

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

PACIFIC ENERGY PARTNERS LP

Form 425

August 03, 2006

Filed by Pacific Energy Partners, L.P.  
Pursuant to Rule 425 under the Securities Act of 1933  
and deemed filed pursuant to Rule 14a-12  
under the Securities and Exchange Act of 1934  
Subject Company: Pacific Energy Partners, L.P.  
Commission File No. 1-31345

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

LONG BEACH, Calif.--(BUSINESS WIRE)--Aug. 2, 2006--Pacific Energy Partners, L.P. (NYSE:PPX) ("Pacific Energy" or the "Partnership") announced that net income for the three months ended June 30, 2006, was \$21.4 million, or \$0.54 per limited partner unit, compared to net income of \$12.2 million, or \$0.40 per limited partner unit, for the three months ended June 30, 2005. Recurring net income for the three months ended June 30, 2006 was \$20.3 million, or \$0.51 per limited partner unit compared to recurring net income of \$12.2 million, or \$0.40 per limited partner unit, for the corresponding period in 2005. All per unit amounts in the text of this news release are reported on a diluted basis.

The increase in recurring net income for the quarter ended June 30, 2006, reflects the benefit of the September 30, 2005, acquisition of refined products terminals and a refined products pipeline from Valero L.P., increased margins from the crude oil marketing activities conducted by the Partnership's Pacific Marketing and Transportation subsidiary ("PMT"), higher crude oil pipeline deliveries to Bakersfield, California refineries, lower repair and maintenance costs associated with the California pipelines, and higher margins and increased volumes on the Rangeland pipeline system in Alberta, Canada. Partially offsetting these increases were higher interest expense attributable to the financing of the Valero L.P. acquisition and increased general and administrative costs. In addition, there were approximately 32% more units outstanding compared to the 2005 quarter.

Recurring net income for the second quarter of 2006 excludes \$3.4 million of transaction costs related to the recently announced merger with Plains All American Pipeline, L.P. ("Plains"), expected to close later this year and a \$4.6 million deferred tax benefit. Due to recent legislation, both federal and Alberta corporate tax rates in Canada are being reduced, and Pacific Energy's deferred tax liability balance is required by accounting rules to be adjusted to the new rates.

For the six months ended June 30, 2006, net income was \$33.1 million, or \$0.83 per limited partner unit, compared to \$15.6 million, or \$0.58 per limited partner unit, for the six months ended June 30, 2005. Recurring net income for the six months ended June 30, 2006, was \$31.9 million, or \$0.80 per limited partner unit, compared with \$22.6 million, or \$0.74 per limited partner unit, for the six months ended June 30, 2005. Recurring net income for the first six months of 2006 reflects the benefit of six months of operations in 2006 from the assets acquired from Valero L.P., increased margins from crude oil marketing activities, increased volumes and higher margins for the Rangeland pipeline system, higher revenue due to increased Bakersfield refinery deliveries, and lower pipeline repair expenses in California. Partially offsetting these increases were increased interest and general and administrative expenses. In addition, there were approximately 32% more units outstanding in the first half of 2006 versus 2005.

Recurring net income for the six months ended June 30, 2006, excludes the previously mentioned merger costs and deferred tax

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

benefit. Recurring net income for the six months ended June 30, 2005, excludes a \$2.0 million expense for the insurance deductible associated with the remediation of the Pyramid Lake oil release, a \$3.1 million expense related to the accelerated vesting of restricted units under Pacific Energy's long-term incentive plan as a result of the change in control attributable to the purchase of the Pacific Energy's general partner by LB Pacific, LP ("LB Pacific"), and \$1.8 million of expense from this general partner transaction required to be recorded as a partnership expense, with the general partner's payment of it recorded as a capital contribution.

"We are very pleased with our second quarter results. Our core transportation and storage business performed well and continued to grow. In addition the Partnership was able to realize the benefit of favorable marketing margins for both PMT and Rangeland, which enabled us to exceed previously announced guidance," stated Irv Toole, President and CEO of Pacific Energy. "Organic growth projects in each of our two business units continue to progress and remain a primary focus of the Partnership."

On July 17, 2006, Pacific Energy announced a cash distribution of \$0.5675 per unit for the second quarter of 2006, or \$2.27 per unit annualized. This is unchanged from the first quarter 2006 distribution level but is 10.7% higher than the second quarter 2005 distribution level. The distribution will be paid on August 14, 2006, to holders of record as of July 31, 2006.

Distributable cash flow available to the limited partners' interest for the second quarter of 2006 was \$25.1 million after deducting \$3.4 million in merger costs. On a diluted, weighted average basis, there were 39,314,000 limited partner units outstanding during the second quarter of 2006.

