arrangements, there is a legally enforceable right to offset amounts, and we intend to settle such amounts on a net basis. The following are the net amounts presented on the consolidated balance sheets:

| Commodity Contracts | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (Thousands of Dollars) | |
| Net amounts of assets presented in the consolidated balance sheets | $10,977 | $18,564 |
| Net amounts of liabilities presented in the consolidated balance sheets | $(5,214) | $(19,210) |

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The earnings impact of our derivative activity was as follows:

| Derivatives Designated as Fair Value Hedging Instruments | Income Statement Location | Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Hedged Item | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---|---|---|---|---|
| | | (Thousands of Dollars) | | |
| Three months ended September 30, 2013: | | | | |
| Commodity contracts | Cost of product sales | $(3,853) | $4,184 | $ 331 |
| Three months ended September 30, 2012: | | | | |
| Commodity contracts | Cost of product sales | $(23,131) | $22,505 | $ (626) |
| Nine months ended September 30, 2013: | | | | |
| Commodity contracts | Cost of product sales | $4,059 | $(6,298) | $ (2,239) |
| Nine months ended September 30, 2012: | | | | |
| Interest rate swaps | Interest expense, net | $(17,345) | $17,345 | $ — |
| Commodity contracts | Cost of product sales | (20,496) | 19,058 | (1,438) |
| Total | | $(37,841) | $36,403 | $ (1,438) |

| Derivatives Designated as Cash Flow Hedging Instruments | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) | Income Statement Location (a) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---|---|---|---|---|
| | (Thousands of Dollars) | | (Thousands of Dollars) | |
| Three months ended September 30, 2013: | | | | |
| Interest rate swaps | $ — | Interest expense, net | $(1,653) | $ — |
| Three months ended September 30, 2012: | | | | |
| Interest rate swaps | $ (3,825) | Interest expense, net | $(645) | $ — |
| Commodity contracts | (20,629) | Income (loss) from discontinued operations | (8,728) | 277 |
| Total | $ (24,454) | | $(9,373) | $ 277 |

| | | | | |
|---|---|---|---|---|
| Nine months ended September 30, 2013: | | | | |
| Interest rate swaps | $ 7,213 | Interest expense, net | $(4,615) | $ — |
| Nine months ended September 30, 2012: | | | | |
| Interest rate swaps | $ (17,276) | Interest expense, net | $(1,697) | $ — |
| Commodity contracts | (73,289) | Income (loss) from discontinued operations | (24,590) | 4,287 |
| Total | $ (90,565) | | $(26,287) | $ 4,287 |

(a) Amounts are included in specified location for both the gain (loss) reclassified from accumulated other comprehensive income (OCI) into income (effective portion) and the gain (loss) recognized in income on derivative (ineffective portion).

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| Derivatives Not Designated as Hedging Instruments | Income Statement Location | Amount of Gain (Loss) Recognized in Income (Thousands of Dollars) |
|---|---|---|
| Three months ended September 30, 2013: | | |
| Commodity contracts | Cost of product sales | $ (4,941 ) |
| Three months ended September 30, 2012: | | |
| Commodity contracts | Cost of product sales | $ (710 ) |
| Commodity contracts | Income (loss) from discontinued operations | (136 ) |
| Total | | $ (846 ) |
| Nine months ended September 30, 2013: | | |
| Commodity contracts | Cost of product sales | $ (4,492 ) |
| Commodity contracts | Income (loss) from discontinued operations | (218 ) |
| Total | | $ (4,710 ) |
| Nine months ended September 30, 2012: | | |
| Commodity contracts | Revenues | $ (7,654 ) |
| Commodity contracts | Cost of product sales | 20,679 |
| Commodity contracts | Income (loss) from discontinued operations | 2,412 |
| Total | | $ 15,437 |

For derivatives designated as cash flow hedging instruments, once a hedged transaction occurs, we reclassify the effective portion from accumulated OCI to "Cost of product sales" or "Interest expense, net." As of September 30, 2013, we expect to reclassify a loss of $11.0 million to "Interest expense, net" within the next twelve months.

## 8. RELATED PARTY TRANSACTIONS

The following table summarizes information pertaining to related party transactions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands of Dollars) | | | |
| Revenues | $2,376 | $713 | $16,183 | $2,198 |
| Operating expenses | $31,517 | $36,872 | $97,647 | $108,636 |
| General and administrative expenses | $10,495 | $16,180 | $41,807 | $48,688 |
| Interest income | $1,828 | $— | $4,560 | $— |
| Expenses included in discontinued operations, net of tax | $— | $2,161 | $196 | $6,451 |

NuStar GP, LLC
Our operations are managed by NuStar GP, LLC, the general partner of our general partner. Under a services agreement between NuStar Energy and NuStar GP, LLC, employees of NuStar GP, LLC perform services for our U.S.

operations. Certain of our wholly owned subsidiaries employ persons who perform services for our international operations. Employees of NuStar GP, LLC provide services to both NuStar Energy and NuStar GP Holdings; therefore, we reimburse NuStar GP, LLC for all employee costs, other than the expenses allocated to NuStar GP Holdings.

We had a payable to NuStar GP, LLC of $19.6 million and $1.4 million as of September 30, 2013 and December 31, 2012, respectively, with both amounts representing payroll, employee benefit plan expenses and unit-based compensation. We also had a long-term payable to NuStar GP, LLC as of September 30, 2013 and December 31, 2012 of $29.6 million and $18.1 million, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits.

Asphalt JV
On September 28, 2012, we sold a 50% ownership interest (the Asphalt Sale) in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary. Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy. Unless otherwise indicated, the term “Asphalt JV” is used in this report to refer to NuStar Asphalt LLC, to one or more of its consolidated subsidiaries or to all of them taken as a whole.

Financing Agreements and Credit Support. The NuStar JV Facility is an unsecured revolving credit facility provided by NuStar Energy to Asphalt JV in an aggregate principal amount not to exceed $250.0 million for a term of seven years. As of September 30, 2013 and December 31, 2012, the balance due under the NuStar JV Facility totaled $146.5 million and $95.7 million, respectively.

In addition, during the term of the NuStar JV Facility, NuStar Energy will provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $150.0 million. As of September 30, 2013, NuStar Energy has provided guarantees for commodity purchases, lease obligations and certain utilities for Asphalt JV with an aggregate maximum potential exposure of $105.0 million. In addition, NuStar Energy has provided two guarantees to Asphalt JV suppliers that do not specify a maximum amount, but for which we believe any amounts due would be minimal. A majority of these guarantees have no expiration date. As of September 30, 2013, NuStar Energy has also provided $2.2 million in letters of credit on behalf of Asphalt JV. In the event that NuStar Energy must fund its obligation under these guarantees or letters of credit, that amount will be added to borrowings under the NuStar JV Facility, but it will not reduce the availability under the NuStar JV Facility.

Crude Oil Supply Agreement. We entered into a crude oil supply agreement with Asphalt JV (the Asphalt JV Crude Oil Supply Agreement) that commits Asphalt JV to purchase from us in a given year the lesser of (i) the number of barrels of crude oil required to be purchased by us from PDVSA under the CSA for such year or (ii) 35,000 barrels per day of crude oil multiplied by the number of days in such year. As a result of the termination of the CSA, the Asphalt JV Crude Oil Supply Agreement will also terminate effective January 1, 2014. See Note 5. Commitments and Contingencies for additional discussion of the CSA. As of September 30, 2013 and December 31, 2012, we had a receivable from Asphalt JV of $26.5 million and $109.4 million, respectively, mainly associated with crude oil sales under the Asphalt JV Crude Oil Supply Agreement.

Variable Interest Entity. We determined the equity of Asphalt JV is not sufficient to finance its activities without additional subordinated support, including support provided by us as described above. Therefore, we determined Asphalt JV is a variable interest entity (VIE). We analyzed our relationship with Asphalt JV, including our representation on the board of members, our equity interests and our rights under the various agreements with Asphalt JV and determined that we do not have the power to direct the activities most significant to the economic performance of Asphalt JV. As a result, we are not the primary beneficiary of Asphalt JV, and we report our 50% ownership in Asphalt JV using the equity method of accounting. Therefore, we have presented our investment in Asphalt JV within “Investment in joint ventures” on the consolidated balance sheets as of September 30, 2013 and December 31, 2012.

As of September 30, 2013, our maximum exposure to loss as a result of our involvement with Asphalt JV is approximately $431.0 million, which consists of: (i) our investment in Asphalt JV of $4.5 million; (ii) up to $250.0 million under the NuStar JV Facility; (iii) up to $150.0 million for credit support, including guarantees; and (iv) a receivable from Asphalt JV of $26.5 million.

Services Agreement Between Asphalt JV and NuStar GP, LLC. In conjunction with the Asphalt Sale, NuStar GP, LLC entered into a services agreement with Asphalt JV, effective September 28, 2012 (the Asphalt JV Services

Agreement). The Asphalt JV Services Agreement provides that NuStar GP, LLC will furnish certain administrative and other operating services necessary to conduct the business of Asphalt JV. Asphalt JV will compensate NuStar GP, LLC for these services through an annual fee totaling $10.0 million, subject to adjustment based on the annual merit increase percentage applicable to NuStar GP, LLC employees for the most recently completed contract year. The Asphalt JV Services Agreement will terminate on December 31, 2017 and will automatically renew for successive two-year terms. Asphalt JV may terminate the Asphalt JV Services Agreement at any time, with 180 days prior written notice or reduce the level of service with 45 days prior written notice. During the nine months ended September 30, 2013, Asphalt JV provided written notice to reduce the level of services that NuStar GP, LLC provides to Asphalt JV, which is currently at 63% of the original service level.

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## 9. PARTNERS' EQUITY

Partners' Equity Activity
The following table summarizes changes in the carrying amount of equity attributable to NuStar Energy L.P. partners and noncontrolling interest:

| | Three Months Ended September 30, 2013 | | | Three Months Ended September 30, 2012 | | |
|---|---|---|---|---|---|---|
| | NuStar Energy L.P. Partners' Equity | Noncontrolling Interest | Total Partners' Equity | NuStar Energy L.P. Partners' Equity | Noncontrolling Interest | Total Partners' Equity |
| | (Thousands of Dollars) | | | | | |
| Beginning balance | $2,429,132 | $ 11,134 | $2,440,266 | $2,408,269 | $ 12,848 | $2,421,117 |
| Net income (loss) | 33,397 | (161) | 33,236 | 4,389 | (47) | 4,342 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustment | 4,469 | (568) | 3,901 | 6,608 | 113 | 6,721 |
| Net unrealized loss on cash flow hedges | — | — | — | (24,454) | — | (24,454) |
| Net loss on cash flow hedges reclassified into interest expense, net | 1,653 | — | 1,653 | 645 | — | 645 |
| Net loss on cash flow hedges reclassified into income (loss) from discontinued operations | — | — | — | 8,728 | — | 8,728 |
| Total other comprehensive income (loss) | 6,122 | (568) | 5,554 | (8,473) | 113 | (8,360) |
| Cash distributions to partners | (98,051) | — | (98,051) | (89,076) | — | (89,076) |
| Issuance of common units, including contribution from general partner | — | — | — | 344,076 | — | 344,076 |
| Other | (26) | — | (26) | — | — | — |
| Ending balance | $2,370,574 | $ 10,405 | $2,380,979 | $2,659,185 | $ 12,914 | $2,672,099 |

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| | Nine Months Ended September 30, 2013 | | | Nine Months Ended September 30, 2012 | | |
|---|---|---|---|---|---|---|
| | NuStar Energy L.P. Partners' Equity | Noncontrolling Interest | Total Partners' Equity | NuStar Energy L.P. Partners' Equity | Noncontrolling Interest | Total Partners' Equity |
| | (Thousands of Dollars) | | | | | |
| Beginning balance | $2,572,384 | $ 12,611 | $2,584,995 | $2,852,201 | $ 12,134 | $2,864,335 |
| Net income (loss) | 91,048 | (439) | 90,609 | (215,997) | (217) | (216,214) |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustment | (10,628) | (1,767) | (12,395) | 10,704 | 997 | 11,701 |
| Net unrealized gain (loss) on cash flow hedges | 7,213 | — | 7,213 | (90,565) | — | (90,565) |
| Net loss on cash flow hedges reclassified into interest expense, net | 4,615 | — | 4,615 | 1,697 | — | 1,697 |
| Net loss on cash flow hedges reclassified into income (loss) from discontinued operations | — | — | — | 24,590 | — | 24,590 |
| Total other comprehensive income (loss) | 1,200 | (1,767) | (567) | (53,574) | 997 | (52,577) |
| Cash distributions to partners | (294,153) | — | (294,153) | (267,228) | — | (267,228) |
| Issuance of common units, including contribution from general partner | — | — | — | 344,076 | — | 344,076 |
| Other | 95 | — | 95 | (293) | — | (293) |
| Ending balance | $2,370,574 | $ 10,405 | $2,380,979 | $2,659,185 | $ 12,914 | $2,672,099 |

