

NuStar Energy L.P.
Form 10-K
February 23, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 1-16417

NUSTAR ENERGY L.P.

(Exact name of registrant as specified in its charter)

Delaware 74-2956831
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

19003 IH-10 West 78257
San Antonio, Texas (Zip Code)

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act: Common units representing limited partner interests listed on the New York Stock Exchange. 8.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units representing limited partner interests listed on the New York Stock Exchange.

Securities registered pursuant to 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

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Non-accelerated filer (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
 No

The aggregate market value of the common units held by non-affiliates was approximately \$3,207 million based on the last sales price quoted as of June 30, 2016, the last business day of the registrant's most recently completed second quarter.

The number of common units outstanding as of January 31, 2017 was 78,650,995.

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PART I

Unless otherwise indicated, the terms “NuStar Energy L.P.,” “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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In this Form 10-K, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, estimates, predictions, projections, assumptions, intentions and resources. 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,” “will,” “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 Item 1A. “Risk Factors” 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-K. We do not intend to update these statements unless we are 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.

ITEM 1., 1A. and 2. BUSINESS, RISK FACTORS AND PROPERTIES

OVERVIEW

NuStar Energy L.P. (NuStar Energy), a Delaware limited partnership, was formed in 1999 and completed its initial public offering of common units on April 16, 2001. Our common units are traded on the New York Stock Exchange (NYSE) under the symbol “NS,” and our 8.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units trade on the NYSE under the symbol “NSprA.” Our principal executive offices are located at 19003 IH-10 West, San Antonio, Texas 78257 and our telephone number is (210) 918-2000.

We are engaged in the transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. The term “throughput” as used in this document generally refers to barrels of crude oil or refined product or tons of ammonia, as applicable, that pass through our pipelines, terminals or storage tanks.

We divide our operations into the following three reportable business segments: pipeline, storage and fuels marketing. As of December 31, 2016, our assets included approximately 8,700 miles of pipeline and 79 terminal and storage facilities that provide approximately 95 million barrels of storage capacity. The following table summarizes operating income for each of our business segments:

| | Year Ended | |
|-----------------|---------------|-----------|
| | December 31, | |
| | 2016 | 2015 |
| | (Thousands of | |
| | Dollars) | |
| Pipeline | \$248,238 | \$270,349 |
| Storage | \$214,801 | \$217,818 |
| Fuels marketing | \$3,406 | \$13,507 |

We conduct our operations through our wholly owned subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP). Our revenues include:

- tariffs for transporting crude oil, refined products and anhydrous ammonia through our pipelines;
- fees for the use of our terminal and storage facilities and related ancillary services; and
- sales of crude oil and refined petroleum products.

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We strive to increase unitholder value by:

- enhancing our existing assets through strategic internal growth projects that expand our business with current and new customers;
- pursuing strategic expansion projects by constructing new assets;
- improving our operations, including safety and environmental stewardship, cost control and asset reliability; and
- identifying acquisition targets that meet our financial and strategic criteria.

Our internet website address is <http://www.nustarenergy.com>. Information contained on our website is not part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our website, free of charge, as soon as reasonably practicable after we file or furnish such material (select the “Investors” link, then the “SEC Filings” link). We also post our corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers and the charters of our board’s committees on our website free of charge (select the “Investors” link, then the “Corporate Governance” link).

Our governance documents are available in print to any unitholder that makes a written request to Corporate Secretary, NuStar Energy L.P., 19003 IH-10 West, San Antonio, Texas 78257 or corporatesecretary@nustarenergy.com.

RECENT DEVELOPMENTS

Martin Terminal Acquisition. On December 21, 2016, we acquired crude oil and refined product storage assets in Corpus Christi, TX for \$95.7 million, including \$2.1 million of capital expenditure reimbursements, from Martin Operating Partnership L.P. The assets acquired are in our storage segment and include 900,000 barrels of crude oil storage capacity, 250,000 barrels of refined product storage capacity and exclusive use of the Port of Corpus Christi’s new crude oil dock.

Please refer to Note 4 of the Notes to Consolidated Financial Statements in Item 8. “Financial Statements and Supplementary Data” for further discussion of our acquisitions.

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ORGANIZATIONAL STRUCTURE

Our operations are managed by NuStar GP, LLC, the general partner of our general partner. NuStar GP, LLC, a Delaware limited liability company, is a consolidated subsidiary of NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH).

The following chart depicts a summary of our organizational structure at December 31, 2016.

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SEGMENTS

Detailed financial information about our segments is included in Note 26 of the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data." The following map depicts our assets at December 31, 2016.

PIPELINE

Our pipeline operations consist of the transportation of refined petroleum products, crude oil and anhydrous ammonia. As of December 31, 2016, we owned and operated:

- refined product pipelines with an aggregate length of 3,140 miles and crude oil pipelines with an aggregate length of 1,230 miles in Texas, Oklahoma, Kansas, Colorado and New Mexico (collectively, the Central West System);
- a 1,920-mile refined product pipeline originating in southern Kansas and terminating at Jamestown, North Dakota, with a western extension to North Platte, Nebraska and an eastern extension into Iowa (the East Pipeline);
- a 450-mile refined product pipeline originating at Tesoro Corporation's (Tesoro) Mandan, North Dakota refinery and terminating in Minneapolis, Minnesota (the North Pipeline); and
- a 2,000-mile anhydrous ammonia pipeline originating at the Louisiana delta area that travels north through the Midwestern United States forking east and west to terminate in Nebraska and Indiana (the Ammonia Pipeline).

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 the Ammonia Pipeline.

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The following table lists information about our pipeline assets as of December 31, 2016:

| Region / Pipeline System | Length (Miles) | Tank Capacity (Barrels) | Throughput For the year ended December 31, | |
|---|-------------------|-------------------------------|---|-----------------------|
| | | | 2016 (Barrels/Day) | 2015 (Barrels/Day) |
| Central West System: | | | | |
| McKee System | 2,276 | — | 178,373 | 172,590 |
| Three Rivers System | 373 | — | 79,502 | 74,361 |
| Other | 491 | — | 57,039 | 60,410 |
| Central West Refined Products Pipelines | 3,140 | — | 314,914 | 307,361 |
| South Texas Crude System | 319 | 2,157,000 | 124,363 | 179,734 |
| Other | 194 | — | 59,087 | 85,495 |
| Eagle Ford System | 513 | 2,157,000 | 183,450 | 265,229 |
| McKee System | 598 | 1,039,000 | 147,956 | 144,077 |
| Ardmore System | 119 | 824,000 | 60,775 | 62,326 |
| Central West Crude Oil Pipelines | 1,230 | 4,020,000 | 392,181 | 471,632 |
| Total Central West System | 4,370 | 4,020,000 | 707,095 | 778,993 |

Central East System: