NuStar Energy L.P.
Form 10-Q
August 08, 2017

Table of Contents

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, 2017
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 Rule 12b-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
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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, 2017 was 93,031,036.

Table of Contents

NUSTAR ENERGY L.P.
FORM 10-Q
TABLE OF CONTENTS

Table of Contents

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, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$29,191	$35,942
Accounts receivable, net of allowance for doubtful accounts of $7,768 and $7,756 as of June 30, 2017 and December 31, 2016, respectively	147,548	170,293
Receivable from related party	86	317
Inventories	25,772	37,945
Other current assets	28,265	132,686
Total current assets	230,862	377,183
Property, plant and equipment, at cost	5,974,427	5,435,278
Accumulated depreciation and amortization	(1,827,094)	(1,712,995)
Property, plant and equipment, net	4,147,333	3,722,283
Intangible assets, net	857,616	127,083
Goodwill	1,023,359	696,637
Deferred income tax asset	1,359	2,051
Other long-term assets, net	98,795	105,308
Total assets	$6,359,324	$5,030,545
Liabilities and Partners' Equity		
Current liabilities:		
Accounts payable	$92,668	$118,686
Short-term debt	45,000	54,000
Current portion of long-term debt	403,075	—
Accrued interest payable	40,232	34,030
Accrued liabilities	55,986	60,485
Taxes other than income tax	16,709	15,685
Income tax payable	847	6,510
Total current liabilities	654,517	289,396
Long-term debt	3,073,864	3,014,364
Deferred income tax liability	22,863	22,204
Other long-term liabilities	107,031	92,964
Commitments and contingencies (Note 5)		
Partners' equity:		
Series A preferred limited partners (9,060,000 preferred units outstanding as of June 30, 2017 and December 31, 2016)	218,340	218,400
Series B preferred limited partners (15,400,000 preferred units outstanding as of June 30, 2017)	371,613	—
Common limited partners (93,030,988 and 78,616,228 common units outstanding as of June 30, 2017 and December 31, 2016, respectively)	1,958,435	1,455,642
General partner	41,944	31,752

Accumulated other comprehensive loss	(89,283)	(94,177)
Total partners' equity	2,501,049	1,611,617
Total liabilities and partners' equity	$6,359,324	$5,030,545

See Condensed Notes to Consolidated Financial Statements.

3

Table of Contents

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,	
	2017	2016	2017	2016
Revenues:				
Service revenues	$283,700	$270,403	$550,162	$536,969
Product sales	151,788	167,401	372,756	306,538
Total revenues	435,488	437,804	922,918	843,507
Costs and expenses:				
Cost of product sales	144,479	157,617	352,285	286,607
Operating expenses:				
Third parties	116,400	112,662	217,426	196,202
Related party	—	—	—	21,681
Total operating expenses	116,400	112,662	217,426	217,883
General and administrative expenses:				
Third parties	33,604	22,657	58,199	35,949
Related party	—	—	—	10,493
Total general and administrative expenses	33,604	22,657	58,199	46,442
Depreciation and amortization expense	67,601	53,651	124,465	106,793
Total costs and expenses	362,084	346,587	752,375	657,725
Operating income	73,404	91,217	170,543	185,782
Interest expense, net	(45,612)	(34,229)	(82,026)	(68,352)
Other income (expense), net	88	(201)	228	(372)
Income before income tax expense	27,880	56,787	88,745	117,058
Income tax expense	1,630	4,270	4,555	7,140
Net income	$26,250	$52,517	$84,190	$109,918
Basic and diluted net income per common unit (Note 11)	$0.05	$0.52	$0.51	$1.09
Basic weighted-average common units outstanding	90,345,469	77,886,219	84,526,506	77,886,148
Diluted weighted-average common units outstanding	90,345,469	77,939,279	84,526,506	77,943,702
Comprehensive income	$27,381	$29,178	$89,084	$71,801