Allocations of Net Income

Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders and the general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and the general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are made after giving effect to priority income allocations, if any, in an amount equal to incentive cash distributions allocated 100% to the general partner. The following table details the calculation of net income applicable to the general partner:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|---|---|---|---|---|
| | (Thousands of Dollars) | | | |
| Net income (loss) attributable to NuStar Energy L.P. | $33,397 | $4,389 | $91,048 | $(215,997) |
| Less general partner incentive distribution | 10,805 | 10,805 | 32,415 | 30,437 |
| Net income (loss) after general partner incentive distribution | 22,592 | (6,416) | 58,633 | (246,434) |
| General partner interest | 2 % | 2 % | 2 % | 2 % |
| General partner allocation of net income (loss) after general partner incentive distribution | 452 | (128) | 1,174 | (4,928) |
| General partner incentive distribution | 10,805 | 10,805 | 32,415 | 30,437 |
| Net income applicable to general partner | $11,257 | $10,677 | $33,589 | $25,509 |

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Cash Distributions

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands of Dollars, Except Per Unit Data) | | | |
| General partner interest | $1,961 | $1,961 | $5,883 | $5,525 |
| General partner incentive distribution | 10,805 | 10,805 | 32,415 | 30,437 |
| Total general partner distribution | 12,766 | 12,766 | 38,298 | 35,962 |
| Limited partners’ distribution | 85,285 | 85,285 | 255,855 | 240,241 |
| Total cash distributions | $98,051 | $98,051 | $294,153 | $276,203 |
| Cash distributions per unit applicable to limited partners | $1.095 | $1.095 | $3.285 | $3.285 |

The following table summarizes information related to our quarterly cash distributions:

| Quarter Ended | Cash Distributions Per Unit | Total Cash Distributions (Thousands of Dollars) | Record Date | Payment Date |
|---|---|---|---|---|
| September 30, 2013 (a) | $1.095 | $98,051 | November 11, 2013 | November 14, 2013 |
| June 30, 2013 | $1.095 | $98,051 | August 5, 2013 | August 9, 2013 |
| March 31, 2013 | $1.095 | $98,051 | May 6, 2013 | May 10, 2013 |
| December 31, 2012 | $1.095 | $98,051 | February 11, 2013 | February 14, 2013 |

(a) The distribution was announced on October 31, 2013.

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## 10. NET INCOME (LOSS) PER UNIT

We have identified the general partner interest and incentive distribution rights (IDR) as participating securities and use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common units outstanding during the period. Basic and diluted net income per unit applicable to limited partners are the same because we have no potentially dilutive securities outstanding.

The following table details the calculation of earnings (loss) per unit:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands of Dollars, Except Unit and Per Unit Data) | | | |
| Net income (loss) attributable to NuStar Energy L.P. | $33,397 | $4,389 | $91,048 | $(215,997) |
| Less general partner distribution (including IDR) | 12,766 | 12,766 | 38,298 | 35,962 |
| Less limited partner distribution | 85,285 | 85,285 | 255,855 | 240,241 |
| Distributions in excess of earnings | $(64,654) | $(93,662) | $(203,105) | $(492,200) |
| | | | | |
| General partner earnings: | | | | |
| Distributions | $12,766 | $12,766 | $38,298 | $35,962 |
| Allocation of distributions in excess of earnings (2%) | (1,293) | (1,874) | (4,061) | (9,846) |
| Total | $11,473 | $10,892 | $34,237 | $26,116 |
| | | | | |
| Limited partner earnings: | | | | |
| Distributions | $85,285 | $85,285 | $255,855 | $240,241 |
| Allocation of distributions in excess of earnings (98%) | (63,361) | (91,788) | (199,044) | (482,354) |
| Total | $21,924 | $(6,503) | $56,811 | $(242,113) |
| | | | | |
| Weighted-average limited partner units outstanding | 77,886,078 | 72,383,578 | 77,886,078 | 71,302,538 |
| | | | | |
| Net income (loss) per unit applicable to limited partners | $0.28 | $(0.09) | $0.73 | $(3.40) |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (Thousands of Dollars) | |
| Decrease (increase) in current assets: | | |
| Accounts receivable | $145,803 | $95,213 |
| Receivable from related parties | 83,265 | (3,149) |
| Inventories | 47,145 | 60,878 |
| Income tax receivable | 1,204 | 3,190 |
| Other current assets | 24,026 | (17,571) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | (176,161) | (11,854) |
| Payable to related party | 18,180 | 6,976 |
| Accrued interest payable | 2,643 | (5,867) |
| Accrued liabilities | (33,618) | (21,253) |
| Taxes other than income tax | 3,144 | 2,662 |
| Income tax payable | 1,207 | (475) |
| Changes in current assets and current liabilities | $116,838 | $108,750 |

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable balance sheets due to current assets and current liabilities disposed of during the period and the effect of foreign currency translation.

Cash flows related to interest and income taxes were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (Thousands of Dollars) | |
| Cash paid for interest, net of amount capitalized | $88,529 | $85,583 |
| Cash paid for income taxes, net of tax refunds received | $8,183 | $18,308 |

12. SEGMENT INFORMATION

Our reportable business segments consist of storage, pipeline (formerly known as the transportation segment), and fuels marketing. In 2013, we renamed the “Asphalt and Fuels Marketing Segment” the “Fuels Marketing Segment” since this name more accurately reflects the operations that remain after our deconsolidation of Asphalt JV in 2012 and the San Antonio Refinery Sale.

Our segments represent strategic business units that offer different services and products. We evaluate the performance of each segment based on its respective operating income, before general and administrative expenses and certain non-segmental depreciation and amortization expense. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Our principal operations include terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and fuels marketing. Intersegment revenues result from storage and throughput agreements with wholly owned subsidiaries of NuStar Energy at lease rates consistent with rates charged to third parties for storage and at pipeline tariff rates based upon the applicable published tariff. Related party revenues mainly result from storage agreements with our joint ventures and the noncontrolling shareholder of our Turkey subsidiary.

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Results of operations for the reportable segments were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands of Dollars) | | | |
| Revenues: | | | | |
| Storage: | | | | |
| Third parties | $131,207 | $128,538 | $396,086 | $389,412 |
| Intersegment | 6,933 | 19,679 | 26,326 | 55,542 |
| Related party | 2,376 | 713 | 7,538 | 2,198 |
| Total storage | 140,516 | 148,930 | 429,950 | 447,152 |
| Pipeline | 111,508 | 92,570 | 301,761 | 244,938 |
| Fuels marketing: | | | | |
| Third parties | 534,919 | 1,371,935 | 1,969,886 | 4,334,361 |
| Related party | — | — | 8,645 | — |
| Total fuels marketing | 534,919 | 1,371,935 | 1,978,531 | 4,334,361 |
| Consolidation and intersegment eliminations | (6,933) | (19,679) | (26,326) | (55,542) |
| Total revenues | $780,010 | $1,593,756 | $2,683,916 | $4,970,909 |
| | | | | |
| Operating income: | | | | |
| Storage | $38,217 | $50,422 | $131,132 | $160,696 |
| Pipeline | 58,018 | 41,864 | 149,126 | 110,640 |
| Fuels marketing | (9,079) | (6,517) | (7,240) | (302,783) |
| Consolidation and intersegment eliminations | 80 | 175 | (33) | 213 |
| Total segment operating income (loss) | 87,236 | 85,944 | 272,985 | (31,234) |
| General and administrative expenses | 18,831 | 24,953 | 65,978 | 75,254 |
| Other depreciation and amortization expense | 2,531 | 1,639 | 7,628 | 5,492 |
| Other asset impairment loss | — | — | — | 3,295 |
| Gain on legal settlement | — | — | — | (28,738) |
| Total operating income (loss) | $65,874 | $59,352 | $199,379 | $(86,537) |

Total assets by reportable segment were as follows:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (Thousands of Dollars) | |
| Storage | $2,675,227 | $2,627,946 |
| Pipeline | 1,769,036 | 1,720,711 |
| Fuels marketing | 517,540 | 885,661 |
| Total segment assets | 4,961,803 | 5,234,318 |
| Other partnership assets | 280,857 | 378,771 |
| Total consolidated assets | $5,242,660 | $5,613,089 |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NuStar Energy has no operations and its assets consist mainly of its investments in NuStar Logistics and NuPOP, both wholly owned subsidiaries. The senior and subordinated notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy and NuPOP. As a result, the following condensed consolidating financial statements are presented as an alternative to providing separate financial statements for NuStar Logistics and NuPOP.

