NuStar Energy L.P.
Form 10-Q
August 08, 2016

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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 June 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 1-16417

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of common units outstanding as of July 31, 2016 was 77,886,442.

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PART I – FINANCIAL INFORMATION

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

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$103,019	$118,862
Accounts receivable, net of allowance for doubtful accounts of $7,826 and $8,473 as of June 30, 2016 and December 31, 2015, respectively	145,340	145,064
Receivable from related party	186	—
Inventories	38,700	38,749
Other current assets	25,913	31,176
Total current assets	313,158	333,851
Property, plant and equipment, at cost	5,294,602	5,209,160
Accumulated depreciation and amortization	(1,620,230)	(1,525,589)
Property, plant and equipment, net	3,674,372	3,683,571
Intangible assets, net	105,091	112,011
Goodwill	696,637	696,637
Deferred income tax asset	2,193	2,858
Other long-term assets, net	263,768	296,597
Total assets	$5,055,219	$5,125,525
Liabilities and Partners’ Equity		
Current liabilities:		
Accounts payable	$96,807	$125,147
Payable to related party	—	14,799
Short-term debt	—	84,000
Accrued interest payable	33,893	34,286
Accrued liabilities	47,777	55,194
Taxes other than income tax	12,613	12,810
Income tax payable	3,186	5,977
Total current liabilities	194,276	332,213
Long-term debt	3,205,693	3,055,612
Long-term payable to related party	—	32,080
Deferred income tax liability	26,485	24,810
Other long-term liabilities	138,870	70,966
Commitments and contingencies (Note 4)		
Partners’ equity:		
Limited partners (77,886,316 and 77,886,078 common units outstanding as of June 30, 2016 and December 31, 2015, respectively)	1,582,224	1,661,900
General partner	34,582	36,738
Accumulated other comprehensive loss	(126,911)	(88,794)
Total partners’ equity	1,489,895	1,609,844
Total liabilities and partners’ equity	$5,055,219	$5,125,525

See Condensed Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Service revenues	$270,403	$274,581	$536,969	$544,554
Product sales	167,401	296,030	306,538	581,001
Total revenues	437,804	570,611	843,507	1,125,555
Costs and expenses:				
Cost of product sales	157,617	281,610	286,607	544,116
Operating expenses:				
Third parties	112,662	82,568	196,202	166,928
Related party	—	34,570	21,681	65,857
Total operating expenses	112,662	117,138	217,883	232,785
General and administrative expenses:				
Third parties	22,657	8,986	35,949	16,653
Related party	—	17,707	10,493	35,093
Total general and administrative expenses	22,657	26,693	46,442	51,746
Depreciation and amortization expense	53,651	52,765	106,793	105,222
Total costs and expenses	346,587	478,206	657,725	933,869
Operating income	91,217	92,405	185,782	191,686
Interest expense, net	(34,229)	(32,824)	(68,352)	(64,861)
Other (expense) income, net	(201)	(2,152)	(372)	60,116
Income from continuing operations before income tax expense	56,787	57,429	117,058	186,941
Income tax expense	4,270	3,104	7,140	5,491
Income from continuing operations	52,517	54,325	109,918	181,450
Income from discontinued operations, net of tax	—	—	—	774
Net income	$52,517	$54,325	$109,918	$182,224
Basic and diluted net income per unit applicable to limited partners:				
Continuing operations	$0.52	$0.54	$1.09	$2.00
Discontinued operations	—	—	—	0.01
Total (Note 11)	$0.52	$0.54	$1.09	$2.01
Basic weighted-average limited partner units outstanding	77,886,219	77,886,078	77,886,148	77,886,078
Diluted weighted-average limited partner units outstanding	77,939,279	77,886,078	77,943,702	77,886,078
Comprehensive income	$29,178	$85,167	$71,801	$192,965

See Condensed Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2016	2015
Cash Flows from Operating Activities:		
Net income	$ 109,918	$ 182,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	106,793	105,222
Unit-based compensation expense	2,869	—
Amortization of debt related items	3,965	4,485
Gain from sale or disposition of assets	(2)	(165)
Gain associated with the Linden Acquisition	—	(56,277)
Deferred income tax expense	2,562	368
Distributions of equity in earnings of joint venture	—	2,500
Changes in current assets and current liabilities (Note 12)	(15,274)	(8,502)
Other, net	4,202	7,332
Net cash provided by operating activities	215,033	237,187
Cash Flows from Investing Activities:		
Capital expenditures	(95,361)	(153,621)
Change in accounts payable related to capital expenditures	(12,674)	(7,954)
Acquisitions	—	(142,500)
Investment in other long-term assets	—	(3,444)
Proceeds from sale or disposition of assets	—	1,307
Net cash used in investing activities	(108,035)	(306,212)
Cash Flows from Financing Activities:		