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30, 2017	2016
Cash Flows from Operating Activities:		
Net income	$84,190	$109,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	124,465	106,793
Unit-based compensation expense	5,117	2,869
Amortization of debt related items	3,146	3,965
Gain from sale or disposition of assets	(36)	(2)
Deferred income tax expense	23	2,562
Changes in current assets and current liabilities (Note 12)	(15,344)	(15,274)
Other, net	7,427	4,202
Net cash provided by operating activities	208,988	215,033
Cash Flows from Investing Activities:		
Capital expenditures	(108,849)	(95,361)
Change in accounts payable related to capital expenditures	6,851	(12,674)
Proceeds from sale or disposition of assets	1,966	—
Proceeds from Axeon term loan	110,000	—
Acquisitions	(1,476,719)	—
Net cash used in investing activities	(1,466,751)	(108,035)
Cash Flows from Financing Activities:		
Proceeds from long-term debt borrowings	1,037,161	348,904
Proceeds from short-term debt borrowings	565,000	279,000
Proceeds from note offering, net of issuance costs	543,313	—
Long-term debt repayments	(1,122,239)	(184,192)
Short-term debt repayments	(574,000)	(363,000)
Proceeds from issuance of preferred units, net of issuance costs	371,802	—
Proceeds from issuance of common units, net of issuance costs	643,858	—
Contributions from general partner	13,597	—
Distributions to preferred unitholders	(10,696)	—
Distributions to common unitholders and general partner	(216,139)	(196,102)
Increase (decrease) in cash book overdrafts	1,321	(11,166)
Other, net	(2,615)	(674)
Net cash provided by (used in) financing activities	1,250,363	(127,230)
Effect of foreign exchange rate changes on cash	649	4,389
Net decrease in cash and cash equivalents	(6,751)	(15,843)
Cash and cash equivalents as of the beginning of the period	35,942	118,862
Cash and cash equivalents as of the end of the period	$29,191	$103,019

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

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, and the terminalling, storage and 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 11% common limited partner interest in us as of June 30, 2017.

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
Navigator Acquisition and Financing Transactions. On May 4, 2017, we completed the acquisition of Navigator Energy Services, LLC for approximately $1.5 billion (the Navigator Acquisition), subject to customary adjustments at and following closing. In order to fund the purchase price, we issued 14,375,000 common units for net proceeds of $657.5 million, issued $550.0 million of 5.625% senior notes for net proceeds of $543.3 million and issued 15,400,000 of our 7.625% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (Series B Preferred Units) for net proceeds of $371.8 million. Please refer to Notes 3, 4 and 10 for further discussion.

Axeon Term Loan. On February 22, 2017, we settled and terminated the $190.0 million term loan to Axeon Specialty Products, LLC (the Axeon Term Loan), pursuant to which we also provided credit support, such as guarantees, letters of credit and cash collateral, as applicable, of up to $125.0 million to Axeon Specialty Products, LLC (Axeon). We received $110.0 million in settlement of the Axeon Term Loan, and our obligation to provide ongoing credit support to Axeon ceased. Please refer to Note 6 for further discussion of the Axeon Term Loan and credit support.

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.

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, 2017 and 2016 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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The consolidated balance sheet as of December 31, 2016 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, 2016.

2. NEW ACCOUNTING PRONOUNCEMENTS

Unit-Based Payments

In May 2017, the Financial Accounting Standards Board (FASB) issued amended guidance that clarifies when a change to the terms and conditions of a unit-based payment award is accounted for as a modification. Under the amended guidance, an entity will apply modification accounting if the value, vesting or classification of the unit-based payment award changes. The guidance is effective for annual and interim periods beginning after December 15, 2017, and amendments should be applied prospectively. 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.

Defined Benefit Plans
In March 2017, the FASB issued amended guidance that changes the presentation of net periodic pension cost related to defined benefit plans. Under the amended guidance, the service cost component of net periodic benefit cost will be presented in the same income statement line items as other current employee compensation costs, but the remaining components of net periodic benefit cost will be presented outside of operating income. The changes are effective for annual and interim periods beginning after December 15, 2017, and amendments should be applied retrospectively. 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.

Goodwill
In January 2017, the FASB issued amended guidance that simplifies the accounting for goodwill impairment by eliminating step 2 of the goodwill impairment test. Under the amended guidance, goodwill impairment will be measured as the excess of the reporting unit’s carrying value over its fair value, not to exceed the carrying amount of goodwill for that reporting unit. The changes are effective for annual and interim periods beginning after December 15, 2019, and amendments should be applied prospectively. Early adoption is permitted for any impairment tests performed after January 1, 2017, and we are currently evaluating whether we will adopt these provisions early. Regardless of our decision, we do not expect the guidance to have a material impact on our financial position, results of operations or disclosures.

Definition of a Business
In January 2017, the FASB issued amended guidance that clarifies the definition of a business used in evaluating whether a set of transferred assets and activities constitutes a business. Under the amended guidance, if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities would not represent a business. To be considered a business, the set of assets transferred is also required to include at least one substantive process that together significantly contribute to the ability to create outputs. In addition, the amended guidance narrows the definition of outputs to be consistent with how outputs are described in the new revenue recognition standard. The changes are effective for annual and interim periods beginning after December 15, 2017, and amendments should be applied prospectively. We are currently evaluating whether we will early adopt these provisions. We do not expect the guidance to have a material impact on our financial position, results of operations or disclosures.

Statement of Cash Flows
In August 2016, the FASB issued amended guidance that clarifies how entities should present certain cash receipts and cash payments on the statement of cash flows, including but not limited to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and distributions received from equity method investees. The changes are effective for annual and interim periods beginning after December 15, 2017, and amendments should be applied retrospectively. We will adopt these provisions January 1, 2018, and we do not expect the guidance to have a material impact on our statements of cash flows or disclosures.