Condensed Consolidating Balance Sheets
September 30, 2013
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | $286 | $9 | $— | $ 24,224 | $— | $24,519 |
| Receivables, net | — | 48,527 | 11,331 | 194,930 | 13,944 | 268,732 |
| Inventories | — | 2,055 | 10,552 | 110,454 | (63 ) | 122,998 |
| Income tax receivable | — | — | — | 25 | — | 25 |
| Other current assets | 22 | 21,896 | 1,577 | 17,693 | — | 41,188 |
| Assets held for sale | — | 2,847 | — | — | — | 2,847 |
| Intercompany receivable | — | 324,347 | 387,731 | — | (712,078 ) | — |
| Total current assets | 308 | 399,681 | 411,191 | 347,326 | (698,197 ) | 460,309 |
| Property, plant and equipment, net | — | 1,539,777 | 575,143 | 1,246,930 | — | 3,361,850 |
| Intangible assets, net | — | 17,428 | — | 64,282 | — | 81,710 |
| Goodwill | — | 149,453 | 170,652 | 630,858 | — | 950,963 |
| Investment in wholly owned subsidiaries | 2,931,570 | 177,736 | 1,229,345 | 2,392,178 | (6,730,829 ) | — |
| Investment in joint ventures | — | 4,453 | — | 66,359 | — | 70,812 |
| Deferred income tax asset | — | — | — | 5,088 | — | 5,088 |
| Note receivable from related party | — | 146,472 | — | — | — | 146,472 |
| Other long-term assets, net | 490 | 123,982 | 26,331 | 14,653 | — | 165,456 |
| Total assets | $2,932,368 | $2,558,982 | $2,412,662 | $ 4,767,674 | $(7,429,026) | $5,242,660 |
| Liabilities and Partners' Equity | | | | | | |
| Current portion of long-term debt | $— | $— | $— | $ 33,982 | $— | $33,982 |
| Payables | — | 62,791 | 10,704 | 154,510 | 13,944 | 241,949 |
| Accrued interest payable | — | 26,380 | — | 4 | — | 26,384 |
| Accrued liabilities | 750 | 14,300 | 5,558 | 16,836 | — | 37,444 |
| Taxes other than income tax | 63 | 6,526 | 3,780 | 2,697 | — | 13,066 |
| Income tax payable | — | 358 | 3 | 3,517 | — | 3,878 |
| Intercompany payable | 503,316 | — | — | 208,762 | (712,078 ) | — |
| Total current liabilities | 504,129 | 110,355 | 20,045 | 420,308 | (698,134 ) | 356,703 |
| Long-term debt, less current portion | — | 2,439,696 | — | — | — | 2,439,696 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Long-term payable to related party | — | 24,195 | — | 5,442 | — | 29,637 |
| Deferred income tax liability | — | — | — | 29,455 | — | 29,455 |
| Other long-term liabilities | — | 843 | 404 | 4,943 | — | 6,190 |
| Total partners' equity | 2,428,239 | (16,107 ) | 2,392,213 | 4,307,526 | (6,730,892 ) | 2,380,979 |
| Total liabilities and partners' equity | $2,932,368 | $2,558,982 | $2,412,662 | $4,767,674 | $(7,429,026) | $5,242,660 |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Balance Sheets
December 31, 2012
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | $7,033 | $1,112 | $— | $ 75,457 | $— | $83,602 |
| Receivables, net | — | 157,452 | 10,561 | 340,144 | (10,381) | 497,776 |
| Inventories | — | 2,320 | 5,590 | 165,349 | (31) | 173,228 |
| Income tax receivable | — | — | — | 1,265 | — | 1,265 |
| Other current assets | — | 26,353 | 1,468 | 37,417 | — | 65,238 |
| Assets held for sale | — | 35,337 | — | 82,997 | — | 118,334 |
| Intercompany receivable | — | 353,384 | 599,599 | — | (952,983) | — |
| Total current assets | 7,033 | 575,958 | 617,218 | 702,629 | (963,395) | 939,443 |
| Property, plant and equipment, net | — | 1,423,991 | 582,299 | 1,232,170 | — | 3,238,460 |
| Intangible assets, net | — | 18,733 | — | 73,702 | — | 92,435 |
| Goodwill | — | 145,990 | 170,652 | 634,382 | — | 951,024 |
| Investment in wholly owned subsidiaries | 3,133,097 | 161,957 | 1,208,595 | 2,329,595 | (6,833,244) | — |
| Investment in joint ventures | — | 35,883 | — | 67,062 | — | 102,945 |
| Deferred income tax asset | — | — | — | 3,108 | — | 3,108 |
| Note receivable from related party | — | 95,711 | — | — | — | 95,711 |
| Other long-term assets, net | 490 | 148,384 | 26,330 | 14,759 | — | 189,963 |
| Total assets | $3,140,620 | $2,606,607 | $2,605,094 | $ 5,057,407 | $(7,796,639) | $5,613,089 |
| Liabilities and Partners' Equity | | | | | | |
| Current portion of long-term debt | $— | $1,313 | $250,967 | $ 34,142 | $— | $286,422 |
| Payables | 15 | 122,706 | 12,657 | 274,044 | (10,381) | 399,041 |
| Accrued interest payable | — | 22,512 | 1,224 | 5 | — | 23,741 |
| Accrued liabilities | 862 | 76,322 | 7,542 | 39,477 | — | 124,203 |
| Taxes other than income tax | 129 | 5,671 | 2,830 | 1,263 | — | 9,893 |
| Income tax payable | — | 247 | — | 2,424 | — | 2,671 |
| Intercompany payable | 508,365 | — | — | 444,618 | (952,983) | — |
| Total current liabilities | 509,371 | 228,771 | 275,220 | 795,973 | (963,364) | 845,971 |
| Long-term debt, less current portion | — | 2,124,582 | — | — | — | 2,124,582 |
| Long-term payable to related party | — | 12,629 | — | 5,442 | — | 18,071 |
| Deferred income tax liability | — | — | — | 32,114 | — | 32,114 |
| Other long-term liabilities | — | 2,701 | 279 | 4,376 | — | 7,356 |
| Total partners' equity | 2,631,249 | 237,924 | 2,329,595 | 4,219,502 | (6,833,275) | 2,584,995 |
| Total liabilities and partners' equity | $3,140,620 | $2,606,607 | $2,605,094 | $ 5,057,407 | $(7,796,639) | $5,613,089 |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Comprehensive Income
For the Three Months Ended September 30, 2013
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Revenues | $— | $107,066 | $50,669 | $631,026 | $(8,751) | $780,010 |
| Costs and expenses | 507 | 67,005 | 32,274 | 623,181 | (8,831) | 714,136 |
| Operating (loss) income | (507) | 40,061 | 18,395 | 7,845 | 80 | 65,874 |
| Equity in earnings of subsidiaries | 33,904 | 8,136 | 4,992 | 23,449 | (70,481) | — |
| Equity in (loss) earnings of joint ventures | — | (8,202) | — | 2,844 | — | (5,358) |
| Interest (expense) income, net | — | (29,451) | 76 | 125 | — | (29,250) |
| Other income, net | — | — | 8 | 1,399 | — | 1,407 |
| Income from continuing operations before income tax expense | 33,397 | 10,544 | 23,471 | 35,662 | (70,401) | 32,673 |
| Income tax expense (benefit) | — | 146 | 1 | (710) | — | (563) |
| Income from continuing operations | 33,397 | 10,398 | 23,470 | 36,372 | (70,401) | 33,236 |
| Income from discontinued operations, net of tax | — | — | — | — | — | — |
| Net income | 33,397 | 10,398 | 23,470 | 36,372 | (70,401) | 33,236 |
| Less net loss attributable to noncontrolling interest | — | — | — | (161) | — | (161) |
| Net income attributable to NuStar Energy L.P. | $33,397 | $10,398 | $23,470 | $36,533 | $(70,401) | $33,397 |
| | | | | | | |
| Comprehensive income | $33,397 | $12,746 | $23,470 | $39,578 | $(70,401) | $38,790 |
| Less comprehensive loss attributable to noncontrolling interest | — | — | — | (729) | — | (729) |
| Comprehensive income attributable to NuStar Energy L.P. | $33,397 | $12,746 | $23,470 | $40,307 | $(70,401) | $39,519 |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Three Months Ended September 30, 2012
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Revenues | $— | $97,369 | $48,486 | $ 1,455,625 | $(7,724) | $1,593,756 |
| Costs and expenses | 460 | 57,573 | 36,977 | 1,447,320 | (7,926) | 1,534,404 |
| Operating (loss) income | (460) | 39,796 | 11,509 | 8,305 | 202 | 59,352 |
| Equity in earnings (loss) of subsidiaries | 4,849 | (13,291) | 13,862 | 24,246 | (29,666) | — |
| Equity in (loss) earnings of joint venture | — | (3,304) | — | 2,353 | — | (951) |
| Interest expense, net | — | (20,804) | (2,800) | (290) | — | (23,894) |
| Other (expense) income, net | — | (21,491) | 1,678 | (130) | — | (19,943) |
| Income (loss) from continuing operations before income tax expense | 4,389 | (19,094) | 24,249 | 34,484 | (29,464) | 14,564 |
| Income tax expense | — | 97 | 1 | 501 | — | 599 |
| Income (loss) from continuing operations | 4,389 | (19,191) | 24,248 | 33,983 | (29,464) | 13,965 |
| Loss from discontinued operations, net of tax | — | (241) | — | (9,185) | (197) | (9,623) |
| Net income (loss) | 4,389 | (19,432) | 24,248 | 24,798 | (29,661) | 4,342 |
| Less net loss attributable to noncontrolling interest | — | — | — | (47) | — | (47) |
| Net income (loss) attributable to NuStar Energy L.P. | $4,389 | $(19,432) | $24,248 | $ 24,845 | $(29,661) | $4,389 |
| Comprehensive income (loss) | $4,389 | $(22,612) | $24,248 | $ 19,618 | $(29,661) | $(4,018) |
| Less comprehensive income attributable to noncontrolling interest | — | — | — | 66 | — | 66 |
| Comprehensive income (loss) attributable to NuStar Energy L.P. | $4,389 | $(22,612) | $24,248 | $ 19,552 | $(29,661) | $(4,084) |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Comprehensive Income
For the Nine Months Ended September 30, 2013
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Revenues | $— | $308,936 | $151,189 | $ 2,249,598 | $(25,807 ) | $2,683,916 |
| Costs and expenses | 1,438 | 181,472 | 104,311 | 2,223,091 | (25,775 ) | 2,484,537 |
| Operating (loss) income | (1,438 ) | 127,464 | 46,878 | 26,507 | (32 ) | 199,379 |
| Equity in earnings of subsidiaries | 92,486 | 15,779 | 20,750 | 62,614 | (191,629 ) | — |
| Equity in (loss) earnings of joint ventures | — | (31,713 ) | — | 5,084 | — | (26,629 ) |
| Interest expense, net | — | (83,788 ) | (4,941 ) | (312 ) | — | (89,041 ) |
| Other income (expense), net | — | 2,466 | (65 ) | 1,577 | — | 3,978 |
| Income from continuing operations before income tax expense | 91,048 | 30,208 | 62,622 | 95,470 | (191,661 ) | 87,687 |
| Income tax expense | — | 420 | 4 | 5,723 | — | 6,147 |
| Income from continuing operations | 91,048 | 29,788 | 62,618 | 89,747 | (191,661 ) | 81,540 |
| Income from discontinued operations, net of tax | — | 28 | — | 9,041 | — | 9,069 |
| Net income | 91,048 | 29,816 | 62,618 | 98,788 | (191,661 ) | 90,609 |
| Less net loss attributable to noncontrolling interest | — | — | — | (439 ) | — | (439 ) |
| Net income attributable to NuStar Energy L.P. | $91,048 | $29,816 | $62,618 | $ 99,227 | $(191,661 ) | $91,048 |
| | | | | | | |
| Comprehensive income | $91,048 | $43,306 | $62,618 | $ 84,731 | $(191,661 ) | $90,042 |
| Less comprehensive loss attributable to noncontrolling interest | — | — | — | (2,206 ) | — | (2,206 ) |
| Comprehensive income attributable to NuStar Energy L.P. | $91,048 | $43,306 | $62,618 | $ 86,937 | $(191,661 ) | $92,248 |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2012
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Revenues | $— | $260,414 | $142,769 | $4,589,035 | $(21,309) | $4,970,909 |
| Costs and expenses | 1,280 | 154,333 | 103,673 | 4,819,766 | (21,606) | 5,057,446 |
| Operating (loss) income | (1,280) | 106,081 | 39,096 | (230,731) | 297 | (86,537) |
| Equity in (loss) earnings of subsidiaries | (214,717) | (342,197) | 76,380 | 106,073 | 374,461 | — |
| Equity in (loss) earnings of joint venture | — | (3,304) | — | 7,120 | — | 3,816 |
| Interest expense, net | — | (57,621) | (9,799) | (698) | — | (68,118) |
| Other (loss) income, net | — | (21,199) | 1,751 | (1,944) | — | (21,392) |
| (Loss) income from continuing operations before income tax expense | (215,997) | (318,240) | 107,428 | (120,180) | 374,758 | (172,231) |
| Income tax expense | — | 238 | 1,331 | 18,749 | — | 20,318 |
| (Loss) income from continuing operations | (215,997) | (318,478) | 106,097 | (138,929) | 374,758 | (192,549) |
| Loss from discontinued operations, net of tax | — | (2,154) | — | (21,250) | (261) | (23,665) |
| Net (loss) income | (215,997) | (320,632) | 106,097 | (160,179) | 374,497 | (216,214) |
| Less net loss attributable to noncontrolling interest | — | — | — | (217) | — | (217) |
| Net (loss) income attributable to NuStar Energy L.P. | $(215,997) | $(320,632) | $106,097 | $(159,962) | $374,497 | $(215,997) |
| | | | | | | |
| Comprehensive (loss) income | $(215,997) | $(336,211) | $106,097 | $(197,177) | $374,497 | $(268,791) |
| Less comprehensive income attributable to noncontrolling interest | — | — | — | 780 | — | 780 |
| Comprehensive (loss) income attributable to NuStar Energy L.P. | $(215,997) | $(336,211) | $106,097 | $(197,957) | $374,497 | $(269,571) |

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2013
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $292,499 | $159,157 | $50,587 | $ 170,479 | $(294,182 ) | $378,540 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (181,580 ) | (13,449 ) | (65,672 ) | — | (260,701 ) |
| Change in accounts payable related to capital expenditures | — | (5,419 ) | 1,534 | 1,006 | — | (2,879 ) |
| Proceeds from sale or disposition of assets | — | 116,348 | 28 | 91 | — | 116,467 |
| Increase in note receivable from related party | — | (50,761 ) | — | — | — | (50,761 ) |
| Investment in subsidiaries | (141 ) | — | — | — | 141 | — |
| Other, net | 141 | 15 | — | — | — | 156 |
| Net cash (used in) provided by investing activities | — | (121,397 ) | (11,887 ) | (64,575 ) | 141 | (197,718 ) |
| Cash flows from financing activities: | | | | | | |
| Debt borrowings | — | 1,299,220 | — | — | — | 1,299,220 |
| Debt repayments | — | (1,647,182 ) | (250,000 ) | — | — | (1,897,182 ) |
| Note offering, net | — | 687,151 | — | — | — | 687,151 |
| Distributions to unitholders and general partner | (294,153 ) | (294,153 ) | — | (29 ) | 294,182 | (294,153 ) |
| Payments for termination of interest rate swaps | — | (33,697 ) | — | — | — | (33,697 ) |
| Net intercompany borrowings (repayments) | (5,047 ) | (53,557 ) | 211,300 | (152,696 ) | — | — |
| Other, net | (46 ) | 3,355 | — | — | (141 ) | 3,168 |
| Net cash (used in) provided by financing activities | (299,246 ) | (38,863 ) | (38,700 ) | (152,725 ) | 294,041 | (235,493 ) |
| Effect of foreign exchange rate changes on cash | — | — | — | (4,412 ) | — | (4,412 ) |
| Net decrease in cash and cash equivalents | (6,747 ) | (1,103 ) | — | (51,233 ) | — | (59,083 ) |
| Cash and cash equivalents as of the beginning of the period | 7,033 | 1,112 | — | 75,457 | — | 83,602 |
| Cash and cash equivalents as of the | $286 | $9 | $— | $ 24,224 | $— | $24,519 |

end of the period

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NUSTAR ENERGY L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2012
(Thousands of Dollars)

| | NuStar Energy | NuStar Logistics | NuPOP | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $265,905 | $91,736 | $46,183 | $ 142,700 | $(274,645 ) | $271,879 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (237,408 ) | (11,816 ) | (71,554 ) | — | (320,778 ) |
| Investment in other long-term assets | — | — | — | (2,364 ) | — | (2,364 ) |
| Proceeds from sale or disposition of assets | — | 436,426 | 4,531 | 30,866 | — | 471,823 |
| Increase in note receivable from related party | — | (170,711 ) | — | — | — | (170,711 ) |
| Investment in subsidiaries | (344,244 ) | — | — | (34 ) | 344,278 | — |
| Net cash (used in) provided by investing activities | (344,244 ) | 28,307 | (7,285 ) | (43,086 ) | 344,278 | (22,030 ) |
| Cash flows from financing activities: | | | | | | |
| Debt borrowings | — | 1,877,048 | — | — | — | 1,877,048 |
| Debt repayments | — | (2,109,058 ) | (250,000 ) | — | — | (2,359,058 ) |
| Note offering, net | — | 247,408 | — | — | — | 247,408 |
| Issuance of common units, net of issuance costs | 336,662 | — | — | — | — | 336,662 |
| General partner contribution | 7,121 | — | — | — | — | 7,121 |
| Distributions to unitholders and general partner | (267,228 ) | (267,228 ) | — | (7,426 ) | 274,654 | (267,228 ) |
| Payments for termination of interest rate swaps | — | (5,678 ) | — | — | — | (5,678 ) |
| Contributions from (distributions to) affiliates | — | 344,244 | — | 34 | (344,278 ) | — |
| Net intercompany borrowings (repayments) | 9,059 | (206,846 ) | 211,102 | (13,306 ) | (9 ) | — |
| Other, net | (133 ) | 496 | — | — | — | 363 |
| Net cash provided by (used in) financing activities | 85,481 | (119,614 ) | (38,898 ) | (20,698 ) | (69,633 ) | (163,362 ) |
| Effect of foreign exchange rate changes on cash | — | (431 ) | — | 3,903 | — | 3,472 |
| Net increase (decrease) in cash and cash equivalents | 7,142 | (2 ) | — | 82,819 | — | 89,959 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents as of the beginning of the period | 139 | 14 | — | 17,344 | — | 17,497 |
| Cash and cash equivalents as of the end of the period | $7,281 | $12 | $— | $ 100,163 | $— | $107,456 |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words "anticipates," "believes," "expects," "plans," "intends," "estimates," "forecasts," "budgets," "projects," "could," "should," "may" and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our Annual Report on Form 10-K for the year ended December 31, 2012, Part I, Item 1A "Risk Factors," as updated by the risk factors disclosed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2103, as well as our subsequent current and quarterly reports, for a discussion of certain of those risks, uncertainties and assumptions.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-Q. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

OVERVIEW

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is a publicly held Delaware limited partnership engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia, and fuels marketing. Unless otherwise indicated, the terms "NuStar Energy," "the Partnership," "we," "our" and "us" are used in th report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns a 15.0% total interest in us as of September 30, 2013. Our Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in six sections:

- Overview
- Results of Operations
- Trends and Outlook
- Liquidity and Capital Resources
- Related Party Transactions
- Critical Accounting Policies

Dispositions and Acquisitions

San Antonio Refinery Sale. On January 1, 2013, we sold our fuels refinery in San Antonio, Texas (the San Antonio Refinery) and related assets, which included inventory, a terminal in Elmendorf, Texas and a pipeline connecting the terminal and refinery for approximately $117.0 million (the San Antonio Refinery Sale). We have presented the results of operations for the San Antonio Refinery and related assets, previously reported in the fuels marketing and pipeline segments, as discontinued operations for all periods presented. Please refer to Note 2 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a discussion of the San Antonio Refinery Sale.

Asphalt Sale. On September 28, 2012, we sold a 50% ownership interest (the Asphalt Sale) in NuStar Asphalt LLC (Asphalt JV), previously a wholly owned subsidiary. Asphalt JV owns and operates the asphalt refining assets that were previously wholly owned by NuStar Energy (collectively, the Asphalt Operations). Upon closing, we deconsolidated Asphalt JV and started reporting our remaining investment in Asphalt JV using the equity method of accounting. The results of the Asphalt Operations were previously included in the fuels marketing segment.

TexStar Asset Acquisition. On December 13, 2012, NuStar Logistics completed its acquisition of the TexStar Crude Oil Assets
(as defined below), including 100% of the partnership interest in TexStar Crude Oil Pipeline, LP, from TexStar Midstream
Services, LP and certain of its affiliates (collectively, TexStar) for approximately $325.0 million (the TexStar Asset Acquisition). The TexStar Crude Oil Assets consist of approximately 140 miles of crude oil pipelines and gathering lines, as well as five terminals and storage facilities providing 0.6 million barrels of storage capacity. The condensed consolidated

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statements of comprehensive income (loss) include the results of operations for the TexStar Asset Acquisition in the pipeline segment commencing on December 13, 2012.

Operations

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). Our operations are divided into three reportable business segments: storage, pipeline (formerly known as the transportation segment), and fuels marketing.

Storage. We own terminals and storage facilities in the United States, Canada, Mexico, the Netherlands, including St. Eustatius in the Caribbean, the United Kingdom and Turkey providing approximately 85.0 million barrels of storage capacity. Our terminals and storage facilities provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including crude oil and other feedstocks.

Pipeline. We own common carrier refined product pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 5,463 miles, consisting of the Central West System, the East Pipeline and the North Pipeline. The East and North Pipelines also include 21 terminals providing storage capacity of 4.9 million barrels, and the East Pipeline includes two tank farms providing storage capacity of 1.4 million barrels. In addition, we own a 2,000 mile anhydrous Ammonia Pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. We also own 1,180 miles of crude oil pipelines in Texas, Oklahoma, Kansas, Colorado and Illinois, as well as 3.4 million barrels of crude storage in Texas and Oklahoma located along those crude oil pipelines. We charge tariffs on a per barrel basis for transporting refined products, crude oil and other feedstocks in our refined product and crude oil pipelines and on a per ton basis for transporting anhydrous ammonia in our Ammonia Pipeline.

Fuels Marketing. In 2013, we renamed the “Asphalt and Fuels Marketing Segment” to the “Fuels Marketing Segment” since this name more accurately reflects the operations that remain after our deconsolidation of Asphalt JV in 2012 and the San Antonio Refinery Sale. Within our fuels marketing operations, we purchase crude oil and refined petroleum products for resale. The results of operations for the fuels marketing segment depend largely on the margin between our cost and the sales prices of the products we market. Therefore, the results of operations for this segment are more sensitive to changes in commodity prices compared to the operations of the storage and pipeline segments. We enter into derivative contracts to attempt to mitigate the effects of commodity price fluctuations.

The following factors affect the results of our operations:

- company-specific factors, such as facility integrity issues and maintenance requirements that impact the throughput rates of our assets;
- seasonal factors that affect the demand for products transported by and/or stored in our assets and the demand for products we sell;
- industry factors, such as changes in the prices of petroleum products, that affect demand and operations of our competitors;
- factors such as commodity price volatility that impact our fuels marketing segment; and
- other factors, such as refinery utilization rates and maintenance turnaround schedules, that impact the operations of refineries served by our storage and pipeline assets.

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RESULTS OF OPERATIONS
Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012
Financial Highlights
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

| | Three Months Ended September 30, | | Change |
|---|---|---|---|
| | 2013 | 2012 | |
| Statement of Income Data: | | | |
| Revenues: | | | |
| Services revenues | $245,577 | $225,068 | $20,509 |
| Product sales | 534,433 | 1,368,688 | (834,255) |
| Total revenues | 780,010 | 1,593,756 | (813,746) |
| | | | |
| Costs and expenses: | | | |
| Cost of product sales | 527,217 | 1,329,377 | (802,160) |
| Operating expenses | 120,491 | 142,037 | (21,546) |
| General and administrative expenses | 18,831 | 24,953 | (6,122) |
| Depreciation and amortization expense | 47,597 | 38,037 | 9,560 |
| Total costs and expenses | 714,136 | 1,534,404 | (820,268) |
| | | | |
| Operating income | 65,874 | 59,352 | 6,522 |
| Equity in loss of joint ventures | (5,358) | (951) | (4,407) |
| Interest expense, net | (31,078) | (23,894) | (7,184) |
| Interest income from related party | 1,828 | — | 1,828 |
| Other income (expense), net | 1,407 | (19,943) | 21,350 |
| Income from continuing operations before income tax (benefit) expense | 32,673 | 14,564 | 18,109 |
| Income tax (benefit) expense | (563) | 599 | (1,162) |
| Income from continuing operations | 33,236 | 13,965 | 19,271 |
| Loss from discontinued operations, net of tax | — | (9,623) | 9,623 |
| Net income | $33,236 | $4,342 | $28,894 |
| Net income (loss) per unit applicable to limited partners: | | | |
| Continuing operations | $0.28 | $0.04 | $0.24 |
| Discontinued operations | — | (0.13) | 0.13 |
| Total | $0.28 | $(0.09) | $0.37 |
| Weighted-average limited partner units outstanding | 77,886,078 | 72,383,578 | 5,502,500 |

Highlights
Net income increased $28.9 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, mainly due to a $21.6 million loss related to the Asphalt Sale in the third quarter of 2012, and a loss from discontinued operations of $9.6 million in the third quarter of 2012, which is attributable to the San Antonio Refinery Sale.

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Segment Operating Highlights
(Thousands of Dollars, Except Barrels/Day Information)

| | Three Months Ended September 30, | | Change |
|---|---|---|---|
| | 2013 | 2012 | |
| Storage: | | | |
| Throughput (barrels/day) | 832,412 | 780,560 | 51,852 |
| Throughput revenues | $27,937 | $23,222 | $4,715 |
| Storage lease revenues | 112,579 | 125,708 | (13,129) |
| Total revenues | 140,516 | 148,930 | (8,414) |
| Operating expenses | 74,641 | 75,210 | (569) |
| Depreciation and amortization expense | 27,658 | 23,298 | 4,360 |
| Segment operating income | $38,217 | $50,422 | $(12,205) |
| Pipeline: | | | |
| Refined products pipelines throughput (barrels/day) | 501,511 | 521,255 | (19,744) |
| Crude oil pipelines throughput (barrels/day) | 382,539 | 357,064 | 25,475 |
| Total throughput (barrels/day) | 884,050 | 878,319 | 5,731 |
| Throughput revenues | $111,508 | $92,570 | $18,938 |
| Operating expenses | 36,089 | 37,621 | (1,532) |
| Depreciation and amortization expense | 17,401 | 13,085 | 4,316 |
| Segment operating income | $58,018 | $41,864 | $16,154 |
| Fuels Marketing: | | | |
| Product sales | $534,919 | $1,371,935 | $(837,016) |
| Cost of product sales | 531,481 | 1,336,642 | (805,161) |
| Gross margin | 3,438 | 35,293 | (31,855) |
| Operating expenses | 12,510 | 41,795 | (29,285) |
| Depreciation and amortization expense | 7 | 15 | (8) |
| Segment operating loss | $(9,079) | $(6,517) | $(2,562) |
| Consolidation and Intersegment Eliminations: | | | |
| Revenues | $(6,933) | $(19,679) | $12,746 |
| Cost of product sales | (4,264) | (7,265) | 3,001 |
| Operating expenses | (2,749) | (12,589) | 9,840 |
| Total | $80 | $175 | $(95) |
| Consolidated Information: | | | |
| Revenues | $780,010 | $1,593,756 | $(813,746) |
| Cost of product sales | 527,217 | 1,329,377 | (802,160) |
| Operating expenses | 120,491 | 142,037 | (21,546) |
| Depreciation and amortization expense | 45,066 | 36,398 | 8,668 |
| Segment operating income | 87,236 | 85,944 | 1,292 |
| General and administrative expenses | 18,831 | 24,953 | (6,122) |
| Other depreciation and amortization expense | 2,531 | 1,639 | 892 |
| Consolidated operating income | $65,874 | $59,352 | $6,522 |

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Storage

Throughput revenues increased $4.7 million and throughputs increased 51,852 barrels per day for the three months ended September 30, 2013, compared to the three months ended September 30, 2012. Throughputs increased 79,365 barrels per day and revenues increased $5.5 million at our Corpus Christi crude storage tank facility due to an increase in Eagle Ford Shale crude oil being shipped to Corpus Christi. These increases were partially offset by a decrease in throughputs of 25,570 barrels per day and a decrease in revenues of $0.9 million, primarily due to maintenance at the refineries served by our Benicia crude oil storage tanks and Three Rivers refined products terminals.