Proceeds from long-term debt borrowings	348,904			609,735	
Proceeds from short-term debt borrowings	279,000			432,000	
Long-term debt repayments	(184,192	)		(270,292	)
Short-term debt repayments	(363,000	)		(463,000	)
Distributions to unitholders and general partner	(196,102	)		(196,102	)
Decrease in cash book overdrafts	(11,166	)		(13,695	)
Other, net	(674	)		(565	)
Net cash (used in) provided by financing activities	(127,230	)		98,081	
Effect of foreign exchange rate changes on cash	4,389			(5,331	)
Net (decrease) increase in cash and cash equivalents	(15,843	)		23,725	
Cash and cash equivalents as of the beginning of the period	118,862			87,912	
Cash and cash equivalents as of the end of the period	$ 103,019			$ 111,637	

See Condensed Notes to Consolidated Financial Statements.

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization and Operations

NuStar Energy L.P. (NYSE: NS) is a publicly held Delaware limited partnership engaged in the transportation of petroleum products and anhydrous ammonia, the terminalling and storage of petroleum products and the marketing of petroleum products. Unless otherwise indicated, the terms “NuStar Energy,” “NS,” “the Partnership,” “we,” “our” and “us” are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings or NSH) (NYSE: NSH) owns our general partner, Riverwalk Logistics, L.P., and owns an approximate 15% total interest in us as of June 30, 2016.

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

Recent Developments

Employee Transfer from NuStar GP, LLC. On March 1, 2016, NuStar GP, LLC, the general partner of our general partner and a wholly owned subsidiary of NuStar GP Holdings, transferred and assigned to NuStar Services Company LLC (NuStar Services Co), a wholly owned subsidiary of NuStar Energy, all of NuStar GP, LLC’s employees and related benefit plans, programs, contracts and policies (the Employee Transfer). As a result of the Employee Transfer, we pay employee costs directly and sponsor the long-term incentive plan and other employee benefit plans. Please refer to Note 7 for a discussion of this transfer and our related party agreements, Note 8 for a discussion of our employee benefit plans and Note 9 for a discussion of our long-term incentive plan.

Linden Acquisition. On January 2, 2015, we acquired full ownership of ST Linden Terminal, LLC (Linden), which owns a refined products terminal in Linden, NJ with 4.3 million barrels of storage capacity (the Linden Acquisition). Prior to the Linden Acquisition, Linden operated as a joint venture between us and Linden Holding Corp., with each party owning 50%. On the acquisition date, we remeasured our existing 50% equity investment in Linden to its fair value of $128.0 million and we recognized a gain of $56.3 million in “Other (expense) income, net” in the condensed consolidated statements of comprehensive income for the six months ended June 30, 2015.

Basis of Presentation

These unaudited condensed consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Inter-partnership balances and transactions have been eliminated in consolidation. We account for investment in joint ventures using the equity method of accounting.

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and all disclosures are adequate. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and six months ended June 30, 2016 and 2015 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited condensed consolidated financial statements. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated financial statements as of that date. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Certain previously reported amounts in the 2015 consolidated financial statements and condensed notes have been reclassified to conform to 2016 presentation.

2. NEW ACCOUNTING PRONOUNCEMENTS

Credit Losses
In June 2016, the Financial Accounting Standards Board (FASB) issued amended guidance that requires the use of a "current expected loss" model for financial assets measured at amortized cost and certain off-balance sheet credit exposures. Under this model, entities will be required to estimate the lifetime expected credit losses on such instruments based on historical experience, current conditions, and reasonable and supportable forecasts. This amended guidance also expands the disclosure requirements to enable users of financial statements to understand an entity's assumptions, models and methods for estimating expected credit losses. The changes are effective for annual and interim periods beginning after December 15, 2019, and amendments should be applied using a modified retrospective approach. We are currently assessing the impact of this amended guidance on our financial position, results of operations and disclosures.

