SUNOCO LOGISTICS PARTNERS L.P.
Form 10-Q
November 08, 2012
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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, 2012

OR

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

For the transition period from to

Commission file number 1-31219

SUNOCO LOGISTICS PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**23-3096839** (I.R.S. Employer Identification No.)
1818 Market Street, Suite 1500, Philadelphia, PA (Address of principal executive offices)	**19103** (Zip Code)

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

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

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

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

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

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

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

At September 30, 2012, the number of the registrant s Common Units outstanding were 103,562,297.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in millions, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Sales and other operating revenue:				
Unaffiliated customers	$ 3,066	$ 2,808	$ 9,460	$ 7,148
Affiliates (Note 3)	141	39	461	381
Other income	11	3	18	9
Gain on divestment and related matters (Note 2)			11	
Total Revenues	3,218	2,850	9,950	7,538
Costs and Expenses				
Cost of products sold and operating expenses	2,997	2,675	9,311	7,086
Depreciation and amortization expense	26	24	76	61
Impairment charge and related matters			(1)	
Selling, general and administrative expenses	30	23	86	67
Total Costs and Expenses	3,053	2,722	9,472	7,214
Operating Income	165	128	478	324
Interest cost and debt expense, net	24	26	73	68
Capitalized interest	(4)	(2)	(8)	(5)
Income Before Provision for Income Taxes	145	104	413	261
Provision for income taxes (Note 6)	8	7	24	18
Net Income	137	97	389	243
Less: Net income attributable to noncontrolling interests	3	2	8	6
Net Income Attributable to Partners	134	95	381	237
Less: General Partner s interest	(21)	(14)	(55)	(40)
Limited Partners interest[1]	$ 113	$ 81	$ 326	$ 197

Net Income Attributable to Partners per Limited Partner unit (Note 4)**:**

Basic	$ 1.09	$ 0.78	$ 3.15	$ 1.96
Diluted	$ 1.09	$ 0.78	$ 3.14	$ 1.95
Weighted average Limited Partners' units outstanding:				
Basic	103.6	103.3	103.5	100.7
Diluted	103.9	103.7	103.9	101.1
Comprehensive Income	$ 120	$ 108	$ 368	$ 255
Less: Comprehensive income attributable to noncontrolling interests	3	2	8	6
Comprehensive Income Attributable to Partners	$ 117	$ 106	$ 360	$ 249

(1) Includes interest in net income attributable to Class A units, which were converted to common units in July 2012.

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

	September 30, 2012 (UNAUDITED)	December 31, 2011
Assets		
Cash and cash equivalents	$ 2	$ 5
Advances to affiliated companies (Note 3)	38	107
Accounts receivable, affiliated companies (Note 3)	1	
Accounts receivable, net	1,998	2,188
Inventories (Note 5)	250	206
Total Current Assets	2,289	2,506
Properties, plants and equipment	3,446	3,234
Less accumulated depreciation and amortization	(768)	(712)
Properties, plants and equipment, net	2,678	2,522
Investment in affiliates (Note 7)	82	73
Goodwill	77	77
Intangible assets, net	258	277
Other assets	36	22
Total Assets	$ 5,420	$ 5,477
Liabilities and Equity		
Accounts payable	$ 1,980	$ 2,111
Current portion of long-term debt (Note 8)		250
Accrued liabilities	96	112
Accrued taxes payable (Note 6)	56	62
Total Current Liabilities	2,132	2,535
Long-term debt (Note 8)	1,627	1,448
Other deferred credits and liabilities	61	78
Deferred income taxes (Note 6)	221	222
Commitments and contingent liabilities (Note 9)		
Total Liabilities	4,041	4,283
Total Equity	1,379	1,194
Total Liabilities and Equity	$ 5,420	$ 5,477

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in millions)

	Nine Months Ended September 30,	
	2012	**2011**
Cash Flows from Operating Activities:		
Net Income	$ 389	$ 243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	76	61
Claim for recovery of environmental liability	(14)	
Changes in working capital pertaining to operating activities:		
Accounts receivable, affiliated companies	(1)	154
Accounts receivable, net	190	(555)
Inventories	(44)	(249)
Accounts payable and accrued liabilities	(174)	551
Accrued taxes payable	(6)	10
Other	(5)	
Net cash provided by operating activities	411	215
Cash Flows from Investing Activities:		
Capital expenditures	(235)	(122)
Acquisitions		(396)
Proceeds from divestments and related matters	11	
Net cash used in investing activities	(224)	(518)
Cash Flows from Financing Activities:		
Distributions paid to limited and general partners	(178)	(156)
Distributions paid to noncontrolling interests	(5)	(3)
Contributions from general partner		2
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(5)	(3)
Repayments under credit facilities	(322)	(561)
Borrowings under credit facilities	501	529
Net proceeds from issuance of long-term debt		595
Repayments of senior notes	(250)	
Advances to affiliated companies, net	69	(94)
Net cash (used in) provided by financing activities	(190)	309
Net change in cash and cash equivalents	(3)	6
Cash and cash equivalents at beginning of year	5	2
Cash and cash equivalents at end of period	$ 2	$ 8

(See Accompanying Notes)

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SUNOCO LOGISTICS PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(UNAUDITED)

(in millions)

	Limited Partners		General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Common	Class A				
Balance at January 1, 2011	$ 940	$	$ 28	$ (3)	$ 77	$ 1,042
Comprehensive Income:						
Net Income	196	1	40		6	243
Change in cash flow hedges				12		12
Total comprehensive income	196	1	40	12	6	255
Issuance of Class A Units to Sunoco, Inc.		20	2			22
Expense on units issued under incentive plans	5					5
Distribution equivalent rights	(1)					(1)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(3)					(3)
Noncontrolling equity in joint venture acquisitions					20	20
Distributions	(119)		(37)		(3)	(159)
Other					1	1
Balance at September 30, 2011	$ 1,018	$ 21	$ 33	$ 9	$ 101	$ 1,182

	Limited Partners		General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Common	Class A				
Balance at January 1, 2012	$ 1,039	$ 22	$ 34	$ 1	$ 98	$ 1,194
Comprehensive Income:						
Net Income	324	2	55		8	389
Change in cash flow hedges				(21)		(21)
Total comprehensive income	324	2	55	(21)	8	368
Expense on units issued under incentive plans	6					6
Distribution equivalent rights	(1)					(1)
Payments of statutory withholding on net issuance of limited partner units under restricted unit incentive plan	(5)					(5)
Conversion of Class A Units to Common Units	24	(24)				
Distributions	(133)		(45)		(5)	(183)
Balance at September 30, 2012	$ 1,254	$	$ 44	$ (20)	$ 101	$ 1,379

(See Accompanying Notes)

SUNOCO LOGISTICS PARTNERS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

Sunoco Logistics Partners L.P. (the Partnership) is a publicly traded Delaware limited partnership that owns and operates a logistics business, consisting of refined products and crude oil pipelines, terminalling and storage assets, and refined products and crude oil acquisition and marketing assets. The Partnership is principally engaged in the transport, terminalling and storage of refined products and crude oil and the purchase and sale of crude oil in approximately 30 states located throughout the United States. Sunoco, Inc. and its wholly-owned subsidiaries, including Sunoco, Inc. (R&M), are collectively referred to as Sunoco.

On October 5, 2012, Sunoco was acquired by Energy Transfer Partners, L.P. (ETP). Prior to this transaction, Sunoco through its wholly-owned subsidiary Sunoco Partners LLC served as the Partnership s general partner and owned a two percent general partner interest, all of the incentive distribution rights and a 32.4 percent limited partner interest in the Partnership. In connection with the acquisition, Sunoco s interests in the general partner and limited partnership were contributed to ETP, resulting in a change of control of the Partnership s general partner. As a result, the Partnership s assets and liabilities are required to be adjusted to fair value on the closing date by application of push-down accounting. The new basis of accounting will be reflected in the Partnership s financial statements beginning in the fourth quarter 2012.

The condensed consolidated financial statements reflect the results of Sunoco Logistics Partners L.P. and its wholly-owned subsidiaries, including Sunoco Logistics Partners Operations L.P., and include the accounts of entities in which the Partnership has a controlling financial interest. A controlling financial interest is evidenced by either a voting interest greater than 50 percent or a risk and rewards model that identifies the Partnership or one of its subsidiaries as the primary beneficiary of a variable interest entity. The Partnership holds a controlling financial interest in Inland Corporation (Inland), Mid-Valley Pipeline Company (Mid-Valley) and West Texas Gulf Pipe Line Company (West Texas Gulf), and as such, these joint ventures are reflected as consolidated subsidiaries of the Partnership from the respective dates of acquisition. All significant intercompany accounts and transactions are eliminated in consolidation and noncontrolling interests in equity and net income are shown separately in the condensed consolidated balance sheets and statements of comprehensive income. Equity ownership interests in corporate joint ventures in which the Partnership does not have a controlling financial interest are accounted for under the equity method of accounting.

In June 2011, the Financial Accounting Standards Board (FASB) codified guidance related to the presentation of comprehensive income. The guidance requires entities to present net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. For the three and nine months ended September 30, 2012 and 2011, the Partnership presents the components of net income and total comprehensive income in its condensed consolidated statements of comprehensive income. The new guidance does not change the components that are recognized in net income and the components that are recognized in other comprehensive income. The revised presentation has been retroactively applied to all periods presented.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim financial reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management s opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for the three and nine months ended September 30, 2012 are not necessarily indicative of results for the full year 2012.

2. Change in Business and Other Matters

In February 2012, the Partnership sold its refined products terminal and pipeline assets in Big Sandy, Texas for $11 million. The buyer also assumed a $1 million environmental liability associated with the assets. The net book value of the assets sold and liability transferred approximated the sale price. In connection with the sale, the Partnership also agreed to cancel existing throughput and deficiency agreements in exchange for cash payments of $11 million. During the first quarter 2012, the Partnership recognized a total gain of $11 million, which primarily related to the contract settlement. The gain was recorded as $5 and $6 million within the Refined Products Pipelines and Terminal Facilities segments, respectively.

Management has continued to assess the impact that Sunoco s decision to exit its refining business in the northeast will have on the Partnership s assets that have historically served the refineries and determined that the Partnership s refined products pipeline and terminal assets continue to have expected future cash flows that support their carrying values. However, the Partnership recognized a $42 million charge in the fourth quarter 2011 for certain crude oil terminal assets which would be negatively impacted if the Philadelphia refinery was permanently idled. This included a $31 million non-cash impairment for asset write-downs at the Fort Mifflin Terminal Complex and $11 million for regulatory obligations which would have been incurred if the assets were permanently idled.

In September 2012, Sunoco completed the formation of Philadelphia Energy Solutions (PES), a joint venture with The Carlyle Group, which enabled the Philadelphia refinery to continue operating. The Carlyle Group will hold the controlling interest and oversee day-to-day operations of the joint venture and the refinery. Sunoco retained a non-operating minority interest of approximately 33 percent. During the second quarter 2012, the Partnership reversed $10 million of regulatory obligations which were no longer expected to be incurred.

3. Related Party Transactions

Acquisition of Sunoco

The general and limited partner interests that were previously owned by Sunoco were contributed to ETP in connection with the acquisition of Sunoco by ETP. As a result of these transactions, both the Partnership and Sunoco became consolidated subsidiaries of ETP. The Partnership has various operating and administrative agreements with Sunoco, including the agreements described below. Sunoco continues to operate its retail marketing network and is expected to continue utilizing the Partnership s pipeline and tank assets. Sunoco continues to perform the administrative functions defined in such agreements on the Partnership s behalf. The Partnership continues to work with ETP in determining how the acquisition will impact these agreements going forward.

Advances to/from Affiliate

The Partnership has a treasury services agreement with Sunoco pursuant to which it, among other things, participates in Sunoco s centralized cash management program. Under this program, all of the Partnership s cash receipts and cash disbursements are processed, together with those of Sunoco and its other subsidiaries, through Sunoco s cash accounts with a corresponding credit or charge to an intercompany account. The intercompany balances are settled periodically, but no less frequently than monthly. Amounts due from Sunoco earn interest at a rate equal to the average rate of the Partnership s third-party money market investments, while amounts due to Sunoco bear interest at a rate equal to the interest rate provided in the Operating Partnership s $350 million Credit Facility (see Note 8).

Administrative Services

The Partnership has no employees, and reimburses Sunoco for certain costs and other direct expenses incurred on the Partnership s behalf. These costs may be increased if the acquisition or construction of new assets or businesses requires an increase in the level of general and administrative services received by the Partnership.

Under the Omnibus Agreement, the Partnership pays Sunoco an annual administrative fee that includes expenses incurred by Sunoco and its affiliates to perform certain centralized corporate functions, such as legal, accounting, treasury, engineering, information technology, insurance, and other corporate services, including the administration of employee benefit plans. This fee was $13 million for the year ended December 31, 2011. The fee increased to $18 million for 2012 to cover additional consolidation of services provided by Sunoco that were previously provided by third parties and includes an allocation of certain senior management costs from Sunoco. This fee does not include the cost of shared insurance programs (which are allocated to the Partnership based upon its share of the cash premiums incurred), the salaries of pipeline and terminal personnel or other employees of the general partner or the cost of their employee benefits.

The Partnership s share of allocated Sunoco employee benefit plan expenses, including noncontributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, incentive compensation plans and other such benefits are reflected in cost of products sold and operating expenses and selling, general and administrative expenses in the condensed consolidated statements of comprehensive income.

Affiliated Revenues and Accounts Receivable, Affiliated Companies

The Partnership is party to various agreements with Sunoco to supply refined products and to provide pipeline and terminalling services to Sunoco and PES. Affiliated revenues in the condensed consolidated statements of comprehensive income consist of sales of refined products and crude oil, as well as the related provision, and services including pipeline transportation, terminalling, and storage and blending for Sunoco. Affiliated revenues include sales of crude oil to Sunoco which were priced using market-based rates and sales of refined products which are priced using market-based rates under agreements that are negotiated annually. Service revenues are recognized based on published tariffs or negotiated rates.

Capital Contributions

In the first nine months of 2012 and 2011, the Partnership issued 0.3 and 0.2 million limited partnership units, respectively, to participants in the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) upon completion of award vesting requirements. As a result of these issuances of limited partnership units, the general partner contributed less than $1 million during the first nine months of 2012 and 2011 to maintain its 2 percent general partner interest. The Partnership recorded these amounts as capital contributions to Equity within its condensed consolidated balance sheets.

4. Net Income Attributable to Sunoco Logistics Partners L.P. Per Limited Partner Unit Data

The general partner s interest in net income attributable to Sunoco Logistics Partners L.P. (net income attributable to Partners) consists of its 2 percent general partner interest and incentive distributions, which are increasing percentages, up to 50 percent of quarterly distributions in excess of $0.1667 per common unit (see Note 11). The general partner was allocated net income attributable to Partners of $21 and $14 million (representing 16 and 15 percent respectively of total net income attributable to Partners) for the three months ended September 30, 2012 and 2011, respectively, and $55 and $40 million (representing 14 and 17 percent respectively of total net income attributable to Partners) for the nine months ended September 30, 2012 and 2011, respectively. Diluted net income attributable to Partners per common unit is calculated by dividing net income attributable to Partners by the sum of the weighted average number of common and Class A units outstanding, prior to conversion to common units, and the dilutive effect of incentive unit awards (see Note 12).

In July 2011, the Partnership issued 3.9 million Class A units to Sunoco in connection with the acquisition of the Eagle Point tank farm and related assets. These deferred distribution units represented a new class of units that were converted to common units in July 2012. Prior to their conversion, the Class A units participated in the allocation of net income on a pro-rata basis with the common units.

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The following table sets forth the reconciliation of the weighted average number of common and Class A units used to compute basic net income attributable to Partners per common unit to those used to compute diluted net income attributable to Partners per common unit for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)			
Weighted average number of common units outstanding - basic	103.6	103.3	103.5	100.7
Add effect of dilutive incentive awards	0.3	0.4	0.4	0.4
Weighted average number of common units - diluted	103.9	103.7	103.9	101.1

5. Inventories

The components of inventories are as follows:

	September 30, 2012	December 31, 2011
	(in millions)	
Crude oil	$ 177	$ 142
Refined products	60	55
Refined products additives	3	2
Materials, supplies and other	10	7
	$ 250	$ 206

6. Income Taxes

The Partnership is not a taxable entity for U.S. federal income tax purposes, or for the majority of states that impose income taxes. Rather, income taxes are generally assessed at the partner level. There are some states in which the Partnership operates where it is subject to state and local income taxes. Substantially all of the income tax reflected in the Partnership s condensed consolidated financial statements is derived from the operations of Inland, Mid-Valley and West Texas Gulf, all of which are entities subject to income taxes for federal and state purposes at the corporate level. The effective tax rates for these entities approximate the federal statutory rate of 35 percent.

In taxable jurisdictions, the Partnership records deferred income taxes on all significant temporary differences between the book basis and the tax basis of assets and liabilities. The net deferred tax liabilities reflected on the condensed consolidated balance sheets are derived principally from the difference in the book and tax bases of properties, plants and equipment associated with the Inland, Mid-Valley and West Texas Gulf acquisitions.

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7. Investment in Affiliates

The Partnership s corporate joint ventures own refined products pipeline systems. The Partnership s ownership percentages in corporate joint ventures as of September 30, 2012 and December 31, 2011 were as follows:

	Ownership Percentage
Explorer Pipeline Company	9.4%
Yellowstone Pipe Line Company	14.0%
West Shore Pipe Line Company	17.1%
Wolverine Pipe Line Company	31.5%

The following table provides summarized, unaudited income statement information on a 100 percent basis for the Partnership s corporate joint ventures for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)			
Income Statement Data:				
Total revenues	$ 194	$ 110	$ 359	$ 286
Income before income taxes	$ 121	$ 45	$ 175	$ 115
Net income	$ 75	$ 29	$ 108	$ 70

The following table provides summarized, unaudited balance sheet information on a 100 percent basis for the Partnership s corporate joint ventures as of September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
	(in millions)	
Balance Sheet Data:		
Current assets	$ 219	$ 130
Non-current assets	$ 635	$ 648
Current liabilities	$ 141	$ 127
Non-current liabilities	$ 528	$ 549
Net equity	$ 185	$ 102

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8. Debt

The components of the Partnership s debt balances are as follows:

	September 30, 2012	December 31, 2011
	(in millions)	
Credit Facilities		
$350 million Credit Facility, due August 2016	$ 96	$
$200 million Credit Facility, due August 2013	74	
$35 million Credit Facility, due April 2015 [(1)]	9	
Senior Notes		
Senior Notes - 7.25%, due February 2012 [(2)]		250
Senior Notes - 8.75%, due February 2014	175	175
Senior Notes - 6.125%, due May 2016	175	175
Senior Notes - 5.50%, due February 2020	250	250
Senior Notes - 4.65%, due February 2022	300	300
Senior Notes - 6.85%, due February 2040	250	250
Senior Notes - 6.10%, due February 2042	300	300
Total debt	1,629	1,700
Less:		
Unamortized bond discount	(2)	(2)
Current portion of long-term debt[(3)]		(250)
Long-term debt, net of current portion	$ 1,627	$ 1,448

(1) The $35 million Credit Facility is held by West Texas Gulf.

(2) The 7.25 percent Senior Notes matured and were repaid in February 2012.

(3) Amounts outstanding under the Partnership s credit facilities at September 30, 2012 have been classified as long-term debt as the Partnership has the intent and ability to refinance such borrowings on a long-term basis.

Credit Facilities

The Partnership maintains two credit facilities totaling $550 million to fund the Partnership s working capital requirements, finance acquisitions and capital projects and for general partnership purposes. The credit facilities consist of a $350 million unsecured credit facility which expires in August 2016 (the $350 million Credit Facility) and a $200 million unsecured credit facility which expires in August 2013 (the $200 million Credit Facility). Outstanding borrowings under these credit facilities were $170 million at September 30, 2012. At December 31, 2011 there were no outstanding borrowings under these credit facilities.

The $350 and $200 million Credit Facilities contain various covenants limiting the Partnership s ability to incur indebtedness; grant certain liens; make certain loans, acquisitions and investments; make any material change to the nature of its business; or enter into a merger or sale of assets, including the sale or transfer of interests in the Operating Partnership s subsidiaries. The credit facilities also limit the Partnership, on a rolling four-quarter basis, to a maximum total consolidated debt to consolidated EBITDA ratio, as defined in the underlying credit agreements, of 5.0 to 1, which can generally be increased to 5.5 to 1 during an acquisition period. The Partnership s ratio of total debt to EBITDA was 2.3 to 1 at September 30, 2012, as calculated in accordance with the credit agreements.

In connection with the acquisition of Sunoco by ETP in October 2012, Sunoco s interests in the general partner and limited partnership were contributed to ETP, resulting in a change of control of the Partnership s general partner. This would have represented an event of default under the Partnership s credit facilities as the general partner interests would no longer be owned by Sunoco. During the third quarter 2012, the Partnership amended this provision of its credit facilities to avoid an event of default upon the transfer of the general partner interest to ETP.

In May 2012, West Texas Gulf entered into a $35 million revolving credit facility (the $35 million Credit Facility) which expires in April 2015. The facility is available to fund West Texas Gulf s general corporate purposes including working capital and capital expenditures. The credit facility also limits West Texas Gulf, on a rolling four-quarter basis, to a minimum fixed charge coverage ratio, as defined in the underlying credit agreement. The ratio for the fiscal quarter ending September 30, 2012 shall not be less than 0.80 to 1. The minimum ratio fluctuates between 0.80 to 1 and 1.00 to 1 throughout the term of the revolver as specified in the credit agreement. In addition, the credit facility limits West Texas Gulf to a maximum leverage ratio of 2.00 to 1. West Texas Gulf s fixed charge coverage ratio and leverage ratio were 0.98 to 1 and 0.28 to 1, respectively, at September 30, 2012. Outstanding borrowings under this credit facility were $9 million at September 30, 2012.

9. Commitments and Contingent Liabilities

The Partnership is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. These laws and regulations can result in liabilities and loss contingencies for remediation at the Partnership s facilities and at third-party or formerly owned sites. At September 30, 2012 and December 31, 2011, there were accrued liabilities for environmental remediation in the condensed consolidated balance sheets of $4 million. The accrued liabilities for environmental remediation do not include any amounts attributable to unasserted claims, since no unasserted claims are probable of settlement or reasonably estimable, nor have any expected recoveries from insurance been recognized in earnings. Charges against income for environmental remediation totaled $1 million for the three months ended September 30, 2012 and 2011, respectively, and $6 and $4 million for the nine months ended September 30, 2012 and 2011, respectively. The Partnership maintains insurance programs that cover certain of its existing or potential environmental liabilities. Claims for recovery of environmental liabilities and previous expenditures that are probable of realization totaled $14 million at September 30, 2012 and are included in other assets in the condensed consolidated balance sheets.

Total future costs for environmental remediation activities will depend upon, among other things, the identification of any additional sites, the determination of the extent of the contamination at each site, the timing and nature of required remedial actions, the technology available and needed to meet the various existing legal requirements, the nature and extent of future environmental laws, inflation rates and the determination of the Partnership s liability at multi-party sites, if any, in light of uncertainties with respect to joint and several liability, and the number, participation levels and financial viability of other parties.

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

Management of the Partnership does not believe that any liabilities which may arise from claims indemnified by Sunoco would be material in relation to the results of operations, financial position or cash flows of the Partnership at September 30, 2012. There are certain other pending legal proceedings related to matters arising after the IPO that are not indemnified by Sunoco. Management believes that any liabilities that may arise from these legal proceedings will not be material in relation to the Partnership s results of operations, financial position or cash flows at September 30, 2012.

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10. Equity

The changes in the number of common units outstanding from January 1, 2011 through September 30, 2012 are as follows:

	Common Units	Class A Units (in millions)	Total Units
Balance at January 1, 2011	99.2		99.2
Units issued under incentive plans	0.2		0.2
Class A Units issued to Sunoco		3.9	3.9
Balance at December 31, 2011	99.4	3.9	103.3
Conversion of Class A Units	3.9	(3.9)	
Units issued under incentive plans	0.3		0.3
Balance at September 30, 2012	103.6		103.6

In July 2011, the Partnership issued 3.9 million Class A units to Sunoco in connection with the acquisition of the Eagle Point tank farm and related assets. These deferred distribution units represented a new class of units that were converted to common units in July 2012. Prior to their conversion, the Class A units participated in the allocation of net income on a pro-rata basis with the common units.

11. Cash Distributions

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

If cash distributions exceed $0.1667 per unit in a quarter, the general partner will receive increasing percentages, up to 50 percent, of the cash distributed in excess of that amount. These distributions are referred to as incentive distributions. The percentage interests for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

The following table shows the target distribution levels and distribution splits between the general partner and the holders of the Partnership s common units:

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		General Partner	Unitholders
Minimum Quarterly Distribution	$0.1500	2%	98%
First Target Distribution	up to $0.1667	2%	98%
Second Target Distribution	above $0.1667		
	up to $0.1917	15%*	85%
Third Target Distribution	above $0.1917		
	up to $0.5275	37%*	63%
Thereafter	above $0.5275	50%*	50%

* Includes 2 percent general partner interest.

The distributions paid by the Partnership for the period from January 1, 2011 through September 30, 2012 are summarized below:

Date Cash Distribution Paid	Cash Distribution per Limited Partner Unit	Total Cash Distribution to the Limited Partners (in millions)	Total Cash Distribution to the General Partner (in millions)
August 14, 2012	$ 0.4700	$ 49	$ 17
May 15, 2012	$ 0.4275	$ 43	$ 14
February 14, 2012	$ 0.4200	$ 41	$ 14
November 14, 2011	$ 0.4133	$ 41	$ 13
August 12, 2011	$ 0.4050	$ 40	$ 13
May 13, 2011	$ 0.3983	$ 40	$ 12
February 14, 2011	$ 0.3933	$ 39	$ 12

On November 7, 2012, Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P., declared a cash distribution of $0.5175 per common unit ($2.07 annualized), representing the distribution for the third quarter 2012. The $74 million distribution, including $20 million to the general partner, will be paid on November 14, 2012 to common unitholders of record on November 8, 2012.

12. Management Incentive Plan

Sunoco Partners LLC, the general partner of the Partnership, has adopted the Sunoco Partners LLC Long-Term Incentive Plan (LTIP) for directors, officers and employees of the general partner who perform services for the Partnership. The LTIP is administered by the independent directors of the Compensation Committee of the general partner s board of directors with respect to employee and officer awards, and by the general partner s board of directors with respect to awards granted to the independent members. The LTIP currently permits the grant of restricted units and unit options covering an additional 0.7 million common units. Restricted unit awards may also include tandem distribution equivalent rights (DERs) at the discretion of the Compensation Committee.

During the nine-month periods ended September 30, 2012 and 2011, the Partnership issued 0.3 and 0.2 million common units, respectively, under the LTIP. The Partnership recognized share-based compensation expense of $6 and $5 million for the nine months ended September 30, 2012 and 2011, respectively. Each of the restricted unit grants also have tandem DERs which are recognized as a reduction of equity when earned. There was no material impact to the Partnership s compensation expense as a result of the change in control of the Partnership s general partner.

13. Derivatives and Risk Management

The Partnership is exposed to various market risks, including volatility in crude oil and refined product prices, counterparty credit risk and interest rate risk. In order to manage such exposure, the Partnership s policy is to (i) only purchase crude oil and refined products for which sales contracts have been executed or for which ready markets exist, (ii) structure sales contracts so that price fluctuations do not materially impact the margins earned, and (iii) not acquire and hold physical inventory, futures contracts or other derivative instruments for the purpose of speculating on commodity price changes. Although the Partnership seeks to maintain a balanced inventory position within its commodity inventories, net unbalances may occur for short periods of time due to production, transportation and delivery variances. When temporary physical inventory builds or draws do occur, the Partnership continuously manages the variances to a balanced position over a period of time. Pursuant to the Partnership s approved risk management policy, derivative contracts may be used to hedge or reduce exposure to price risk associated with acquired inventory or forecasted physical transactions.

Price Risk Management

The Partnership is exposed to risks associated with changes in the market price of crude oil and refined products as a result of the forecasted purchase or sale of these products. These risks are primarily associated with price volatility related to pre-existing or anticipated purchases, sales and storage. Price changes are often caused by shifts in the supply and demand for these commodities, as well as their locations. The physical contracts related to the Partnership s crude oil and refined products businesses that qualify as derivatives have been designated as normal

purchases and sales and are accounted for using traditional accrual accounting. The Partnership accounts for derivatives that do not qualify as normal purchases and sales at fair value. The Partnership does utilize derivatives such as swaps, futures and other derivative instruments to mitigate the risk associated with market movements in the price of refined products. These derivative contracts act as a hedging mechanism against the volatility of prices by allowing the Partnership to transfer this price risk to counterparties who are able and willing to bear it.

While all derivative instruments utilized by the Partnership represent economic hedges, certain of these derivatives are not designated as hedges for accounting purposes. Such derivatives include certain contracts that were entered into and closed during the same accounting period and a limited number of contracts for which there is not sufficient correlation to the related items being economically hedged.

For refined product derivative contracts that are not designated as hedges for accounting purposes, all realized and unrealized gains and losses are recognized in the statement of comprehensive income during the current period. For refined product derivative contracts that are designated and qualify as cash flow hedges, the portion of the gain or loss on the derivative contract that is effective in offsetting the variable cash flows associated with the hedged forecasted transaction is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative contract in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in earnings during the current period. All realized gains and losses associated with refined product derivative contracts are recorded in earnings in the same line item as the forecasted transaction being hedged, either sales and other operating revenue or cost of products sold and operating expenses.

The Partnership had open derivative positions of approximately 3.9 and 1.5 million barrels of refined products at September 30, 2012 and December 31, 2011, respectively. The derivatives outstanding as of September 30, 2012 vary in duration but do not extend beyond one year. The Partnership records its derivatives at fair value based on observable market prices (levels 1 and 2). As of September 30, 2012 and December 31, 2011, the fair values of the Partnership s derivative assets and liabilities were:

	September 30, 2012	December 31, 2011
	(in millions)	
Derivative assets	$ 5	$ 6
Derivative liabilities	(28)	(2)
	$ (23)	$ 4

Derivative asset and liability balances are recorded in accounts receivable and accrued liabilities, respectively, in the condensed consolidated balance sheets.

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The Partnership s derivative positions are comprised primarily of commodity contracts. The following tables set forth the impact of derivatives on the Partnership s financial performance for the three and nine months ended September 30, 2012 and 2011:

	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Recognized in Earnings	Location of Gains (Losses) Recognized in Earnings
	(in millions)		
Three Months Ended September 30, 2012			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	$ (17)	$	Sales and other operating revenue
Commodity contracts			Cost of products sold and operating expenses
	$ (17)	$	
Derivatives not designated as hedging instruments:			
Commodity contracts		$ (10)	Sales and other operating revenue
Commodity contracts		3	Cost of products sold and operating expenses
		$ (7)	
Three Months Ended September 30, 2011			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	$ 11	$	Sales and other operating revenue
Commodity contracts			Cost of products sold and operating expenses
	$ 11	$	
Derivatives not designated as hedging instruments:			
Commodity contracts		$ 5	Sales and other operating revenue
Commodity contracts		1	Cost of products sold and operating expenses
		$ 6	

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	Gains (Losses) Recognized in Other Comprehensive Income (Loss)	Gains (Losses) Recognized in Earnings	Location of Gains (Losses) Recognized in Earnings
	(in millions)		
Nine Months Ended September 30, 2012			
Derivatives designated as cash flow hedging instruments:			
Commodity contracts	$ (21)	$ (3)	Sales and other operating revenue
Commodity contracts		1	Cost of products sold and operating expenses
	$ (21)	$ (2)	
Derivatives not designated as hedging instruments:			
Commodity contracts		$ (7)	Sales and other operating revenue
Commodity contracts		(4)	Cost of products sold and operating expenses
		$ (11)	
Nine Months Ended September 30, 2011			