Storage lease revenues decreased $13.1 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily due to:

- a decrease of $10.9 million at various domestic terminals, mainly as a result of reduced demand in several markets, resulting in lower throughputs, storage fees and reimbursable revenues; Demand was lower as a result of the backwardated market, and a narrowing price differential on two traded crude oil grades (WTI and LLS) reduced profit sharing on our unit train at our St. James terminal;
- a decrease of $2.4 million at asphalt terminals under storage agreements with Asphalt JV, which we entered into simultaneously with the Asphalt Sale; and
- a decrease of $1.8 million at our UK and Amsterdam terminals, mainly due to reduced demand and decreased throughput and related handling fees.

Those declines in storage lease revenues were partially offset by an increase in storage lease revenues of $1.6 million due to increased reimbursable revenues and throughputs at our Point Tupper terminal facility and an increase of $1.4 million due to our acquisition of a lease at the Red Fish Bay terminal in conjunction with the TexStar Asset Acquisition.

Depreciation and amortization expense increased $4.4 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily due to the completion of a dock optimization project at our Corpus Christi crude storage tank facility and tank expansion projects at our St. Eustatius and St. James terminals.

Pipeline

Revenues increased $18.9 million and throughputs increased 5,731 barrels per day for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily due to:

- an increase in revenues of $14.3 million and an increase in throughputs of 53,338 barrels per day on crude oil pipelines that serve Eagle Ford Shale production in South Texas, primarily resulting from the TexStar Asset Acquisition and crude oil pipelines that were placed in service in the fourth quarter of 2012 and during the nine months ended September 30, 2013;
- an increase in revenues of $1.8 million and an increase in throughputs of 2,678 barrels per day on the refined product pipelines serving the McKee refinery due to increased volumes on certain pipelines with higher tariffs;
- an increase in revenues of $1.7 million, while throughputs remained flat, on the North Pipeline due to higher average tariffs resulting from the annual index adjustment in July 2013 and the recognition of reimbursed pipeline expansion costs; and
- an increase in revenues of $1.5 million on the East Pipeline due to higher average tariffs resulting from the annual index adjustment in July 2013 and increased long-haul deliveries. Throughputs decreased 13,791 barrels per day due to a late start of the fall harvest and intermittent gasoline shortages.

The higher throughputs were partially offset by a decrease in throughputs of 27,381 barrels per day on crude oil pipelines serving the Ardmore refinery due to a new contract effective January 1, 2013, that combines two segments of a crude oil pipeline serving the Ardmore refinery that were previously reported as separate throughputs. In addition, revenues decreased $1.1 million and throughputs decreased 4,906 barrels per day on the Ammonia Pipeline primarily due to a late start of the fall harvest in 2013.

Operating expenses decreased $1.5 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily due to temporary barge rental costs in 2012 related to moving a customer’s product in conjunction with an Eagle Ford Shale project and decreased maintenance costs on the East Pipeline. These decreases were partially offset by an increase in operating expenses resulting from the TexStar Asset Acquisition.

Depreciation and amortization expense increased $4.3 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, mainly due to the TexStar Asset Acquisition in December 2012 and the completion of various projects that serve Eagle Ford Shale production.

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Fuels Marketing

The consolidated statements of comprehensive income include the results of operations for Asphalt JV in "Equity in (loss) earnings of joint ventures" commencing on September 28, 2012. Previously, we reported the results of operations for our Asphalt Operations in the fuels marketing segment. For the three months ended September 30, 2013, this segment mainly includes refined products marketing, crude oil trading, heavy fuel oil and bunkering operations. The table below presents pro forma financial information that removes the historical results of our Asphalt Operations from the segment results for the three months ended September 30, 2012 in order to provide a more meaningful comparison of the segment's results.

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | | | |
|---|---|---|---|---|---|
| | | Actual | Asphalt Operations | Pro Forma | Change |
| | (Thousands of Dollars) | | | | |
| Product sales | $ 534,919 | $ 1,371,935 | $ 556,672 | $ 815,263 | $ (280,344) |
| Cost of product sales | 531,481 | 1,336,642 | 527,157 | 809,485 | (278,004) |
| Gross margin | 3,438 | 35,293 | 29,515 | 5,778 | (2,340) |
| Operating expenses | 12,510 | 41,795 | 27,446 | 14,349 | (1,839) |
| Depreciation and amortization expense | 7 | 15 | — | 15 | (8) |
| Segment operating loss (income) | $ (9,079) | $ (6,517) | $ 2,069 | $ (8,586) | $ (493) |

Sales and cost of product sales decreased $280.3 million and $278.0 million, respectively, resulting in a decrease in total gross margin of $2.3 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012. The decrease in total gross margin was primarily due to a decrease of $8.1 million in the gross margin from bunker fuel sales, mainly at our St. Eustatius and Texas City facilities. Reduced demand for bunker fuels and increased competition in the U.S. Gulf Coast and the Caribbean has negatively impacted our sales prices and resulted in lower gross margins as compared to the same period last year. This decrease was partially offset by an increase of $4.9 million in the gross margin from fuel oil trading for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, due to hedge gains that were partially offset by lower sales prices and a 22% decline in volumes sold compared to the same period last year.

Operating expenses decreased $1.8 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily as a result of decreased vessel lease and fuel costs at our St. Eustatius facility and decreased railcar costs associated with fuel oil sales.

Consolidation and Intersegment Eliminations

Revenue and operating expense eliminations primarily relate to storage fees charged to the fuels marketing segment by the storage segment. Revenue and operating expense eliminations changed by $12.7 million and $9.8 million, respectively, for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, mainly due to the Asphalt Sale in September 2012. Cost of product sales eliminations represent expenses charged to the fuels marketing segment for costs associated with inventory that are expensed once the inventory is sold.

General

General and administrative expenses decreased $6.1 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily as a result of lower compensation expense associated with our long-term incentive plans. Salaries and wages also decreased due to a reduction in the bonus accrual and lower headcount. In addition, certain general and administrative expenses are now reimbursed by Asphalt

JV for corporate support services under a services agreement between Asphalt JV and NuStar GP, LLC.

Equity in loss of joint ventures increased $4.4 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily due to an $8.2 million loss from our investment in Asphalt JV, that was mainly related to weak asphalt margins.

Interest expense, net increased $7.2 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, mainly due to the issuance of the $402.5 million of 7.625% fixed-to-floating rate subordinated notes in January 2013.

Interest income from related party of $1.8 million for the three months ended September 30, 2013 represents the interest earned on a $250.0 million seven-year unsecured revolving credit facility with Asphalt JV.

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Other income (expense), net changed by $21.4 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, mainly due to a $21.6 million loss related to the Asphalt Sale in the third quarter of 2012.

Income tax expense decreased $1.2 million for the three months ended September 30, 2013, compared to the three months ended September 30, 2012, mainly due to rate reductions in the UK and Texas in 2013 and Canadian tax audit adjustments recorded in 2012.

For the three months ended September 30, 2012, we recorded a loss from discontinued operations of $9.6 million, all of which is attributable to the San Antonio Refinery.

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Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012
Financial Highlights
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

| | Nine Months Ended September 30, | | Change |
|---|---|---|---|
| | 2013 | 2012 | |
| Statement of Income Data: | | | |
| Revenues: | | | |
| Services revenues | $706,493 | $646,444 | $60,049 |
| Product sales | 1,977,423 | 4,324,465 | (2,347,042) |
| Total revenues | 2,683,916 | 4,970,909 | (2,286,993) |
| | | | |
| Costs and expenses: | | | |
| Cost of product sales | 1,928,237 | 4,211,966 | (2,283,729) |
| Operating expenses | 353,137 | 401,648 | (48,511) |
| General and administrative expenses | 65,978 | 75,254 | (9,276) |
| Depreciation and amortization expense | 137,185 | 125,538 | 11,647 |
| Asset impairment loss | — | 249,646 | (249,646) |
| Goodwill impairment loss | — | 22,132 | (22,132) |
| Gain on legal settlement | — | (28,738) | 28,738 |
| Total costs and expenses | 2,484,537 | 5,057,446 | (2,572,909) |
| | | | |
| Operating (loss) income | 199,379 | (86,537) | 285,916 |
| Equity in (loss) earnings of joint ventures | (26,629) | 3,816 | (30,445) |
| Interest expense, net | (93,601) | (68,118) | (25,483) |
| Interest income from related party | 4,560 | — | 4,560 |
| Other income (expense), net | 3,978 | (21,392) | 25,370 |
| Income (loss) before income tax expense | 87,687 | (172,231) | 259,918 |
| Income tax expense | 6,147 | 20,318 | (14,171) |
| Income (loss) from continuing operations | 81,540 | (192,549) | 274,089 |
| Income (loss) from discontinued operations, net of tax | 9,069 | (23,665) | 32,734 |
| Net income (loss) | $90,609 | $(216,214) | $306,823 |
| | | | |
| Net income (loss) per unit applicable to limited partners: | | | |
| Continuing operations | $0.61 | $(3.07) | $3.68 |
| Discontinued operations | 0.12 | (0.33) | 0.45 |
| Total | $0.73 | $(3.40) | $4.13 |
| | | | |
| Weighted-average limited partner units outstanding | 77,886,078 | 71,302,538 | 6,583,540 |

Highlights

Net income increased $306.8 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily due to an operating loss of $302.8 million in the fuels marketing segment for the nine months ended September 30, 2012, compared to an operating loss of $7.2 million for the nine months ended September 30, 2013. The operating loss in the fuels marketing segment mainly resulted from an asset impairment charge of $266.4 million in the second quarter of 2012 related to the goodwill and long-lived assets of the Asphalt Operations.

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Segment Operating Highlights
(Thousands of Dollars, Except Barrels/Day Information)

| | Nine Months Ended September 30, 2013 | 2012 | Change |
|---|---|---|---|
| Storage: | | | |
| Throughput (barrels/day) | 772,383 | 755,893 | 16,490 |
| Throughput revenues | $76,924 | $67,679 | $9,245 |
| Storage lease revenues | 353,026 | 379,473 | (26,447) |
| Total revenues | 429,950 | 447,152 | (17,202) |
| Operating expenses | 219,320 | 214,605 | 4,715 |
| Depreciation and amortization expense | 79,498 | 69,725 | 9,773 |
| Asset impairment loss | — | 2,126 | (2,126) |
| Segment operating income | $131,132 | $160,696 | $(29,564) |
| Pipeline: | | | |
| Refined products pipelines throughput (barrels/day) | 477,601 | 490,775 | (13,174) |
| Crude oil pipelines throughput (barrels/day) | 361,642 | 326,454 | 35,188 |
| Total throughput (barrels/day) | 839,243 | 817,229 | 22,014 |
| Throughput revenues | $301,761 | $244,938 | $56,823 |
| Operating expenses | 102,596 | 95,212 | 7,384 |
| Depreciation and amortization expense | 50,039 | 39,086 | 10,953 |
| Segment operating income | $149,126 | $110,640 | $38,486 |
| Fuels Marketing: | | | |
| Product sales | $1,978,531 | $4,334,361 | $(2,355,830) |
| Cost of product sales | 1,944,415 | 4,231,551 | (2,287,136) |
| Gross margin | 34,116 | 102,810 | (68,694) |
| Operating expenses | 41,336 | 128,001 | (86,665) |
| Depreciation and amortization expense | 20 | 11,235 | (11,215) |
| Asset and goodwill impairment loss | — | 266,357 | (266,357) |
| Segment operating loss | $(7,240) | $(302,783) | $295,543 |
| Consolidation and Intersegment Eliminations: | | | |
| Revenues | $(26,326) | $(55,542) | $29,216 |
| Cost of product sales | (16,178) | (19,585) | 3,407 |
| Operating expenses | (10,115) | (36,170) | 26,055 |
| Total | $(33) | $213 | $(246) |
| Consolidated Information: | | | |
| Revenues | $2,683,916 | $4,970,909 | $(2,286,993) |
| Cost of product sales | 1,928,237 | 4,211,966 | (2,283,729) |
| Operating expenses | 353,137 | 401,648 | (48,511) |
| Depreciation and amortization expense | 129,557 | 120,046 | 9,511 |
| Asset and goodwill impairment loss | — | 268,483 | (268,483) |
| Segment operating income (loss) | 272,985 | (31,234) | 304,219 |
| General and administrative expenses | 65,978 | 75,254 | (9,276) |
| Other depreciation and amortization expense | 7,628 | 5,492 | 2,136 |
| Other asset impairment loss | — | 3,295 | (3,295) |
| Gain on legal settlement | — | (28,738) | 28,738 |
| Consolidated operating income (loss) | $199,379 | $(86,537) | $285,916 |

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Storage
Throughput revenue increased $9.2 million, and throughputs increased 16,490 barrels per day, for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012. Revenues increased $13.7 million and throughputs increased 80,292 barrels per day as a result of changing our Corpus Christi crude storage tank facility from a lease-based to a throughput-based facility in the third quarter of 2012 in connection with the Eagle Ford Shale projects in our pipeline segment. These increases were partially offset by decreased throughputs of 56,500 barrels per day and decreased revenues of $3.9 million resulting from turnarounds, maintenance and operational issues in 2013 at the refineries served by our Corpus Christi, Texas City and Benicia crude oil storage tanks and our Three Rivers refined products terminals.