Earnings before interest, tax, depreciation and amortization expenses ("EBITDA") were \$38.8 million in the second quarter of 2006.

Pursuant to the terms of the partnership agreement, on August 14, 2006, 2,616,250 subordinated units owned by LB Pacific are expected to convert on a one-for-one basis to common units. The conversion of the subordinated units will not affect future cash distributions.

### OPERATING RESULTS BY SEGMENT

#### WEST COAST BUSINESS UNIT

Operating income was \$22.0 million for the three months ended June 30, 2006, compared to \$12.4 million in the corresponding period in 2005. This increase was primarily due to the addition of the Northern California and East Coast terminals that were acquired on September 30, 2005, from Valero L.P., improved operating income from California pipeline operations, and increased margins from crude oil marketing activities.

The Northern California terminals are operating at capacity, with 450,000 barrels of additional storage capacity currently under construction at Martinez. This storage is scheduled to be operational in the third quarter of 2006. Due to strong customer demand, Pacific Energy has increased its capital budget to provide for the construction of an additional 850,000 barrels of storage capacity at Martinez. It is projected that \$1.0 million of this increase will be expended in 2006, with an additional \$27.2 million expended in 2007 to complete the project.

The East Coast terminals are also operating at capacity. East Coast terminal income increased due to the expansion of ethanol facilities, which began operations in the second quarter of 2006, and are expected to be fully operational in the fourth quarter of 2006 and the start up of ultra low sulfur diesel and jet fuel handling facilities.

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

The impact of the long-haul pipeline volume decline in California was more than offset by tariff increases on Line 2000 and Line 63, lower repair and maintenance costs and a substantial increase in Bakersfield delivery volumes. Volumes transported to Los Angeles for the three months ended June 30, 2006, were approximately 10% lower than in the second quarter of 2005. The primary reasons for the reduction were natural production declines and a shift in some light crude oil volumes north to the San Francisco area. Partially offsetting this impact was a May 1, 2006 increase of \$0.10 per barrel on Line 2000, a temporary surcharge of \$0.10 per barrel on Line 63 long-haul movements that was implemented on August 1, 2005, to recover the costs of the Pyramid Lake oil release and other rain related damages experienced in the first quarter of 2005, and the absence of \$1.4 million of rain related pipeline repair expenses incurred in the second quarter of 2005. In addition, deliveries to Bakersfield refineries more than doubled from the prior year's quarter as a result of pipeline modifications in the San Joaquin Valley that were completed on October 1, 2005, which increased delivery capacity to those refineries.

The Partnership's crude oil marketing income in the second quarter of 2006 was significantly higher than in the prior year quarter. Favorable margins, crude oil contracts acquired on July 1, 2005, and increased crude oil volumes in the 2006 quarter contributed to the improvement.

Income for the Pacific Terminals' subsidiary remained unchanged compared to the corresponding period in 2005. The reactivation of 300,000 barrels of storage at the Alamitos terminal, completed in July 2006, and reactivation of a second 300,000 barrel tank scheduled to be completed in the fourth quarter of 2006, are expected to increase revenue in the second half of the year.

The Partnership continues to advance the development of the Pier 400 deepwater import terminal in the Port of Los Angeles. During the quarter, efforts were focused on finalizing environmental mitigation factors with the Port of Los Angeles and the Partnership's customers. Due to the complexity of the environmental review process, the Partnership now expects to receive the permits necessary to begin construction mid-year 2007, and start-up is expected in the first quarter of 2009. As previously announced, the total investment is estimated at \$315 million and provides for 4,000,000 barrels of storage capacity that will be constructed in two phases. Long term volume commitments have been signed by subsidiaries of Valero Energy Corporation and ConocoPhillips, and it is anticipated that, with additional customer commitments currently being finalized, the estimated 250,000 barrels per day of offloading capacity will be fully subscribed.

### ROCKY MOUNTAIN BUSINESS UNIT

Operating income was \$15.4 million for the three months ended June 30, 2006, compared to \$9.0 million in the corresponding period in 2005. The \$6.4 million increase was primarily due to increased volumes on the Rangeland Pipeline, Western Corridor and Salt Lake City Core systems, income contribution from the Rocky Mountain Products Pipeline that was part of the Valero L.P. acquisition, and favorable crude oil marketing margins.

In March 2006, the Partnership completed construction of its Edmonton, Alberta, initiating terminal, which provides direct access to synthetic crude oil for delivery through the Partnership's pipeline systems to U.S. Rocky Mountain refineries. During the second quarter of 2006, construction was also completed on additional tankage along this corridor to facilitate the movement of the synthetic crude oil. However, the transportation of synthetic crude oil was significantly

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

lower than anticipated in the second quarter of 2006 due to maintenance shutdowns at two major synthetic crude oil facilities in Alberta. With these facilities now ramping up to full capacity, synthetic crude oil movements in the third quarter of 2006 are expected to increase.