Credit Losses
In June 2016, the 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 currently expect to adopt the amended guidance on January 1, 2020 and are assessing the impact of this amended guidance on our financial position, results of operations and disclosures. We plan to provide additional information about the expected financial impact at a future date.

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 currently expect to adopt these provisions on January 1, 2019. We have initiated a project to assess the impact of this amended guidance on our financial position, results of operations, disclosures and internal controls and plan to provide additional information about the expected financial impact at a future date.

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.

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 expect to complete implementation of the new revenue recognition standard by the end of 2017. Based on our analysis completed to date, we do not believe the standard will significantly impact the amount or timing of revenues recognized under the vast majority of our revenue contracts. We currently expect to adopt the new guidance using the modified retrospective approach, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings, in the first quarter of 2018. We are continuing to evaluate the impact of this new guidance on our financial position, results of operations and disclosures, including customer contracts associated with our recently closed Navigator Acquisition.

3. ACQUISITIONS

Navigator Acquisition

On April 11, 2017, we entered into a Membership Interest Purchase and Sale Agreement (the Acquisition Agreement) with FR Navigator Holdings LLC to acquire all of the issued and outstanding limited liability company interests in Navigator Energy Services, LLC (Navigator) for approximately $1.5 billion, subject to customary adjustments at and following closing. We closed on the Navigator Acquisition on May 4, 2017 and funded the purchase price with the net proceeds of the equity and debt issuances described in Notes 4 and 10. We acquired crude oil transportation, pipeline gathering and storage assets located in the Midland Basin of West Texas consisting of: (i) more than 500 miles of crude oil gathering and transportation pipelines with approximately 92,000 barrels per day ship-or-pay volume commitments and deliverability of approximately 412,000 barrels per day; (ii) a pipeline gathering system with more than 200 connected producer tank batteries capable of more than 400,000 barrels per day of pumping capacity covering over 500,000 dedicated acres with fixed fee contracts; and (iii) approximately 1.0 million barrels of crude oil storage capacity with 440,000 barrels contracted to third parties. We collectively refer to the acquired assets as our Permian Crude System. The assets acquired are included in our pipeline segment.

The Navigator Acquisition broadens our geographic footprint by marking our entry into the Permian Basin and complements our existing asset base. We believe the Permian Crude System will provide a strong growth platform that, when coupled with our assets in the Eagle Ford region, serve to solidify our presence in two of the most prolific basins in the United States.

We accounted for the Navigator Acquisition using the acquisition method. The estimates of fair value of the assets acquired and liabilities assumed are based on preliminary assumptions, pending the completion of an independent appraisal and other evaluations as information becomes available to us. The following table reflects the preliminary purchase price allocation:

	Preliminary Purchase Price Allocation (Thousands of Dollars)
Accounts receivable	$ 4,916
Other current assets	2,476
Property, plant and equipment, net	396,603
Intangible assets (a)	750,000
Goodwill (b)	326,722
Other long-term assets, net	2,125
Current liabilities	(26,971)
Preliminary purchase price allocation, net of cash acquired	1,455,871
Pending closing adjustment	20,848
Cash disbursed at closing	$ 1,476,719

(a) Intangible assets, which consist of customer contracts and relationships, are expected to be amortized over a weighted average period of 20 years.

(b) The goodwill acquired represents the expected benefit from entering new geographic areas and the anticipated opportunities to generate future cash flows from the assets acquired and potential future projects.

The values used in the purchase price allocation above and estimated useful lives are preliminary and subject to change after we finalize our review of the specific types, nature and condition of Navigator's property, plant and equipment and intangible assets and pending the completion of an independent appraisal. A change in the value used for property, plant and equipment or intangible assets may be significant and would cause a corresponding increase or decrease in goodwill.

The condensed statements of income include the results of operations for the Navigator commencing on May 4, 2017. For the three months ended June 30, 2017, we recognized $9.5 million in revenues and an operating loss of $3.4 million related to the Navigator Acquisition. Additionally, we incurred transaction costs of $10.2 million included in "General and administrative expenses" and $3.7 million included in "Interest expense, net" on the condensed consolidated statements of comprehensive income for the three months ended June 30, 2017.

The unaudited pro forma information for the three and six months ended June 30, 2017 and 2016 presented below combines the historical financial information for Navigator and the Partnership for those periods. The information assumes we completed the Navigator Acquisition on January 1, 2016 and the following:

- we issued approximately 14.4 million common units;
- we received a contribution from our general partner of $13.6 million to maintain its 2% interest;
- we issued 15.4 million Series B Preferred Units;
- we issued $550.0 million of 5.625% senior notes;
- additional depreciation and amortization that would have been incurred assuming the fair value adjustments to property, plant and equipment and intangible assets reflected in the preliminary purchase price allocation above have been applied; and
- we satisfied Navigator's outstanding obligations under its revolving credit agreement.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Thousands of Dollars, Except Per Unit Data)			
Revenues	$439,933	$443,314	$937,317	$852,169
Net income	$21,211	$33,378	$63,659	$70,118
Basic and diluted net (loss) income per common unit	$(0.03)	$0.15	$0.16	$0.34

9

The pro forma information for the three and six months ended June 30, 2017 includes transaction costs of approximately $14.0 million, which were directly attributable to the Navigator Acquisition. The pro forma information is unaudited and is not necessarily indicative of the results of operations that actually would have resulted had the Navigator Acquisition occurred on January 1, 2016 or that may result in the future.

4. DEBT

Issuance of 5.625% Senior Notes

On April 28, 2017, NuStar Logistics issued $550.0 million of 5.625% senior notes due April 28, 2027. We used the net proceeds of $543.3 million from the offering to fund a portion of the purchase price for the Navigator Acquisition and to pay related fees and expenses. The interest on the 5.625% senior notes is payable semi-annually in arrears on April 28 and October 28 of each year beginning on October 28, 2017. The 5.625% senior notes do not have sinking fund requirements. These notes rank equally with existing senior unsecured indebtedness and senior to existing subordinated indebtedness of NuStar Logistics. The 5.625% senior notes contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens, engage in certain sale-leaseback transactions and engage in certain consolidations, mergers or asset sales. The 5.625% senior notes are fully and unconditionally guaranteed by NuStar Energy and NuPOP.

At the option of NuStar Logistics, the 5.625% senior notes may be redeemed in whole or in part at any time at a redemption price, plus accrued and unpaid interest to the redemption date. If we undergo a change of control, followed by a ratings decline within 60 days of a change of control, each holder of the notes may require us to repurchase all or a portion of its notes at a price equal to 101% of the principal amount of the notes, plus any accrued and unpaid interest to the date of repurchase.

Revolving Credit Agreement

During the six months ended June 30, 2017, the balance under our $1.5 billion five-year revolving credit agreement (the Revolving Credit Agreement) decreased by $74.2 million. 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, 2017, our weighted-average interest rate related to borrowings under the Revolving Credit Agreement was 2.8%, and we had $764.8 million outstanding.

As of June 30, 2017, our consolidated debt coverage ratio (as defined in the Revolving Credit Agreement) could not exceed 5.50-to-1.00 as a result of the Navigator Acquisition. 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, 2017, letters of credit issued under the Revolving Credit Agreement totaled $7.7 million, and we had $727.5 million available for borrowing. We believe that we are in compliance with the covenants in the Revolving Credit Agreement as of June 30, 2017.

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 0.9% as of June 30, 2017. 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, 2017, we did not receive any proceeds from the trustee, and as of June 30, 2017, the amount remaining in trust totaled $42.4 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

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

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, 2017, $81.7 million of our accounts receivable are included in the Securitization Program. The amount of borrowings outstanding under the Receivables Financing Agreement totaled $53.3 million as of June 30, 2017, which is included in “Current portion of long-term debt” on the consolidated balance sheet.

5. COMMITMENTS AND 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 had an accrual of $1.7 million for contingent losses as of June 30, 2017 and none as of December 31, 2016. The amount that will ultimately be paid may differ from the recorded accruals, and the timing of such payments is uncertain. In addition, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

6. FAIR VALUE MEASUREMENTS

We segregate the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs, such as quoted prices for identical assets or liabilities in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets that are not active; and Level 3, defined as unobservable inputs 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, 2017			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	$5,249	$—	$ —	$5,249
Total	$5,249	$—	$ —	$5,249
Liabilities:				
Accrued liabilities:				
Product imbalances	$(3,031)	$—	$ —	$(3,031)
Commodity derivatives	(451)	—	—	(451)
Interest rate swaps	—	(6,392)	—	(6,392)
Other long-term liabilities:				
Interest rate swaps	—	(2,867)	—	(2,867)
Total	$(3,482)	$(9,259)	$ —	$(12,741)

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

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Assets:				
Other current assets:				
Product imbalances	$1,551	$—	$ —	$1,551
Commodity derivatives	—	155	—	155
Other long-term assets, net:				
Interest rate swaps	—	1,314	—	1,314
Total	$1,551	$1,469	$ —	$3,020
Liabilities:				
Accrued liabilities:				
Product imbalances	$(1,577)	$—	$ —	$(1,577)
Commodity derivatives	(4,887)	(165)	—	(5,052)
Other long-term liabilities:				
Guarantee liability	—	—	(1,230)	(1,230)
Interest rate swaps	—	(2,632)	—	(2,632)
Total	$(6,464)	$(2,797)	$	