Unit-Based Payments
In March 2016, the FASB issued amended guidance that simplifies certain aspects of accounting for unit-based payments to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The changes are effective for annual and interim periods beginning after December 15, 2016, and early adoption is permitted. Prior to the Employee Transfer discussed in Note 1 above, we did not sponsor a unit-based compensation plan. Upon completion of the Employee Transfer, we adopted this amended guidance effective January 1, 2016 on a prospective basis, which did not have a material impact on our financial position, results of operations or disclosures. Please refer to Note 9 for a discussion of our long-term incentive plan.

Leases
In February 2016, the FASB issued amended guidance that requires lessees to recognize the assets and liabilities that arise from most leases on the balance sheet. For lessors, this amended guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The changes are effective for annual and interim periods beginning after December 15, 2018, and amendments should be applied using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with the option to use certain expedients. We are currently assessing the impact of this amended guidance on our financial position, results of operations and disclosures.

Financial Instruments
In January 2016, the FASB issued new guidance that addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The changes are effective for annual and interim periods beginning after December 15, 2017, and amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We will adopt these provisions January 1, 2018, and we do not expect the guidance to have a material impact on our financial position, results of operations or disclosures.

Inventory
In July 2015, the FASB issued amended guidance that requires inventory to be measured at the lower of cost or net realizable value. The changes are effective for annual and interim periods beginning after December 15, 2016, and must be applied prospectively after the date of adoption. We will adopt these provisions January 1, 2017, and we do not expect the amended guidance to have a material impact on our financial position, results of operations or disclosures.

Debt Issuance Costs

In April 2015, the FASB issued amended guidance for the presentation of debt issuance costs. Under the amended guidance, debt issuance costs will be presented on the balance sheet as a deduction from the carrying value of the associated debt liability. In August 2015, the FASB issued amended guidance that would allow debt issuance costs related to line-of-credit agreements to continue to be presented as an asset on the balance sheet. The changes are effective for annual and interim periods beginning after December 15, 2015, and retrospective application is required. On January 1, 2016, we retrospectively adopted this guidance. As a result, we reclassified $23.7 million of deferred debt issuance costs from “Other long-term assets, net” to “Long-term debt” on the consolidated balance sheet as of December 31, 2015.

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard. In August 2015, the FASB deferred the effective date by one year. The standard is now effective for public entities for annual and interim periods beginning after December 15, 2017, using one of two retrospective transition methods. Early adoption is permitted, but not before the original effective date. The FASB has subsequently issued several updates that amend and/or clarify the new revenue recognition standard. We are currently assessing the impact of this new guidance on our financial position, results of operations and disclosures, and we have not yet selected a transition method.

3. DEBT

Revolving Credit Agreement

During the six months ended June 30, 2016, the balance under our $1.5 billion five-year revolving credit agreement (the Revolving Credit Agreement) increased by $148.1 million, which we used for general partnership purposes and to fund our capital expenditures. The Revolving Credit Agreement matures on October 29, 2019 and bears interest, at our option, based on an alternative base rate, a LIBOR-based rate or a EURIBOR-based rate. The interest rate on the Revolving Credit Agreement is subject to adjustment if our debt rating is downgraded (or upgraded) by certain credit rating agencies. As of June 30, 2016, our weighted-average interest rate related to borrowings under the Revolving Credit Agreement was 2.2%, and we had $1,030.8 million outstanding.

As of June 30, 2016, our consolidated debt coverage ratio (as defined in the Revolving Credit Agreement) could not exceed 5.00-to-1.00. The requirement not to exceed a maximum consolidated debt coverage ratio may limit the amount we can borrow under the Revolving Credit Agreement to an amount less than the total amount available for borrowing. As of June 30, 2016, letters of credit issued under the Revolving Credit Agreement totaled $16.5 million, and we had $452.7 million available for borrowing. Our management believes that we are in compliance with the covenants in the Revolving Credit Agreement as of June 30, 2016.