In the Rocky Mountain Business Unit, two major profit generating capital projects, the Salt Lake City pipeline project and the Cheyenne pipeline project, are proceeding on schedule and on budget. The first phase of the Salt Lake City pipeline is scheduled to be completed in December of 2006, and the second phase is expected to be completed in the fourth quarter of 2007. Total cost of the project is approximately \$77 million and is supported by firm, 10-year transportation agreements with four Salt Lake City refiners. The Cheyenne pipeline is on schedule to be completed in the second quarter of 2007 at a cost of approximately \$59 million and is supported by a firm ten year commitment by Frontier Oil and Refining Company to ship 35,000 barrels per day and lease approximately 300,000 barrels of storage capacity at Fort Laramie.

### CORPORATE ITEMS

General and administrative expenses were \$5.7 million in the second quarter of 2006, approximately \$2.0 million higher than in the second quarter of 2005. This increase was associated with support of newly acquired assets, professional fees, and the cost of the LB Pacific option plan introduced in the first quarter of 2006, the cost of which is required by generally accepted accounting principles to be recorded as a Pacific Energy expense even though the plan is funded by LB Pacific, not the Partnership.

Interest expense was \$10.1 million for the second quarter of 2006, \$4.2 million greater than in the comparable period in 2005, due to the increase in debt for the Valero asset acquisition.

For the six months ended June 30, 2006 total capital spending was \$42.5 million: \$35.0 million was spent on expansion capital, \$2.6 million was spent on sustaining capital (including \$1.8 million in the second quarter), and \$4.9 million was spent on transition capital.

### LOOKING FORWARD

For the quarter ending September 30, 2006, Pacific Energy is forecasting recurring net income of \$0.35 to \$0.41 per unit and EBITDA of \$34 million to \$38 million. Sustaining capital expenditures for the third quarter of 2006 are expected to be \$3 million to \$4 million.

For full year 2006, Pacific Energy is forecasting recurring net income of \$1.58 to \$1.68 per unit and EBITDA of \$140 million to \$146 million. Total capital expenditures for the full year are projected to be \$162 million, including \$148 million for expansion projects, \$7 million for transition capital projects, and \$7 million for sustaining capital projects.

The guidance for recurring net income for the third quarter and full year 2006 does not include expenses related to the Plains merger transaction or the deferred tax benefit resulting from the change in Canadian tax rates. The guidance for EBITDA reflects \$1.0 million and \$6.5 million, for the third quarter and full year, respectively, of estimated Plains merger related expenses to be incurred prior to closing.

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

### MERGER WITH PLAINS ALL AMERICAN PIPELINE, L.P.

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

On June 12, 2006, Pacific Energy and Plains announced the signing of definitive agreements that provide for the merger of the two partnerships and Plains' acquisition of Pacific Energy's general partner. The partnerships recently announced that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, had expired on July 31, 2006. In addition, Plains has received a "no issues" letter from the Canadian Competition Bureau and notice that the accompanying waiting period under the Competition Act has expired. The completion of the transaction remains subject to the approval of unitholders of both partnerships as well as approvals of certain state utility commissions and the Investment Review Division of Industry Canada. All required filings have been submitted. This transaction is expected to close near the end of 2006. As a result of this pending transaction, the CEO search previously initiated by the Board of Directors of Pacific Energy's general partner has been terminated, and Irv Toole, President and Chief Executive Officer of Pacific Energy, will continue to serve until management of the Partnership is assumed by Plains following the closing of the merger transaction.

### OTHER MATTERS

Pacific Energy will host a conference call at 2:00 p.m. EDT (11:00 a.m. PDT) on Thursday, August 3, 2006, to discuss the results of the second quarter of 2006. Please join us at [www.PacificEnergy.com](http://www.PacificEnergy.com) for the live broadcast or dial in at 800-446-2782 or 847-413-3235 passcode 14511288. The call, with questions and answers, will continue to be available on Pacific Energy's web site following the call.

### About Pacific Energy:

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

For additional information about the partnership, please visit [www.PacificEnergy.com](http://www.PacificEnergy.com).