Storage lease revenues decreased $26.4 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily due to:

- a decrease of $23.1 million at various domestic terminals, mainly as a result of reduced demand in several markets, resulting in lower throughputs, storage fees and reimbursable revenues;
- a decrease of $7.6 million at our St. Eustatius terminal facility, mainly due to decreased reimbursable revenue, throughput and related handling fees and dockage revenues;
- a decrease of $6.2 million at our Corpus Christi crude storage tank facility due to the change to throughput-based fees in July 2012;
- a decrease of $5.8 million at asphalt terminals under storage agreements with Asphalt JV, which we entered into simultaneously with the Asphalt Sale;
- a decrease of $4.9 million at our UK and Amsterdam terminals, mainly due to reduced demand and the effect of foreign exchange rates; and
- a decrease of $2.9 million due to the sale of five refined product terminals in April 2012.

The declines in storage lease revenues were partially offset by an increase in storage lease revenues of $22.7 million resulting from a completed unit train offloading facility at our St. James terminal and completed tank expansion projects at our St. James and St. Eustatius terminals. In addition, revenues increased $4.1 million as a result of our acquisition of a lease at the Red Fish Bay terminal in conjunction with the TexStar Asset Acquisition.

Operating expenses increased $4.7 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily due to:

- an increase of $4.0 million in other operating expenses, mainly due to increased dockage activity at our Corpus Christi crude storage tank facility;
- an increase of $3.2 million in salaries and wages, due to merit increases and higher temporary labor costs, a collective labor agreement that became effective in mid-2012 associated with our St. Eustatius terminal and our acquisition of a lease at the Red Fish Bay terminal in conjunction with the TexStar Asset Acquisition; and
- an increase of $3.4 million due to increased dock and rail labor costs at our St. James terminal and increased maintenance costs at our St. Eustatius terminal.

These increases were partially offset by a decrease of $6.1 million in reimbursable expenses, consistent with the decrease in reimbursable revenues, mainly at our St. Eustatius terminal facility and terminals in our northeast region.

Depreciation and amortization expense increased $9.8 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily due to the completion of a dock optimization project at our Corpus Christi crude storage tank facility, unit train and tank expansion projects at our St. James terminal and a tank expansion project at our St. Eustatius terminal.

Pipeline

Revenues increased $56.8 million and throughputs increased 22,014 for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily due to:

- an increase in revenues of $43.3 million and an increase in throughputs of 64,379 barrels per day on crude oil pipelines that serve Eagle Ford Shale production in South Texas, primarily resulting from the TexStar Asset Acquisition and crude oil pipelines that were placed in service in the fourth quarter of 2012;
- an increase in revenues of $5.6 million and an increase in throughputs of 2,116 barrels per day on the North Pipeline, mainly due to the completion of an expansion project at the Mandan refinery in June 2012 and the recognition of reimbursed pipeline expansion costs;
- an increase in revenues of $5.0 million, resulting from a slight increase in throughputs on the crude oil and refined product pipelines serving the McKee refinery, due to increased volumes on pipelines with higher tariffs; and

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- an increase in revenues of $3.4 million on the East Pipeline due to higher average tariffs resulting from the annual index adjustment in July 2013 and increased long-haul deliveries. Throughputs decreased 4,678 barrels per day as a result of a late start of the fall harvest and intermittent gasoline shortages.

The higher throughputs were partially offset by a decrease in throughputs of 27,372 barrels per day on crude oil pipelines serving the Ardmore refinery due to a new contract effective January 1, 2013 that combines two segments of a crude oil pipeline serving the Ardmore refinery that were previously reported as separate throughputs. In addition, the Ardmore refinery had a turnaround and operational issues during the first quarter of 2013.

Operating expenses increased $7.4 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily due to an increase of $14.8 million on crude oil pipelines that serve Eagle Ford Shale production in South Texas, resulting from the TexStar Asset Acquisition and crude oil pipelines that were placed in service in the fourth quarter of 2012. This increase was partially offset by a decrease of $6.5 million resulting from the reduction of the contingent consideration liability recorded in association with the TexStar Asset Acquisition. Please refer to Note 6 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for further discussion. In addition, operating expenses decreased $2.3 million due temporary barge rental costs in 2012 related to moving a customer's product in conjunction with an Eagle Ford Shale project.

Depreciation and amortization expense increased $11.0 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, mainly due to TexStar Asset Acquisition in December 2012 and the completion of various projects that serve Eagle Ford Shale production.

Fuels Marketing

The consolidated statements of comprehensive income include the results of operations for Asphalt JV in "Equity in (loss) earnings of joint ventures" commencing on September 28, 2012. Previously, we reported the results of operations for our Asphalt Operations in the fuels marketing segment. For the nine months ended September 30, 2013, this segment mainly includes refined products marketing, crude oil trading, heavy fuel oil and bunkering operations. The table below presents pro forma financial information that removes the historical financial information for our Asphalt Operations from the segment results for the nine months ended September 30, 2012 in order to provide a more meaningful comparison of the segment's results.

| | | Nine Months Ended September 30, 2012 | | | |
|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2013 | Actual | Asphalt Operations | Pro Forma | Change |
| | (Thousands of Dollars) | | | | |
| Product sales | $ 1,978,531 | $ 4,334,361 | $ 1,315,336 | $ 3,019,025 | $ (1,040,494 ) |
| Cost of product sales | 1,944,415 | 4,231,551 | 1,257,222 | 2,974,329 | (1,029,914 ) |
| Gross margin | 34,116 | 102,810 | 58,114 | 44,696 | (10,580 ) |
| Operating expenses | 41,336 | 128,001 | 84,221 | 43,780 | (2,444 ) |
| Depreciation and amortization expense | 20 | 11,235 | 11,138 | 97 | (77 ) |
| Asset and goodwill impairment loss | — | 266,357 | 266,357 | — | — |
| Segment operating loss | $ (7,240 ) | $ (302,783 ) | $ (303,602 ) | $ 819 | $ (8,059 ) |

Sales and cost of product sales decreased $1,040.5 million and $1,029.9 million, respectively, resulting in a decrease in total gross margin of $10.6 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012. The decrease in total gross margin was primarily due to a decrease of $14.4 million in the gross margin from bunker fuel sales, mainly at our St. Eustatius and Texas City facilities. Reduced demand for bunker fuels and increased competition in the U.S. Gulf Coast and the Caribbean has negatively impacted our sales prices and resulted in lower gross margins as compared to the same period last year. In addition, the gross margin from crude oil trading decreased $12.5 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, resulting from fewer contract volumes that benefited from the widening price differential on two traded crude oil grades (WTI and LLS). These decreases were partially offset by an increase of $16.0 million in the gross margin from fuel oil trading attributable to hedge gains and lower costs that outweighed falling sales prices compared to the same period last year.

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Consolidation and Intersegment Eliminations
Revenue and operating expense eliminations primarily relate to storage fees charged to the fuels marketing segment by the storage segment. Revenue and operating expense eliminations changed by $29.2 million and $26.1 million, respectively, for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, mainly due to the Asphalt Sale in September 2012. Cost of product sales eliminations represent expenses charged to the fuels marketing segment for costs associated with inventory that are expensed once the inventory is sold.

General
General and administrative expenses decreased $9.3 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, primarily as a result of expenses that are now reimbursed by Asphalt JV for corporate support services under a services agreement between Asphalt JV and NuStar GP, LLC. In addition, general and administrative expenses in the second quarter of 2012 included penalties and related costs as a result of a Canadian income tax audit.

Our equity interest in joint ventures generated a loss of $26.6 million for the nine months ended September 30, 2013, compared to earnings of $3.8 million for the nine months ended September 30, 2012, primarily due to a $31.7 million loss from our investment in Asphalt JV in 2013, that was mainly related to weak asphalt margins.

Interest expense, net increased $25.5 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, mainly due to the issuance of the $402.5 million of 7.625% fixed-to-floating rate subordinated notes in January 2013.

Interest income from related party of $4.6 million for the nine months ended September 30, 2013 represents the interest earned on a $250.0 million seven-year unsecured revolving credit facility with Asphalt JV.

Other income (expense), net changed by $25.4 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, mainly due to a $21.6 million loss associated with the Asphalt Sale in 2012 and changes in foreign exchange rates related to our Canadian subsidiaries and joint venture in Turkey.

Income tax expense, net decreased $14.2 million for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, mainly due to tax expense of $10.1 million related to the $28.7 million gain on legal settlement recognized in the second quarter of 2012, Canadian tax audit adjustments recorded in 2012 and rate reductions in the UK and Texas in 2013.

For the nine months ended September 30, 2013, we recorded income from discontinued operations of $9.1 million, compared to a loss from discontinued operations of $23.7 million for the nine months ended September 30, 2012, all of which is attributable to the San Antonio Refinery. Income from discontinued operations for the nine months ended September 30, 2013 includes a gain of $9.3 million related to the San Antonio Refinery Sale.

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TRENDS AND OUTLOOK

We expect our operating income for the fourth quarter of 2013 to be higher than the fourth quarter of 2012 in each of our three reporting segments.

Storage Segment

In the fourth quarter of 2013, we expect the storage segment to benefit from expansion projects completed in 2012 and in the first quarter of 2013 at our St. James, Louisiana terminal and our St. Eustatius terminal in the Caribbean, as well as the expected completion of a second rail-car offloading facility at our St. James, Louisiana terminal in the fourth quarter of 2013.

However, continued backwardation of the forward pricing curve has resulted in reduced demand for storage at certain of our terminal locations. The reduced demand is putting downward pressure on storage rates in certain markets as some of our storage contracts come up for renewal, thus negatively affecting our earnings. In addition, the segment was impacted by lower profit sharing on our unit train at our St. James, Louisiana terminal due to the narrowing of the LLS to WTI spread. Although we expect earnings for the fourth quarter 2013 to exceed the same period for 2012, the full-year earnings for 2013 are expected to be lower than 2012.

Pipeline Segment

We expect pipeline segment earnings for the fourth quarter and full year of 2013 to exceed the comparable periods of 2012, mainly due to higher throughputs resulting from our Eagle Ford Shale projects completed in 2012 and from our December 2012 TexStar Asset Acquisition. During the third quarter of 2013, we completed an additional project in the Eagle Ford Shale region that should continue to increase throughputs and improve our earnings. These increased throughputs, coupled with the July 1, 2013 tariff increase on pipelines regulated by the Federal Energy Regulatory Commission, should contribute to higher earnings.

Fuels Marketing Segment

Although we continue to experience challenges in our fuels marketing segment, we expect improved performance in the fourth quarter of 2013 results as compared to 2012, primarily due to higher projected earnings from bunker fuel sales. During the third quarter of 2013, we entered into a new bunker fuel supply agreement, which reduced our working capital requirements and has allowed us to reduce operating costs, both of which are expected to benefit the fourth quarter of 2013. Overall, we expect the full year 2013 results to exceed 2012 due mainly to the sale of the Asphalt Operations in September 2012. However, due to the many factors affecting margins of these businesses, actual results may be higher or lower than what we currently forecast.

Our outlook for the partnership may change depending on, among other things, crude oil prices, the state of the economy, changes to refinery maintenance schedules and other factors that affect overall demand for the products we store, transport and sell, as well as changes in commodity prices for the products we market.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Primary Cash Requirements. Our primary cash requirements are for distributions to our partners, working capital (including inventory purchases), debt service, capital expenditures, including reliability capital, a financing agreement with Asphalt JV, acquisitions and operating expenses.

Our partnership agreement requires that we distribute all “Available Cash” to our partners each quarter, and this term is defined in the partnership agreement as cash on hand at the end of the quarter, plus certain permitted borrowings made subsequent to the end of the quarter, less cash reserves determined by the board of directors.