Gulf Opportunity Zone Revenue Bonds

In 2008, 2010 and 2011, the Parish of St. James, Louisiana issued, pursuant to the Gulf Opportunity Zone Act of 2005, an aggregate $365.4 million of tax-exempt revenue bonds (the GoZone Bonds) associated with our St. James, Louisiana terminal expansions. The GoZone Bonds bear interest based on a weekly tax-exempt bond market interest rate, and interest is paid monthly. The weighted-average interest rate was 0.4% as of June 30, 2016. Following the issuances, the proceeds were deposited with a trustee and are disbursed to us upon our request for reimbursement of expenditures related to our St. James terminal expansions. We include the amount remaining in trust in “Other long-term assets, net,” and we include the amount of bonds issued in “Long-term debt” on the consolidated balance sheets. For the six months ended June 30, 2016 and 2015, the amount received from the trustee totaled $11.3 million and $7.7 million, respectively. As of June 30, 2016, the amount remaining in trust totaled $43.6 million.

Receivables Financing Agreement

NuStar Energy and NuStar Finance LLC (NuStar Finance), a special purpose entity and wholly owned subsidiary of NuStar Energy, are parties to a $125.0 million receivables financing agreement with third-party lenders (the Receivables Financing Agreement) and agreements with certain of NuStar Energy’s wholly owned subsidiaries (collectively with the Receivables Financing Agreement, the Securitization Program). NuStar Finance’s sole business consists of purchasing receivables from certain of NuStar Energy’s wholly owned subsidiaries and providing these receivables as collateral under the Securitization Program. NuStar Finance is a separate legal entity and the assets of NuStar Finance, including these accounts receivable, are not available to satisfy the claims of creditors of NuStar Energy, its subsidiaries selling receivables under the Securitization Program or their affiliates. The amount available for borrowing is based on the availability of eligible receivables and other customary factors and conditions.

Borrowings by NuStar Finance under the Receivables Financing Agreement bear interest at either the applicable commercial paper rate or the applicable bank rate, each as defined under the Receivables Financing Agreement. The Securitization Program has an initial termination date of June 15, 2018, with the option to renew for additional

364-day periods thereafter. As of June 30, 2016, $106.1 million of our accounts receivable are included in the Securitization Program. The amount of borrowings outstanding under the Receivables Financing Agreement totaled $56.7 million as of June 30, 2016, which is included in “Long-term debt” on the consolidated balance sheet.

4. COMMITMENTS AND CONTINGENCIES

Contingencies

We have contingent liabilities resulting from various litigation, claims and commitments. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. We have accrued $3.4 million and $4.8 million for contingent losses as of June 30, 2016 and December 31, 2015, respectively. The amount that will ultimately be paid may differ from the recorded

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accruals, and the timing of such payments is uncertain. In addition, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

5. FAIR VALUE MEASUREMENTS

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

Recurring Fair Value Measurements

The following assets and liabilities are measured at fair value on a recurring basis:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	$142	$—	$—	$142
Commodity derivatives	—	224	—	224
Total	$142	$224	$—	$366
Liabilities:				
Accrued liabilities:				
Product imbalances	$(407)	$—	$—	$(407)
Commodity derivatives	(4,860)	(238)	—	(5,098)
Other long-term liabilities:				
Guarantee liability	—	—	(1,805)	(1,805)
Interest rate swaps	—	(48,875)	—	(48,875)
Total	$(5,267)	$(49,113)	$(1,805)	$(56,185)

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	$179	$—	$—	$179
Commodity derivatives	11,325	77	—	11,402
Other long-term assets, net:				
Interest rate swaps	—	2,755	—	2,755
Total	$11,504	$2,832	$—	$14,336
Liabilities:				
Accrued liabilities:				
Product imbalances	$(419)	$—	$—	$(419)
Commodity derivatives	—	(120)	—	(120)
Other long-term liabilities:				
Guarantee liability	—	—	(1,697)	(1,697)
Interest rate swaps	—	(1,452)	—	(1,452)
Total	$(419)	$(1,572)	$(1,697)	$(3,688)

Product Imbalances. Since we value our assets and liabilities related to product imbalances using quoted market prices in active markets as of the reporting date, we include these product imbalances in Level 1 of the fair value hierarchy.

Commodity Derivatives. We base the fair value of certain of our commodity derivative instruments on quoted prices on an exchange; accordingly, we include these items in Level 1 of the fair value hierarchy. We also have derivative instruments for which we determine fair value using industry pricing services and other observable inputs, such as quoted prices on an exchange for similar derivative instruments, and we include these derivative instruments in Level 2 of the fair value hierarchy. See Note 6 for a discussion of our derivative instruments.

Interest Rate Swaps. Because we estimate the fair value of our forward-starting interest rate swaps using discounted cash flows, which use observable inputs such as time to maturity and market interest rates, we include these interest rate swaps in Level 2 of the fair value hierarchy.

Guarantees. In 2014, we sold our remaining 50% ownership interest in NuStar Asphalt LLC, which then changed its name to Axeon Specialty Products LLC (Axeon). We provide credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $125.0 million to Axeon. As of June 30, 2016, we have provided $25.5 million in letters of credit on behalf of Axeon. As of June 30, 2016 and December 31, 2015, we provided guarantees mainly for commodity purchases, lease obligations and certain utilities for Axeon with an aggregate maximum potential exposure of $76.5 million and $71.9 million, respectively, and one guarantee that does not specify a maximum amount as of June 30, 2016. As of December 31, 2015, we provided two guarantees that did not specify a maximum amount. A majority of these guarantees have no expiration date. We estimated the fair value considering the probability of default by Axeon and an estimate of the amount we would be obligated to pay under the guarantees at the time of default based on the guarantees outstanding as of June 30, 2016 and December 31, 2015. Our estimate of the fair value is based on significant inputs not observable in the market and thus falls within Level 3 of the fair value hierarchy.

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

Six Months
Ended June

	30, 2016 (Thousands of Dollars)
Beginning balance	$ 1,697
Adjustments to guarantee liability	108
Ending balance	$ 1,805

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Fair Value of Financial Instruments
We recognize cash equivalents, receivables, payables and debt in our consolidated balance sheets at their carrying amounts. The fair values of these financial instruments, except for a $190.0 million term loan to Axeon (the Axeon Term Loan) and long-term debt, approximate their carrying amounts.

The estimated fair values and carrying amounts of the long-term debt and the Axeon Term Loan were as follows:

	June 30, 2016		December 31, 2015	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(Thousands of Dollars)			
Long-term debt	$3,204,542	$3,205,693	$2,929,438	$3,055,612
Axeon Term Loan	$174,397	$170,460	$172,123	$170,352

We estimated the fair value of our publicly traded senior notes based upon quoted prices in active markets; therefore, we determined that the fair value of our publicly traded senior notes falls in Level 1 of the fair value hierarchy. For our other debt, for which a quoted market price is not available, we estimated the fair value using a discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements and determined that the fair value falls in Level 2 of the fair value hierarchy.
We estimated the fair value of the Axeon Term Loan using discounted cash flows, which use observable inputs such as time to maturity and market interest rates, and determined that the fair value falls in Level 2 of the fair value hierarchy. As of June 30, 2016, the carrying amount of the Axeon Term Loan is $170.5 million, consisting of the following: (i) the outstanding principal amount from the Axeon Term Loan of $190.0 million; (ii) plus the fair value of guarantees of $1.8 million as of June 30, 2016; (iii) less equity losses from our investment in Axeon of $21.3 million incurred prior to the 2014 sale of our remaining ownership interest in Axeon and after the carrying value of our equity investment in Axeon was reduced to zero. The carrying value of the Axeon Term Loan is included in “Other long-term assets, net” on the consolidated balance sheets. We review the financial information of Axeon monthly for possible credit loss indicators. In 2015 and 2014, Axeon failed to make two scheduled principal payments, which, under the provisions of the Axeon Term Loan, increases the interest rate payable by Axeon until Axeon makes those outstanding payments.

6. DERIVATIVES AND RISK MANAGEMENT ACTIVITIES

We utilize various derivative instruments to manage our exposure to interest rate risk and commodity price risk. Our risk management policies and procedures are designed to monitor interest rates, futures and swap positions and over-the-counter positions, as well as physical commodity volumes, grades, locations and delivery schedules, to help ensure that our hedging activities address our market risks.

Interest Rate Risk
We are a party to certain interest rate swap agreements to manage our exposure to changes in interest rates, which include forward-starting interest rate swap agreements related to forecasted debt issuances in 2018 and 2020. We entered into these swaps in order to hedge the risk of changes in the interest payments attributable to changes in the benchmark interest rate during the period from the effective date of the swap to the issuance of the forecasted debt. Under the terms of the swaps, we pay a fixed rate and receive a rate based on three-month USD LIBOR. These swaps qualified, and we designated them, as cash flow hedges. We record the effective portion of mark-to-market adjustments as a component of “Accumulated other comprehensive income (loss)” (AOCI), and the amount in AOCI will be recognized in “Interest expense, net” as the forecasted interest payments occur or if the interest payments are probable not to occur. As of June 30, 2016 and December 31, 2015, the aggregate notional amount of forward-starting interest rate swaps totaled $600.0 million.

Commodity Price Risk

We are exposed to market risks related to the volatility of crude oil and refined product prices. In order to reduce the risk of commodity price fluctuations with respect to our crude oil and finished product inventories and related firm commitments to purchase and/or sell such inventories, we utilize commodity futures and swap contracts, which qualify and we designate as fair value hedges. Derivatives that are intended to hedge our commodity price risk, but fail to qualify as fair value or cash flow hedges, are considered economic hedges, and we record associated gains and losses in net income. Our risk management committee oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also reviews all new commodity and trading risk management strategies in accordance with our risk management policy, as approved by our board of directors.

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The volume of commodity contracts is based on open derivative positions and represents the combined volume of our long and short open positions on an absolute basis, which totaled 7.1 million barrels and 8.0 million barrels as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, we had $1.9 million of margin deposits; we had no margin deposits as of December 31, 2015. The fair values of our derivative instruments included in our consolidated balance sheets were as follows:

	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
		(Thousands of Dollars)			
Derivatives Designated as Hedging Instruments:					
Commodity contracts	Other current assets	$—	$ 1,937	$—	$ (23)
Interest rate swaps	Other long-term assets, net	—	2,755	—	—
Commodity contracts	Accrued liabilities	333	—	(484)	—
Interest rate swaps	Other long-term liabilities	—	—	(48,875)	(1,452)
Total		333	4,692	(49,359)	(1,475)
Derivatives Not Designated as Hedging Instruments:					
Commodity contracts	Other current assets	224	34,016	—	(24,528)
Commodity contracts	Accrued liabilities	8,306	117	(13,253)	(237)
Total		8,530	34,133	(13,253)	(24,765)
Total Derivatives		$8,863	$ 38,825	$(62,612)	$ (26,240)

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

Commodity Contracts	June 30, 2016	December 31, 2015
	(Thousands of Dollars)	
Net amounts of assets presented in the consolidated balance sheets	$224	$ 11,402
Net amounts of liabilities presented in the consolidated balance sheets	$(5,098)	$ (120)

We recognize the impact of our commodity contracts on earnings in “Cost of product sales” on the condensed consolidated statements of comprehensive income, and that impact was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Thousands of Dollars)			
Derivatives Designated as Fair Value Hedging Instruments:				
Loss recognized in income on derivative	$(5,792)	$(6,663)	$(6,804)	$(4,499)
Gain recognized in income on hedged item	6,938	8,407	9,804	6,731
Gain recognized in income for ineffective portion	1,146	1,744	3,000	2,232

Derivatives Not Designated as Hedging Instruments:				
Loss recognized in income on derivative	$(724)	$(339)	$(4)	$(9)

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Our interest rate swaps had the following impact on earnings:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Thousands of Dollars)			
Derivatives Designated as Cash Flow Hedging Instruments:				
(Loss) gain recognized in other comprehensive income on derivative (effective portion)	$(20,200)	$20,788	$(50,178)	$18,753
Loss reclassified from AOCI into interest expense, net (effective portion)	$(2,158)	$(2,506)	$(4,380)	$(5,044)

As of June 30, 2016, we expect to reclassify a loss of $7.5 million to “Interest expense, net” within the next twelve months associated with unwound forward-starting interest rate swaps.

7. RELATED PARTY TRANSACTIONS

GP Services Agreement. Prior to the Employee Transfer, our operations were managed by NuStar GP, LLC under a services agreement effective January 1, 2008 pursuant to which employees of NuStar GP, LLC performed services for our U.S. operations. Employees of NuStar GP, LLC provided services to us and NuStar GP Holdings; therefore, we reimbursed NuStar GP, LLC for all employee costs incurred prior to the Employee Transfer, other than the expenses allocated to NuStar GP Holdings, as summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Thousands of Dollars)			
Operating expenses	$—	$34,570	$21,681	$65,857
General and administrative expenses	$—	$17,707	$10,493	$35,093

In conjunction with the Employee Transfer, we entered into an Amended and Restated Services Agreement with NuStar GP, LLC, effective March 1, 2016 (the Amended GP Services Agreement). The Amended GP Services Agreement provides that we will furnish administrative services necessary to conduct the business of NuStar GP Holdings. NuStar GP Holdings will compensate us for these services through an annual fee of $1.0 million, subject to adjustment based on the annual merit increase percentage applicable to our employees for the most recently completed fiscal year and for changes in level of service. The Amended GP Services Agreement will terminate on March 1, 2020 and will automatically renew for successive two-year terms, unless terminated by either party.

Assignment and Assumption Agreement. Also on March 1, 2016 and in connection with the Employee Transfer, we entered into an Assignment and Assumption Agreement with NuStar GP, LLC (the Assignment Agreement). Under the Assignment Agreement, NuStar GP, LLC assigned all of its employee benefit plans, programs, contracts, policies, and various of its other agreements and contracts with certain employees, affiliates and third-party service providers (collectively, the Assigned Programs) to NuStar Services Co. In addition, NuStar Services Co agreed to assume the sponsorship of and all obligations relating to the ongoing maintenance and administration of each of the plans and agreements in the Assigned Programs.

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The following table summarizes the related party transactions and changes to amounts reported on our consolidated balance sheet as a result of the Employee Transfer on March 1, 2016 (thousands of dollars):

Decrease in related party payable:	
Current	$16,014
Long-term	32,656
Decrease in related party payable	$48,670
Changes to our consolidated balance sheet:	
Current and long-term assets	$2,154
Current liabilities	5,609
Other long-term liabilities	34,042
Limited partner’s equity	2,664
Accumulated other comprehensive loss	4,201
Changes to our consolidated balance sheet	$48,670

Balance Sheet Items. We had a receivable from related party of $0.2 million as of June 30, 2016, mainly comprised of service fees and expenses paid on behalf of NuStar GP Holdings. As of December 31, 2015, we had a payable to related party of $14.8 million, mainly comprised of payroll, employee benefit plan expenses and unit-based compensation prior to the Employee Transfer, and none as of June 30, 2016. We also had a long-term payable to related party as of December 31, 2015 of $32.1 million, representing long-term employee benefits prior to the Employee Transfer, and none as of June 30, 2016.

8. EMPLOYEE BENEFIT PLANS

Prior to the Employee Transfer, NuStar GP, LLC sponsored and maintained the defined benefit plans and defined contribution plans described below. Effective March 1, 2016, in connection with the Employee Transfer, we assumed sponsorship and responsibility for these defined benefit plans and defined contribution plans, which include both qualified and nonqualified plans. The Employee Transfer did not have an impact on the benefits received by our employees.

Defined Benefit Plans

NuStar Pension Plan. The NuStar Pension Plan (the Pension Plan) is a qualified non-contributory defined benefit pension plan that provides eligible U.S. employees with retirement income as calculated under a cash balance formula. Under the cash balance formula, benefits are based on age, service and interest credits, and employees become fully vested in their benefits upon attaining three years of vesting service.

NuStar Excess Pension Plan. The NuStar Excess Pension Plan (the Excess Pension Plan) is a nonqualified deferred compensation plan that provides benefits to a select group of management or other highly compensated employees. The Excess Pension Plan is not intended to constitute either a qualified plan under the provisions of Section 401 of the Internal Revenue Code of 1986, as amended (the Code), or a funded plan subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Pension Plan and Excess Pension Plan are collectively referred to as the Pension Plans.

Other Postretirement Benefits. We also sponsor a contributory medical benefits plan for U.S. employees that retired prior to April 1, 2014. For employees that retire on or after April 1, 2014, we provide partial reimbursement for eligible third-party health care premiums.

We estimate pension and other postretirement benefit obligations and costs from actuarial valuations. The actuarial valuations require the use of certain assumptions, including discount rates, expected long-term rates of return on plan assets and expected rates of compensation increase. The amortization of actuarial gains and losses reflects a corridor based on 10% of the greater of the projected benefit obligation or the market-related value of the pension plan assets.

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The annual measurement date for our pension and other postretirement benefit plans is December 31, and we recognize the overfunded or underfunded status of our defined benefit pension or other postretirement benefit plans as an asset or a liability as of the balance sheet dates. We record changes in the funded status of our plans as a component of comprehensive income in the year the changes occur. The reconciliation of funded status for the Pension Plans and other postretirement benefit plans as of December 31, 2015 was as follows:

	Pension Plans	Other Postretirement Benefits
	(Thousands of Dollars)	
Fair value of plan assets	$ 87,706	