### Investor Notice:

Pacific Energy and Plains All American Pipeline, L.P. ("Plains") have filed a joint proxy statement/prospectus and other documents with the Securities and Exchange Commission ("SEC") with respect to the proposed merger of Pacific Energy with and into Plains. Upon being declared effective by the SEC, a definitive joint proxy statement/prospectus will be sent to security holders of Pacific Energy and Plains seeking their approval of the merger and related transactions. Investors and security holders are urged to carefully read the joint proxy statement/prospectus because it contains important information, including detailed risk factors, regarding Pacific Energy, Plains and the merger. Investors and security holders may obtain a free copy of the definitive joint proxy statement/prospectus, when it becomes available, and other documents

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

containing information about Pacific Energy and Plains, without charge, at the SEC's web site at [www.sec.gov](http://www.sec.gov). Copies of the definitive joint proxy statement/prospectus, when it becomes available, and the SEC filings that are incorporated by reference in the joint proxy statement/prospectus may also be obtained free of charge by directing a request to Pacific Energy or Plains. Pacific Energy or Plains and the officers and directors of the respective general partners of Pacific Energy or Plains may be deemed to be participants in the solicitation of proxies from their security holders in connection with the proposed transaction. Information about these persons can be found in Pacific Energy's or Plains' respective Annual Reports on Form 10-K filed with the SEC, and additional information about such persons may be obtained from the joint proxy statement/prospectus.

### Cautionary Statement Regarding Forward-Looking Statements:

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Operating revenues:</b>				
Pipeline transportation revenue	\$34,800	\$27,747	\$68,657	\$55,784
Storage and distribution revenue	21,867	10,870	41,953	21,192
Pipeline buy/sell transportation revenue	11,427	8,116	21,126	17,222
Crude oil sales, net of purchases	10,720	6,042	17,529	7,824
Net revenues	78,814	52,775	149,265	102,022
<b>Expenses:</b>				
Operating	31,655	25,292	65,074	47,046
Line 63 oil release costs(1)	--	--	--	2,000
General and administrative	5,714	3,700	12,587	8,872
Depreciation and amortization	10,292	6,606	20,294	13,135
Merger costs(2)	3,417	--	3,417	--

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Accelerated long-term incentive plan compensation expense(3)	--	--	--	3,115
Reimbursed general partner transaction costs(4)	--	--	--	1,807
	-----	-----	-----	-----
Total expenses	51,078	35,598	101,372	75,975
	-----	-----	-----	-----
Share of net income of Frontier	475	490	873	847
	-----	-----	-----	-----
Operating income	28,211	17,667	48,766	26,894
Net interest expense	(10,088)	(5,844)	(19,176)	(11,442)
Other income	292	540	735	893
	-----	-----	-----	-----
Income before income tax expense	18,415	12,363	30,325	16,345
	-----	-----	-----	-----
Income tax benefit (expense):				
Current	(1,409)	245	(1,803)	(487)
Deferred(5)	4,437	(388)	4,535	(217)
	-----	-----	-----	-----
	3,028	(143)	2,732	(704)
	-----	-----	-----	-----
Net income	\$21,443	\$12,220	\$33,057	\$15,641
	=====	=====	=====	=====
Net income (loss) for the general partner interest(6)	\$392	\$244	\$373	\$(1,458)
	=====	=====	=====	=====
Net income for the limited partner interests(6)	\$21,051	\$11,976	\$32,684	\$17,099
	=====	=====	=====	=====
Weighted average units outstanding:				
Basic	39,307	29,723	39,304	29,689
Diluted	39,314	29,742	39,322	29,708
Basic and Diluted net income per limited partner unit	\$0.54	\$0.40	\$0.83	\$0.58
	=====	=====	=====	=====

PACIFIC ENERGY PARTNERS, L.P.  
(Unaudited)  
(Amounts in thousands)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006	December 31, 2005
	-----	-----
Assets		
Current assets	\$254,689	\$192,115
Property and equipment, net	1,237,794	1,185,534
Intangible assets	69,354	69,180
Investment in Frontier Pipeline Company	8,322	8,156

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Other assets	17,791	21,467
	-----	-----
Total assets	\$1,587,950	\$1,476,452
	=====	=====
Liabilities and Partners' Capital		
Current liabilities	\$205,138	\$156,187
Long-term debt	635,368	565,632
Deferred income taxes	32,833	35,771
Environmental and other long-term liabilities	22,578	20,623
Partners' capital	692,033	698,239
	-----	-----
Total liabilities and partners' capital	\$1,587,950	\$1,476,452
	=====	=====

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2006	2005
	-----	-----
Cash flows from operating activities:		
Net income	\$33,057	\$15,641
Depreciation, amortization, non-cash employee compensation under long-term incentive plan, deferred income taxes and Frontier adjustment	16,507	17,076
Working capital adjustments	(7,476)	13,427
	-----	-----
Net cash provided by operating activities	42,088	46,144
Cash flows from investing activities:		
Acquisition	(2,365)	--
Net additions to property and equipment	(42,524)	(9,877)
Additions to pipeline linefill and minimum tank inventory	(16,419)	--
Other	168	(98)
	-----	-----
Net cash used in investing activities	(61,140)	(9,975)
Cash flows from financing activities:		
Distributions to partners	(45,614)	(30,658)
Capital contribution from the general partner	--	2,438
Proceeds from bank credit facilities	130,409	66,283
Repayment of bank credit facilities	(60,950)	(64,326)
Deferred financing costs	--	(600)
Related parties	(141)	(686)
	-----	-----
Net cash provided by (used in) financing activities	23,704	(27,549)
Effect of exchange rate changes on cash	107	74
Net increase in cash and cash equivalents	4,759	8,694
Cash and cash equivalents, beginning of period	18,064	23,383
	-----	-----
Cash and cash equivalents, end of period	\$22,823	\$32,077
	=====	=====