Sources of Funds. Each year, we work to fund our annual total operating expenses, interest expense, reliability capital expenditures and distribution requirements with our net cash provided by operating activities during that year. If we do not generate sufficient cash from operations to meet those requirements, we utilize other sources of cash flow, which in the past have included borrowings under our $1.5 billion five-year revolving credit agreement (the 2012 Revolving Credit Agreement), sales of non-strategic assets and, to the extent necessary, funds raised through equity or debt offerings under our shelf registration statements. Additionally, we typically fund our strategic capital expenditures from external sources, primarily borrowings under the 2012 Revolving Credit Agreement or funds raised through equity or debt offerings. However, our ability to raise funds by issuing debt or equity depends on many factors beyond our control. Our risk factors in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 describe the risks inherent to these sources of funding and the availability thereof.

During periods that our cash flow from operations is less than our distribution and reliability capital requirements, we may maintain our distribution level because we can utilize other sources of Available Cash, as provided in our partnership agreement, including borrowing under the 2012 Revolving Credit Agreement and the proceeds from the sales of assets. Our risk factors in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 describe the risks inherent in our ability to maintain or grow the distribution.

Cash Requirements and Sources in 2011 and 2012. During the past two fiscal years, we did not generate sufficient cash from operations to meet our annual funding goal. Those shortfalls in cash from operations in 2011 and 2012, relative to our reliability capital and distribution requirements, were primarily attributable to our asphalt and fuels marketing segment. Our 2011 acquisition of the San Antonio refinery, along with expansion in other aspects of the segment, significantly increased our working capital requirements, which in turn reduced our net cash provided by operating activities during that fiscal year. In 2012, poor margins in the segment drove our earnings down sharply and again reduced our net cash provided by operating activities below our distribution and reliability capital requirements.

2012 Strategic Redirection and Its Impact. As a result of our continuing evaluation of our performance in 2011 and 2012, in 2012, we embarked on a strategic redirection to, first, focus on our core, fee-based businesses, storage and pipelines, and, second, reduce earnings volatility and working capital requirements stemming from the asphalt and fuels marketing segment. Since then, we have implemented our first goal through the development of a number of internal growth projects, as well as an acquisition of crude oil pipelines and gathering lines in Texas on December 13, 2012. We have executed on our second goal through selling a 50% interest in our asphalt business on September 28, 2012, and we then deconsolidated the results of our remaining interest in those operations. We continued to further our second goal by selling the San Antonio Refinery on January 1, 2013.

While we continue to work to implement our redirection, the changes to date have already begun to yield positive results, and we described those in more detail below. In view of those improvements, along with our strategic plan, we currently expect to continue to produce cash from operations in excess of our reliability capital requirements and our distribution.

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Cash Flows for the Nine Months Ended September 30, 2013 and 2012
The following table summarizes our cash flows from operating, investing and financing activities:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (Thousands of Dollars) | |
| Net cash provided by (used in): | | |
| Operating activities | $378,540 | $271,879 |
| Investing activities | (197,718) | (22,030) |
| Financing activities | (235,493) | (163,362) |
| Effect of foreign exchange rate changes on cash | (4,412) | 3,472 |
| Net (decrease) increase in cash and cash equivalents | $(59,083) | $89,959 |

Net cash provided by operating activities for the nine months ended September 30, 2013 was $378.5 million, compared to $271.9 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, we reported net income of $90.6 million, compared to a net loss of $216.2 million for the nine months ended September 30, 2012. The net loss for the nine months ended September 30, 2012 included $271.8 million of non-cash asset impairment charges. In addition, we reported equity in loss of joint ventures of $26.6 million for the nine months ended September 30, 2013, compared to equity in earnings of $3.8 million for the nine months ended September 30, 2012. Equity in loss of joint ventures for the nine months ended September 30, 2013 included a $31.7 million loss from our investment in Asphalt JV. Cash flows from operating activities for the nine months ended September 30, 2012 also include an adjustment to net loss for a pre-tax, non-cash gain on a legal settlement of $28.7 million.

Working capital decreased by $116.8 million for the nine months ended September 30, 2013, compared to a decrease of $108.8 million for the nine months ended September 30, 2012. Please refer to the Working Capital Requirements section below for a discussion of the changes in working capital.

For the nine months ended September 30, 2013, net cash provided by operating activities exceeded our distribution requirements and reliability capital expenditures. Proceeds from the San Antonio Refinery Sale and proceeds from long-term debt borrowings, net of repayments, combined with net cash provided by operating activities and cash on hand, were used to fund strategic capital expenditures and advances to Asphalt JV under the NuStar JV Facility.

For the nine months ended September 30, 2012, net cash provided by operating activities, proceeds from the Asphalt Sale and proceeds from our issuance of common units were used to fund our distributions to unitholders and our general partner, capital expenditures, repayments of long-term debt and advances to Asphalt JV under the NuStar JV Facility.

Revolving Credit Agreement
As of September 30, 2013, our consolidated debt coverage ratio was 4.3x, and we had $1,055.5 million available for borrowing. Due to a covenant in our 2012 Revolving Credit Agreement that requires us to maintain, as of the end of any four consecutive fiscal quarters, a consolidated debt coverage ratio not to exceed 5.00-to-1.00, we may not be able to borrow the maximum available amount.

Shelf Registration Statements
On June 18, 2013, the Securities and Exchange Commission declared effective our shelf registration statement on Form S-3, which permits us to offer and sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP (the 2013 Shelf Registration Statement). We filed the 2013 Shelf

Registration Statement to replace our three-year shelf registration statement that was effective May 10, 2010. The 2013 Shelf Registration Statement does not have a stated maximum dollar limit.

The shelf registration statement that became effective on April 29, 2011 permits us to sell various types of securities, including NuStar Energy common units and debt securities of NuStar Logistics and NuPOP, having an aggregate value of up to $200.0 million.

If the capital markets become more volatile, our access to the capital markets may be limited, or we could face increased costs. In addition, it is possible that our ability to access the capital markets may be limited at a time when we would like or need access, which could have an impact on our ability to refinance maturing debt and/or react to changing economic and business conditions.

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6.75% Senior Notes. On August 19, 2013, NuStar Logistics issued $300.0 million of 6.75% senior notes due February 1, 2021 (the 6.75% Senior Notes). We received proceeds of approximately $296.3 million, net of the underwriters' discount and deferred issuance costs of $3.7 million, which we used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The interest on the 6.75% Senior Notes is payable semi-annually in arrears on February 1 and August 1 of each year beginning on February 1, 2014.

7.625% Fixed-to-Floating Rate Subordinated Notes. On January 22, 2013, NuStar Logistics issued $402.5 million of 7.625% fixed-to-floating rate subordinated notes due January 15, 2043 (the Subordinated Notes), including the underwriters' option to purchase up to an additional $52.5 million principal amount of the notes, which was exercised in full. The net proceeds of approximately $390.9 million were used for general partnership purposes, including repayment of outstanding borrowings under our 2012 Revolving Credit Agreement. The Subordinated Notes are fully and unconditionally guaranteed on an unsecured and subordinated basis by NuStar Energy and NuPOP.

The Subordinated Notes bear interest at a fixed annual rate of 7.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2013 and ending on January 15, 2018. Thereafter, the Subordinated Notes will bear interest at an annual rate equal to the sum of the three-month LIBOR rate for the related quarterly interest period, plus 6.734% payable quarterly on January 15, April 15, July 15 and October 15 of each year, commencing April 15, 2018, unless payment is deferred in accordance with the terms of the notes. NuStar Logistics may elect to defer interest payments on the Subordinated Notes on one or more occasions for up to five consecutive years. Deferred interest will accumulate additional interest at a rate equal to the interest rate then applicable to to the Subordinated Notes until paid. If NuStar Logistics elects to defer interest payments, NuStar Energy cannot declare or make cash distributions to its unitholders during the period interest is deferred. Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion on certain of our long-term debt agreements.

Capital Requirements

Our operations require significant investments to maintain, upgrade or enhance the operating capacity of our existing assets. Our capital expenditures consist of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety; and
- strategic capital expenditures, such as those to expand and upgrade pipeline capacity or terminal facilities and to construct new pipelines, terminals and storage tanks. In addition, strategic capital expenditures may include acquisitions of pipelines, terminals or storage tank assets, as well as certain capital expenditures related to support functions.

During the nine months ended September 30, 2013, our reliability capital expenditures totaled $29.7 million, primarily related to maintenance upgrade projects at our terminals. Strategic capital expenditures for the nine months ended September 30, 2013 totaled $231.0 million and were primarily related to projects associated with Eagle Ford Shale production in South Texas and projects at our St. James, Louisiana terminal.

For the full year 2013, we expect our capital expenditures to total approximately $335.0 million to $370.0 million, including $35.0 million to $45.0 million for reliability capital projects and $300.0 million to $325.0 million for strategic capital projects, not including acquisitions. We continue to evaluate our capital budget and make changes as economic conditions warrant, and our actual capital expenditures for 2013 may increase or decrease from the budgeted amounts. We believe cash generated from operations, combined with other sources of liquidity previously described, will be sufficient to fund our capital expenditures in 2013, and our internal growth projects can be accelerated or scaled back depending on the condition of the capital markets.

Working Capital Requirements

Our fuels marketing operations require us to make investments in working capital. Those working capital requirements may vary with fluctuations in the commodity prices of inventory and with the seasonality of demand for the products we market. This seasonality in demand affects our accounts receivable and accounts payable balances, which vary depending on timing of payments. As a result of the Asphalt Sale and the San Antonio Refinery Sale, our working capital requirements have been significantly reduced.

During the nine months ended September 30, 2013, accounts payable decreased $176.2 million and accounts receivable decreased $145.8 million, primarily due to less crude oil trading activity in 2013 and the San Antonio Refinery Sale. Accounts payable also decreased due to timing of payments for crude oil purchases related to Asphalt JV. Inventories decreased $47.1 million for the nine months ended September 30, 2013, primarily as a result of a new bunker fuel supply agreement that reduced the inventory carried in our bunker fuel operations. In addition, we reduced inventories associated with our heavy fuel oil trading operations.

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Receivable from related parties decreased $83.3 million during the nine months ended September 30, 2013, mainly due to the timing of payments related to a crude oil supply agreement with Asphalt JV that we entered into simultaneously with the Asphalt Sale. Please refer to Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a more detailed discussion of our agreements with Asphalt JV.

In connection with the Asphalt Sale, we agreed to provide Asphalt JV with an unsecured revolving credit facility in an aggregate principal amount not to exceed $250.0 million for a term of seven years (the NuStar JV Facility), and to provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $150.0 million. The NuStar JV Facility is used to fund working capital and general corporate needs of Asphalt JV. During the nine months ended September 30, 2013, we advanced $50.8 million, net of repayments, to Asphalt JV under the NuStar JV Facility.

Although Asphalt JV has incurred significant losses since the Asphalt Sale last year, Asphalt JV has been able to fund its operating needs with its available sources of liquidity. However, if Asphalt JV continues to incur losses, its working capital needs may exceed its existing funding sources. Although we are not required under any agreement to do so, if Asphalt JV were to reach a liquidity deficit, we may consider providing additional capital. Our decision as to whether to fund such capital beyond the stated amount of NuStar JV Facility would depend on our analysis of a number of factors, including our assessment, at that time, of the likelihood that Asphalt JV could ultimately operate profitably. In the event that we were to choose to fund Asphalt JV beyond the limit of the NuStar JV Facility, we would have to utilize our own sources of liquidity, including our revolving credit facility, or seek other funding sources, which might not be available on commercially reasonable terms, either of which could have a significant negative effect on our liquidity.

Distributions

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions were earned:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands of Dollars, Except Per Unit Data) | | | |
| General partner interest | $1,961 | $1,961 | $5,883 | $5,525 |
| General partner incentive distribution | 10,805 | 10,805 | 32,415 | 30,437 |
| Total general partner distribution | 12,766 | 12,766 | 38,298 | 35,962 |
| Limited partners’ distribution | 85,285 | 85,285 | 255,855 | 240,241 |
| Total cash distributions | $98,051 | $98,051 | $294,153 | $276,203 |
| Cash distributions per unit applicable to limited partners | $1.095 | $1.095 | $3.285 | $3.285 |

Distributions declared for the quarter are paid within 45 days following the end of each quarter based on the partnership interests outstanding as of a record date that is set after the end of each quarter. The following table summarizes information related to our quarterly cash distributions:

| Quarter Ended | Cash Distributions Per Unit | Total Cash Distributions (Thousands of Dollars) | Record Date | Payment Date |
|---|---|---|---|---|
| September 30, 2013 (a) | $1.095 | $98,051 | November 11, 2013 | November 14, 2013 |

| | | | | |
|---|---|---|---|---|
| June 30, 2013 | $1.095 | $98,051 | August 5, 2013 | August 9, 2013 |
| March 31, 2013 | $1.095 | $98,051 | May 6, 2013 | May 10, 2013 |
| December 31, 2012 | $1.095 | $98,051 | February 11, 2013 | February 14, 2013 |

(a) The distribution was announced on October 31, 2013.

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Debt Obligations

We are a party to the following debt agreements as of September 30, 2013:

- the 2012 Revolving Credit Agreement due May 2, 2017, with a balance of $286.1 million as of September 30, 2013;
- NuStar Logistics' 7.65% senior notes due April 15, 2018 with a face value of $350.0 million; 4.80% senior notes due September 1, 2020 with a face value of $450.0 million; the 6.75% Senior Notes with a face value of $300.0 million; 4.75% senior notes due February 1, 2022 with a face value of $250.0 million; and the 7.625% Subordinated Notes with a face value of $402.5 million;
- NuStar Logistics' $365.4 million Gulf Opportunity Zone Revenue Bonds due from 2038 to 2041; and
- NuStar Terminals Limited's £21 million term loan due December 10, 2013 (the UK Term Loan).

In February 2013, we repaid the remaining principal balance of $0.6 million on our $12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas. During the nine months ended September 30, 2013, we repaid NuStar Logistics' $229.9 million of 6.05% senior notes due March 15, 2013 and NuPOP's $250.0 million of 5.875% senior notes due June 1, 2013 with borrowings under our 2012 Revolving Credit Agreement.

Management believes that, as of September 30, 2013, we are in compliance with all ratios and covenants of both the 2012 Revolving Credit Agreement and the UK Term Loan. Our other long-term debt obligations do not contain any financial covenants that are different than those contained in the 2012 Revolving Credit Agreement. However, a default under any of our debt instruments would be considered an event of default under all of our debt instruments. Please refer to Note 4 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion on certain of our long-term debt agreements.

Credit Ratings

In January 2013, Moody's Investor Service lowered our credit rating to Ba1 from Baa3. This downgrade caused the interest rates on the 2012 Revolving Credit Agreement, NuStar Terminals Limited's £21 million amended and restated term loan agreement and NuStar Logistics' $350.0 million of 7.65% senior notes due 2018 to increase by 0.375%, 0.375% and 0.25%, respectively, effective January 2013. This downgrade may also require us to provide additional credit support for certain contracts, although as of September 30, 2013, we have not been required to provide any additional credit support.

Interest Rate Swaps

As of December 31, 2012, we were a party to forward-starting swap agreements for the purpose of hedging interest rate risk. In connection with the maturity of the 6.05% senior notes due March 15, 2013 and 5.875% senior notes due June 1, 2013, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of $275.0 million and paid $33.7 million in connection with the terminations. Please refer to Note 7 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a more detailed discussion of our interest rate swaps.

Commitments

On November 6, 2013, we came to a mutual agreement with PDVSA-Petróleo S.A. (PDVSA) to terminate that certain Crude Oil Sales Agreement dated effective as of March 1, 2008 (the CSA). We previously amended the CSA to reduce the crude oil purchase obligations from 75,000 barrels per day to 30,000 barrels per day, which remains in effect for the remainder the year. The termination is effective January 1, 2014, and will also terminate our crude oil supply agreement with NuStar Asphalt LLC (Asphalt JV) effective January 1, 2014. See Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. "Financial Statements" for a discussion of our crude oil supply agreement with Asphalt JV.

Environmental, Health and Safety

We are subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications, among others. Because more stringent environmental and safety laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental, health and safety matters is expected to increase.

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Contingencies

We are subject to certain loss contingencies, the outcomes of which could have an adverse effect on our cash flows and results of operations, as further disclosed in Note 5 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements.”

## RELATED PARTY TRANSACTIONS

Please refer to Note 8 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a detailed discussion of our related party transactions.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We manage our exposure to changing interest rates principally through the use of a combination of fixed-rate debt and variable-rate debt. In addition, we utilize forward-starting interest rate swap agreements to lock in the rate on the interest payments related to forecasted debt issuances. In the past, we have also entered into fixed-to-floating interest rate swap agreements to manage a portion of the exposure to changing interest rates by converting certain fixed-rate debt to variable-rate debt. Borrowings under the 2012 Revolving Credit Agreement and Gulf Opportunity Zone Revenue Bonds expose us to increases in applicable interest rates.

In connection with the maturity of the 6.05% senior notes due March 15, 2013 and 5.875% senior notes due June 1, 2013, we terminated forward-starting interest rate swap agreements with an aggregate notional amount of $275.0 million. As a result, we had no forward-starting interest rate swaps outstanding as of September 30, 2013. During 2012, we terminated all of our outstanding fixed-to-floating interest rate swap agreements, which had an aggregate notional amount of $470.0 million. We had no fixed-to-floating interest rate swaps as of September 30, 2013 or December 31, 2012. Please refer to Note 7 of the Condensed Notes to Consolidated Financial Statements in Item 1. “Financial Statements” for a more detailed discussion of our interest rate swaps.

The following tables present principal cash flows and related weighted-average interest rates by expected maturity dates for our long-term debt.

| | September 30, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Expected Maturity Dates | | | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 | There-after | Total | Fair Value |
| | (Thousands of Dollars, Except Interest Rates) | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $33,982 | $— | $— | $— | $— | $1,752,500 | $1,786,482 | $1,777,177 |
| Weighted-average interest rate | 2.6 % | — | — | — | — | 6.4 % | 6.4 % | |
| Variable rate | $— | $— | $— | $— | $286,069 | $365,440 | $651,509 | $651,824 |
| Weighted-average interest rate | — | — | — | — | 2.2 % | 0.1 % | 1.0 % | |

| | December 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Expected Maturity Dates | | | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 | There-after | Total | Fair Value |
| | (Thousands of Dollars, Except Interest Rates) | | | | | | | |
| Long-term Debt: | | | | | | | | |
| Fixed rate | $514,651 | $— | $— | $— | $— | $1,050,000 | $1,564,651 | $1,601,985 |
| Weighted-average interest rate | 5.7 % | — | — | — | — | 5.8 % | 5.8 % | |
| Variable rate | $— | $— | $— | $— | $440,330 | $365,440 | $805,770 | $775,135 |
| Weighted-average interest rate | — | — | — | — | 1.9 % | 0.1 % | 1.1 % | |

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Commodity Price Risk
Since the operations of our fuels marketing segment expose us to commodity price risk, we enter into derivative instruments to attempt to mitigate the effects of commodity price fluctuations. The derivative instruments we use consist primarily of commodity futures and swap contracts. We have a risk management committee that oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

We record commodity derivative instruments in the consolidated balance sheets as assets or liabilities at fair value. We recognize mark-to-market adjustments for derivative instruments designated and qualifying as fair value hedges (Fair Value Hedges) and the related change in the fair value of the associated hedged physical inventory or firm commitment within "Cost of product sales." For derivative instruments that have associated underlying physical inventory but do not qualify for hedge accounting (Economic Hedges and Other Derivatives), we record the mark-to-market adjustments in "Cost of product sales" or "Operating expenses."

The commodity contracts disclosed below represent only those contracts exposed to commodity price risk at the end of the period. Please refer to Note 7 of Condensed Notes to Consolidated Financial Statement in Item 1. "Financial Statements" for the volume and related fair value of all commodity contract.

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | Contract Volumes | Weighted Average Pay Price | Weighted Average Receive Price | Fair Value of Current Asset (Liability) |
| | (Thousands of Barrels) | | | (Thousands of Dollars) |
| Fair Value Hedges: | | | | |
| Futures – long: | | | | |
| (crude oil) | 105 | $ 103.83 | N/A | $ (157) |
| Futures – short: | | | | |
| (crude oil and refined products) | 285 | N/A | $ 113.95 | $ 436 |
| Swaps – short: | | | | |
| (refined products) | 10 | N/A | $ 94.70 | $ (6) |
| Economic Hedges and Other Derivatives: | | | | |
| Futures – long: | | | | |
| (crude oil) | 30 | $ 101.86 | N/A | $ (6) |
| Futures – short: | | | | |
| (crude oil and refined products) | 177 | N/A | $ 106.46 | $ 663 |
| Swaps – short: | | | | |
| (refined products) | 1,012 | N/A | $ 91.74 | $ 49 |
| Forward purchase contracts: | | | | |
| (crude oil) | 3,529 | $ 107.99 | N/A | $ (15,617) |
| Forward sales contracts: | | | | |
| (crude oil) | 3,529 | N/A | $ 107.81 | $ 15,210 |
| Total fair value of open positions exposed to commodity price risk | | | | $ 572 |

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| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Contract Volumes | Weighted Average | | Fair Value of Current Asset (Liability) |
| | | Pay Price | Receive Price | |
| | (Thousands of Barrels) | | | (Thousands of Dollars) |
| Fair Value Hedges: | | | | |
| Futures – long: | | | | |
| (refined products) | 10 | $127.47 | N/A | $ (1 ) |
| Futures – short: | | | | |
| (refined products) | 55 | N/A | $127.99 | $ 36 |
| Swaps – long: | | | | |
| (refined products) | 11 | $97.76 | N/A | $ 2 |
| Swaps – short: | | | | |
| (refined products) | 36 | N/A | $96.58 | $ (51 ) |
| Economic Hedges and Other Derivatives: | | | | |
| Futures – long: | | | | |
| (crude oil and refined products) | 88 | $97.60 | N/A | $ 202 |
| Futures – short: | | | | |
| (crude oil and refined products) | 94 | N/A | $100.13 | $ (142 ) |
| Swaps – long: | | | | |
| (crude oil and refined products) | 5,196 | $93.75 | N/A | $ (2,329 ) |
| Swaps – short: | | | | |
| (crude oil and refined products) | 6,952 | N/A | $94.43 | $ (2,033 ) |
| Forward purchase contracts: | | | | |
| (crude oil) | 2,998 | $100.03 | N/A | $ 12,574 |
| Forward sales contracts: | | | | |
| (crude oil) | 2,998 | N/A | $99.68 | $ (9,365 ) |
| Total fair value of open positions exposed to commodity price risk | | | | $ (1,107 ) |

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Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management has evaluated, with the participation of the principal executive officer and principal financial officer of NuStar GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of September 30, 2013.

(b) Changes in internal control over financial reporting.

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

There have been no significant changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the risk factors disclosed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.

### Item 5. Other Information

On November 6, 2013, we came to a mutual agreement with PDVSA-Petróleo S.A. (PDVSA) to terminate that certain Crude Oil Sales Agreement (the CSA), effective January 1, 2014. The CSA was originally entered into between PDVSA and NuStar Marketing LLC as of March 1, 2008 and was assigned to NuStar Logistics in connection with our September 28, 2012 sale of a 50% ownership interest in our asphalt operations. The CSA originally obligated NuStar Logistics to purchase 75,000 barrels of crude oil per day. On July 5, 2013 and effective October 1, 2012, the CSA was amended (the Amendment) to reduce the crude oil purchase obligations from 75,000 barrels per day to 30,000 barrels per day.

The foregoing descriptions of the CSA and Amendment are qualified in their entirety by (i) reference to the CSA, which was filed as Exhibit 10.01 to our Current Report on Form 8-K filed on March 25, 2008 and (ii) the Amendment, which was filed on August 7, 2013 as Exhibit 10.01 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, each of which is incorporated herein by reference.

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Item 6. Exhibits

| Exhibit Number | Description |
|---|---|
| 4.01 | Seventh Supplemental Indenture, dated as of August 19, 2013, among NuStar Logistics, L.P., as Issuer, NuStar Energy L.P., as Guarantor, NuStar Pipeline Operating Partnership L.P., as Affiliate Guarantor, and Wells Fargo Bank, National Association, as Successor Trustee (incorporated by reference to Exhibit 4.3 of NuStar Energy L.P.'s Current Report on Form 8-K filed August 23, 2013) |
| *12.01 | Statement of Computation of Ratio of Earnings to Fixed Charges |
| *31.01 | Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal executive officer |
| *31.02 | Rule 13a-14(a) Certification (under Section 302 of the Sarbanes-Oxley Act of 2002) of principal financial officer |
| *32.01 | Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal executive officer |
| *32.02 | Section 1350 Certification (under Section 906 of the Sarbanes-Oxley Act of 2002) of principal financial officer |
| *101.INS | XBRL Instance Document |
| *101.SCH | XBRL Taxonomy Extension Schema Document |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUSTAR ENERGY L.P.
(Registrant)

By: Riverwalk Logistics, L.P., its general partner
By: NuStar GP, LLC, its general partner

By: /s/ Curtis V. Anastasio
Curtis V. Anastasio
President and Chief Executive Officer
November 12, 2013

By: /s/ Steven A. Blank
Steven A. Blank
Executive Vice President and Chief Financial Officer
November 12, 2013

By: /s/ Thomas R. Shoaf
Thomas R. Shoaf
Senior Vice President and Controller
November 12, 2013