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



## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Three Months Ended June 30, 2006 and 2005

(Unaudited)

(Amounts in thousands)

	West Coast Business Unit	Rocky Mountains Business Unit	Intersegment and Intrasegment Eliminations	Total
Three Months Ended June 30, 2006:				
Revenues:				
Pipeline transportation revenue	\$16,696	\$20,422	\$ (2,318)	\$34,800
Storage and terminaling revenue	21,867	--		21,867
Pipeline buy/sell transportation revenue	--	11,427		11,427
Crude oil sales, net of purchases	9,195	1,648	(123)	10,720
Net revenue	47,758	33,497		78,814
Expenses:				
Operating expenses	20,263	13,833	(2,441)	31,655
Depreciation and amortization	5,507	4,785		10,292
Total expenses	25,770	18,618		41,947
Share of net income of Frontier	--	475		475
Operating income(7)	\$21,988	\$15,354		\$37,342

Operating Data (barrels per day, in thousands)

Line 2000 and Line 63 pipeline systems	108.2		
Rangeland pipeline system:			
Sundre - North		21.5	
Sundre - South		44.2	
Western Corridor system		27.9	
Salt Lake City Core system		125.2	
Frontier pipeline		45.2	
Rocky Mountain Products			
Pipeline(8)		60.1	

Three Months Ended June 30, 2005:

Revenues:

Pipeline transportation revenue	\$15,194	\$14,006	\$ (1,453)	\$27,747
Storage and terminaling revenue	10,870	--		10,870
Pipeline buy/sell transportation revenue	--	8,116		8,116
Crude oil sales, net of purchases	5,866	206	(30)	6,042

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Net revenue	31,930	22,328		52,775
	-----	-----		-----
Expenses:				
Operating expenses	15,996	10,779	(1,483)	25,292
Depreciation and amortization	3,529	3,077		6,606
	-----	-----		-----
Total expenses	19,525	13,856		31,898
	-----	-----		-----
Share of net income of Frontier	--	490		490
	-----	-----		-----
Operating income (7)	\$12,405	\$8,962		\$21,367
	=====	=====		=====

Operating Data (barrels per day, in thousands)	
Line 2000 and Line 63 pipeline systems	120.0
Rangeland pipeline system:	
Sundre - North	23.1
Sundre - South	39.7
Western Corridor system	22.2
Salt Lake City Core system	124.4
Frontier pipeline	51.3
Rocky Mountain Products Pipeline(8)	--

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

Six Months Ended June 30, 2006 and 2005  
(Unaudited)  
(Amounts in thousands)

	West Coast Business Unit	Rocky Mountain Business Unit	Intersegment and Intra-segment Eliminations	Total
	-----	-----	-----	-----
Six Months Ended June 30, 2006:				
Revenues:				
Pipeline transportation revenue	\$33,859	\$39,290	\$ (4,492)	\$68,657
Storage and terminaling revenue	41,953	--		41,953
Pipeline buy/sell transportation revenue	--	21,126		21,126
Crude oil sales, net of purchases	16,506	1,288	(265)	17,529
	-----	-----		-----
Net revenue	92,318	61,704		149,265
	-----	-----		-----
Expenses:				
Operating expenses	41,695	28,136	(4,757)	65,074
Depreciation and amortization	11,006	9,288		20,294
	-----	-----		-----

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Total expenses	52,701	37,424	85,368
	-----	-----	-----
Share of net income of Frontier	--	873	873
	-----	-----	-----
Operating income(7)	\$39,617	\$25,153	\$64,770
	=====	=====	=====

Operating Data (barrels per day, in thousands)

Line 2000 and Line 63 pipeline systems	113.4		
Rangeland pipeline system:			
Sundre - North		23.1	
Sundre - South		42.5	
Western Corridor system		26.2	
Salt Lake City Core system		124.5	
Frontier pipeline		46.7	
Rocky Mountain Products Pipeline(8)		60.8	

Six Months Ended June 30, 2005:

Revenues:

Pipeline transportation revenue	\$32,638	\$26,461	\$ (3,315)	\$55,784
Storage and terminaling revenue	21,342	--	(150)	21,192
Pipeline buy/sell transportation revenue	--	17,222		17,222
Crude oil sales, net of purchases	7,678	206	(60)	7,824
	-----	-----		-----
Net revenue	61,658	43,889		102,022
	-----	-----		-----

Expenses:

Operating expenses	30,503	20,068	(3,525)	47,046
Line 63 oil release costs(1)	2,000	--		2,000
Depreciation and amortization	7,006	6,129		13,135
	-----	-----		-----
Total expenses	39,509	26,197		62,181
	-----	-----		-----

Share of net income of Frontier

	--	847		847
	-----	-----		-----
Operating income(7)	\$22,149	\$18,539		\$40,688
	=====	=====		=====

Operating Data (barrels per day, in thousands)

Line 2000 and Line 63 pipeline systems	129.2		
Rangeland pipeline system:			
Sundre - North		22.2	
Sundre - South		43.9	
Western Corridor system		22.4	
Salt Lake City Core system		116.7	
Frontier pipeline		44.8	
Rocky Mountain Products Pipeline(8)		--	

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

PACIFIC ENERGY PARTNERS, L.P.

(Unaudited)  
(Amounts in thousands)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating income by Business Unit:				
West Coast Business Unit	\$21,988	\$12,405	\$39,617	\$22,149
Rocky Mountain Business Unit	15,354	8,962	25,153	18,539
	37,342	21,367	64,770	40,688
General expenses and other income (expense): (7)				
General and administrative expense	(5,714)	(3,700)	(12,587)	(8,872)
Merger costs(2)	(3,417)	--	(3,417)	--
Accelerated long-term incentive plan compensation expense(3)	--	--	--	(3,115)
Reimbursed general partner transaction costs(4)	--	--	--	(1,807)
Interest expense	(10,088)	(5,844)	(19,176)	(11,442)
Other income	292	540	735	893
Income tax benefit (expense) (5)	3,028	(143)	2,732	(704)
Net income	\$21,443	\$12,220	\$33,057	\$15,641

LIMITED PARTNERS AND GENERAL PARTNER ALLOCATION OF NET INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income for the limited partner interests:				
Net income	\$21,443	\$12,220	\$33,057	\$15,641
Costs allocated to general partner:				
LBP Option Plan costs(9)	369	--	880	--
Senior Notes consent solicitation and other costs	--	--	--	893
Severance costs	--	--	--	914
Total costs allocated to general partner	369	--	880	1,807

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Income before costs allocated to general partner	21,812	12,220	33,937	17,448
Less: General partner incentive distribution rights paid	(331)	--	(586)	--
Subtotal	21,481	12,220	33,351	17,448
Less: General partner 2% ownership	(430)	(244)	(667)	(349)
Net income allocated to limited partners	\$21,051	\$11,976	\$32,684	\$17,099
Net income for the general partner interest:				
General partner 2% ownership	\$430	\$244	\$667	\$349
Incentive distribution payments to general partner	331	--	586	--
Costs allocated to general partner	(369)	--	(880)	(1,807)
Net income (loss) allocated to general partner	\$392	\$244	\$373	\$(1,458)

PACIFIC ENERGY PARTNERS, L.P.

(Unaudited)

(Amounts in thousands, except per unit amounts)

RECONCILIATION OF NET INCOME TO RECURRING NET INCOME(10)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$21,443	\$12,220	\$33,057	\$15,641
Add: Line 63 oil release costs(1)	--	--	--	2,000
Add: Merger costs(2)	3,417	--	3,417	--
Add: Accelerated long-term incentive plan compensation expense(3)	--	--	--	3,115
Add: Reimbursed general partner transaction costs(4)	--	--	--	1,807
Less: Deferred tax rate adjustment(5)	(4,560)	--	(4,560)	--
Recurring net income	\$20,300	\$12,220	\$31,914	\$22,563
Recurring net income for the general partner interest	\$369	\$244	\$350	\$451
Recurring net income for the limited partner interest	\$19,931	\$11,976	\$31,564	\$22,112
Basic and diluted recurring net income per limited partner unit	\$0.51	\$0.40	\$0.80	\$0.74

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

### RECONCILIATION OF NET INCOME TO EBITDA(11)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$21,443	\$12,220	\$33,057	\$15,641
Interest expense	10,088	5,844	19,176	11,442
Depreciation and amortization	10,292	6,606	20,294	13,135
Income tax (benefit) expense	(3,028)	143	(2,732)	704
<b>EBITDA</b>	<b>\$38,795</b>	<b>\$24,813</b>	<b>\$69,795</b>	<b>\$40,922</b>

### PACIFIC ENERGY PARTNERS, L.P.

### RECONCILIATION OF NET INCOME TO DISTRIBUTABLE CASH FLOW(12)

(Unaudited)

(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$21,443	\$12,220	\$33,057	\$15,641
Depreciation and amortization	10,292	6,606	20,294	13,135
Amortization of debt issue costs and accretion of discount on long-term debt	616	478	1,222	937
Non-cash employee compensation under long-term incentive plan	190	--	496	1,429
Costs allocated to general partner(6)	369	--	880	1,807
Deferred income tax expense (benefit) (5)	(4,437)	388	(4,535)	217
Sustaining capital expenditures	(1,829)	(587)	(2,646)	(827)
<b>Distributable cash flow(13)</b>	<b>26,644</b>	<b>19,105</b>	<b>48,768</b>	<b>32,339</b>
Less: net (increase) decrease in operating assets and liabilities	9,524	10,336	(7,476)	13,427
Less: share of income of Frontier	(475)	(490)	(873)	(847)
Add: distributions from Frontier	200	650	622	650
Less: non-cash employee compensation under long-term incentive plan added (deducted) above	(190)	--	(496)	(1,429)
Add: employee compensation under long-term incentive plan	190	--	546	2,886
Less: costs reimbursed by general partner	--	--	--	(1,807)
Add: other non-cash adjustments	(1,649)	98	(1,649)	98
Add: sustaining capital expenditures	1,829	587	2,646	827

Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

Net cash provided by operating activities	\$36,073	\$30,286	\$42,088	\$46,144
Total distributable cash flow	\$26,644	\$19,105	\$48,768	\$32,339
General partner interest in distributable cash flow	(1,585)	(936)	(2,231)	(1,201)
Limited partner interest in distributable cash flow	\$25,059	\$18,169	\$46,537	\$31,138

PACIFIC ENERGY PARTNERS, L.P.

RECONCILIATION OF RECURRING NET INCOME GUIDANCE TO NET INCOME GUIDANCE AND EBITDA GUIDANCE (14)  
(Unaudited)

(Amounts in millions)

	Three Months Ended		Year Ended	
	September 30, 2006		December 31, 2006	
	Low	High	Low	High
Recurring net income guidance (15)	\$14.2	\$16.5	\$63.0	\$66.8
Less: Merger costs	(1.2)	(0.8)	(7.0)	(6.0)
Add: Deferred tax rate adjustment	--	--	4.6	4.6
Net income guidance (16)	\$13.0	\$15.7	\$60.6	\$65.4
Add: Depreciation and amortization	10.2	10.6	41.2	41.7
Add: Interest expense	10.5	11.5	40.5	41.5
Add: Income tax expense (benefit) (17)	--	0.2	(2.5)	(2.2)
Earnings before interest, tax, depreciation and amortization (EBITDA)	\$33.7	\$38.0	\$139.8	\$146.4

PACIFIC ENERGY PARTNERS, L.P.

NOTES TO FINANCIAL SCHEDULES  
(Unaudited)

(Amounts in millions, except volume data)

- On March 23, 2005, there was an oil release of approximately 3,400 barrels in northern Los Angeles County. Although this event involved an outlay of cash, we believe these costs are unusual and are not indicative of the Partnership's recurring earnings.
- On June 12, 2006, we announced that we had entered into a merger agreement with Plains All American Pipeline, L.P. ("PAA"), pursuant to which we will be merged into PAA. PAA will acquire common units (except for common units purchased from LB Pacific, LP) of Pacific Energy through a tax-free unit-for-unit merger in which each unitholder of Pacific Energy will receive 0.77 newly

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

issued PAA common units for each Pacific Energy common unit. Under the terms of a separate agreement, PAA will acquire from LB Pacific, LP and its affiliates ("LB Pacific") the general partner interest and incentive distribution rights of the Partnership as well as 2.6 million common units and 7.8 million subordinated units for a total of \$700 million in cash. For the three and six months ended June 30, 2006, we incurred \$3.4 million in professional fees and other costs directly related to the merger.

- (3) On March 3, 2005, in connection with a change in control of the Partnership's general partner, all restricted units outstanding under the Long-Term Incentive Plan immediately vested pursuant to the terms of the grants. The Partnership recognized compensation expense of \$3.1 million relating to the accelerated vesting. Of this compensation expense, \$0.6 million was considered operating expense and \$2.5 million was general and administrative expense.
- (4) In 2005, our general partner reimbursed us \$1.8 million for transaction costs incurred in connection with the change in control of our general partner. Generally accepted accounting principles require us to record an expense with the reimbursement shown as a partner's capital contribution.
- (5) During the quarter ended June 30, 2006, we recognized into earnings a \$4.6 million deferred tax benefit to adjust our deferred tax liability for recently enacted reductions in the Canadian provincial and federal income tax rates.
- (6) See "General Partner and Limited Partners Allocation of Net Income" schedule included herein.
- (7) General and administrative expenses, merger costs, accelerated long-term incentive plan expense, reimbursed general partner transaction costs, net interest expense, other income and income tax expense are not allocated among the West Coast and Rocky Mountain business units.
- (8) The Rocky Mountain Products Pipeline was purchased on September 30, 2005.
- (9) In January 2006, LB Pacific, LP ("LBP"), the owner of our General Partner, granted options under its LBP Option Plan (the "Plan") to certain of our officers and key employees. Under the Plan, participants are granted options to acquire partnership interests in LBP. We are not obligated to pay any amounts to LBP for the benefits granted or paid to our officers and key employees under the Plan, although generally accepted accounting principles require that we record an expense in the Partnership's financial statements with a corresponding increase in the general partner's capital account. For the three and six months ended June 30, 2006, we recorded compensation expense of \$0.4 million and \$0.9 million, respectively, relating to the LBP Option Plan.
- (10) Recurring net income is a non-GAAP financial measure. This measure is used to more precisely compare year over year net income by eliminating one-time, non-recurring charges. You should not consider recurring net income as an alternative to net income, income before taxes, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. Our recurring net income may not be comparable to similarly titled measures of other entities.



## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

- (11) EBITDA is used as a supplemental performance measure by management to assess (i) the financial performance of our assets without regard to financing methods, capital structures or historical cost basis, (ii) the ability of our assets to generate cash sufficient to pay interest cost and support our indebtedness, (iii) our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard to financing and capital structure, and (iv) the viability of projects and the overall rates of return on alternative investment opportunities. You should not consider EBITDA as an alternative to net income, income before taxes, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. Our EBITDA may not be comparable to similarly titled measures of other entities. Additional information regarding EBITDA is included in our annual report on Form 10-K for the year ended December 31, 2005. For the three and six months ended June 30, 2006, EBITDA has been reduced by \$3.4 million for costs directly related to the proposed merger with Plains All American Pipeline, L.P. For the six months ended June 30, 2005, EBITDA has been reduced by \$3.1 million of compensation expense relating to the accelerated vesting of our long term incentive compensation plan, \$2.0 million of oil release costs and \$1.8 million of general partner costs that was required by GAAP to be recorded in our income statement. There was no unusual impact on EBITDA for the three months ended June 30, 2005.
- (12) Distributable Cash Flow provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. You should not consider Distributable Cash Flow as an alternative to net income, income before taxes, cash flow from operations, or any other measure of financial performance presented in accordance with accounting principles generally accepted in the United States. Our Distributable Cash Flow may not be comparable to similarly titled measures of other entities. Additional information regarding distributable cash flow is included in our annual report on Form 10-K for the year ended December 31, 2005.
- (13) In September 2005, we changed the presentation of Distributable Cash Flow. The previously reported amount of \$36.2 million for Distributable Cash Flow for the six months ended June 30, 2005 has been reduced by \$2.0 million of oil release costs and \$1.9 million of cash costs associated with the accelerated vesting of units. The change in presentation had no effect on the three months ended June 30, 2005. For the three and six months ended June 30, 2006, Distributable Cash Flow has been reduced by \$3.4 million for costs directly related to the proposed merger with Plain All American Pipeline, L.P.
- (14) The guidance for the three months ending September 30, 2006 and for the twelve months ending December 31, 2006 are based on assumptions and estimates that we believe are reasonable given our assessment of historical trends, business cycles and other information reasonably available. However, our assumptions and future performance are both subject to a wide range of business risks and uncertainties so no assurance can be provided that actual performance will fall within the guidance ranges. Please see "Forward-Looking Statements" above. These risks and uncertainties, as well as other unforeseeable risks and uncertainties, could cause our actual results to differ materially

## Edgar Filing: PACIFIC ENERGY PARTNERS LP - Form 425

from those in the table. This financial guidance is given as of the date hereof, based on information known to us as of August 1, 2006. We undertake no obligation to publicly update or revise any forward-looking statements.

- (15) Recurring net income excludes \$3.4 million of merger costs and a \$4.6 million deferred tax benefit to adjust our deferred tax liability for recently enacted reductions in the Canadian provincial and federal income tax rates.
- (16) Included in the net income guidance for the year ended December 31, 2006 is forecast general and administrative expense of \$23 million to \$24 million.
- (17) Included for the year ended December 31, 2006 is forecast cash tax expense of \$2.7 million and forecast deferred tax benefit of \$0.4 million.

CONTACT: Pacific Energy Partners, L.P.  
Jennifer Shigei, 562-728-2871  
fax: 562-728-2881  
JShigei@PacificEnergy.com