

PHILLIPS 66 PARTNERS LP  
Form 10-Q  
October 31, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013  
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: 001-36011

Phillips 66 Partners LP  
(Exact name of registrant as specified in its charter)

Delaware 38-3899432  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3010 Briarpark Drive, Houston, Texas 77042  
(Address of principal executive offices) (Zip Code)

(855) 283-9237  
(Registrant's telephone number, including area code)

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

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

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

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [  ] No [  ]

The registrant had 35,217,112 common units and 35,217,112 subordinated units outstanding as of October 25, 2013.

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

Consolidated Statement of Income	Phillips 66 Partners LP			
	Millions of Dollars			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
Revenues				
Transportation and terminaling services—related parties	\$29.5	21.2	76.6	57.7
Transportation and terminaling services—third parties	—	0.1	0.1	0.3
Other income	0.1	—	0.1	—
Total revenues	29.6	21.3	76.8	58.0
Costs and Expenses				
Operating and maintenance expenses	7.5	4.9	19.7	16.7
Depreciation	1.6	1.8	4.7	5.0
General and administrative expenses	2.5	2.3	6.9	5.4
Taxes other than income taxes	0.4	0.3	1.3	1.1
Interest and debt expense	0.1	—	0.1	—
Total costs and expenses	12.1	9.3	32.7	28.2
Income before income taxes	17.5	12.0	44.1	29.8
Provision for income taxes	0.2	0.1	0.4	0.3
Net Income	\$17.3	11.9	43.7	29.5
Less: Predecessor income prior to initial public offering on July 26, 2013	5.4		31.8	
Net income subsequent to initial public offering	11.9		11.9	
Less: General partner's interest in net income subsequent to initial public offering	0.2		0.2	
Limited partners' interest in net income subsequent to initial public offering	\$11.7		11.7	
Net Income Subsequent to Initial Public Offering Per Limited Partner Unit—Basic and Diluted (dollars)				
Common units	\$0.17		0.17	
Subordinated units—Phillips 66	0.17		0.17	
Average Limited Partner Units Outstanding—Basic and Diluted (thousands)				
Common units—public	18,889		18,889	
Common units—Phillips 66	16,328		16,328	
Subordinated units—Phillips 66	35,217		35,217	
See Notes to Consolidated Financial Statements.				



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## Consolidated Balance Sheet

## Phillips 66 Partners LP

	Millions of Dollars	
	September 30 2013	December 31 2012
<b>Assets</b>		
Cash and cash equivalents	\$421.6	—
Accounts receivable—related parties	9.4	—
Accounts receivable—third parties	—	0.2
Materials and supplies	0.6	0.3
Other current assets	3.0	—
Total Current Assets	434.6	0.5
Net properties, plants and equipment	135.0	135.8
Goodwill	2.5	2.5
Deferred rentals—related parties	6.5	6.1
Total Assets	\$578.6	144.9
<b>Liabilities</b>		
Accounts payable—related parties	\$5.0	—
Accounts payable—third parties	3.8	1.4
Payroll and benefits payable	—	0.2
Accrued property and other taxes	1.1	0.6
Other current liabilities	0.2	0.2
Total Current Liabilities	10.1	2.4
Asset retirement obligations	0.3	0.3
Accrued environmental costs	—	0.2
Deferred income taxes	0.1	—
Total Liabilities	10.5	2.9
<b>Equity</b>		
Net investment	—	142.0
Common unitholders—public (18,888,750 units issued and outstanding)	407.5	—
Common unitholder—Phillips 66 (16,328,362 units issued and outstanding)	47.3	—
Subordinated unitholder—Phillips 66 (35,217,112 units issued and outstanding)	102.0	—
General partner—Phillips 66 (1,437,433 units issued and outstanding)	11.3	—
Total Equity	568.1	142.0
Total Liabilities and Equity	\$578.6	144.9
See Notes to Consolidated Financial Statements.		

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## Consolidated Statement of Cash Flows

## Phillips 66 Partners LP

	Millions of Dollars	
	Nine Months Ended September 30	
	2013	2012
Cash Flows From Operating Activities		
Net income	\$43.7	29.5
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	4.7	5.0
Deferred rentals and other	—	(1.7)
Working capital adjustments		
Decrease (increase) in accounts receivable	(9.2)	(0.2)
Decrease (increase) in materials and supplies	(0.3)	—
Decrease (increase) in other current assets	(3.0)	—
Increase (decrease) in accounts payable	7.4	(1.0)
Increase (decrease) in other accruals	0.2	—
Net Cash Provided by Operating Activities	43.5	31.6
Cash Flows From Investing Activities		
Capital expenditures	(4.2)	(12.4)
Net Cash Used in Investing Activities	(4.2)	(12.4)
Cash Flows From Financing Activities		
Net distributions to Phillips 66—prior to initial public offering	(25.0)	(19.2)
Project prefunding from Phillips 66	3.0	—
Proceeds from issuance of common units	434.4	—
Offering costs	(30.0)	—
Debt issuance costs	(0.1)	—
Net Cash Provided by (Used in) Financing Activities	382.3	(19.2)
Net Change in Cash and Cash Equivalents	421.6	—
Cash and cash equivalents at beginning of period	—	—
Cash and Cash Equivalents at End of Period	\$421.6	—
See Notes to Consolidated Financial Statements.		

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## Consolidated Statement of Changes in Equity

## Phillips 66 Partners LP

	Millions of Dollars					Net Investment	Total
	Partnership Common Unitholders Public	Common Unitholder Phillips 66	Subordinated Unitholder Phillips 66	General Partner Phillips 66			
December 31, 2011	\$—	—	—	—	130.4	130.4	
Net income	—	—	—	—	29.5	29.5	
Net distributions to Phillips 66	—	—	—	—	(19.2)	(19.2)	
September 30, 2012	\$—	—	—	—	140.7	140.7	
December 31, 2012	\$—	—	—	—	142.0	142.0	
Net income from January 1, 2013 through July 25, 2013	—	—	—	—	31.8	31.8	
Net distributions to Phillips 66	—	—	—	—	(25.0)	(25.0)	
Project prefunding from Phillips 66	—	—	—	—	3.0	3.0	
July 25, 2013 (prior to initial public offering)	—	—	—	—	151.8	151.8	
Allocation of net investment to unitholders	—	44.6	96.1	11.1	(151.8)	—	
Proceeds from initial public offering, net of offering costs	404.4	—	—	—	—	404.4	
Net income from July 26, 2013 through September 30, 2013	3.1	2.7	5.9	0.2	—	11.9	
September 30, 2013	\$407.5	47.3	102.0	11.3	—	568.1	

See Notes to Consolidated Financial Statements.



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Notes to Consolidated Financial Statements

Phillips 66 Partners LP

Note 1—Business and Basis of Presentation

Description of the Business

Phillips 66 Partners LP (the Partnership) is a Delaware limited partnership formed on February 20, 2013, by Phillips 66 Company and Phillips 66 Partners GP LLC, both wholly owned subsidiaries of Phillips 66. A registration statement on Form S-1, as amended through the time of its effectiveness, was filed by the Partnership with the U.S. Securities and Exchange Commission (SEC) and was declared effective on July 22, 2013. On July 23, 2013, Phillips 66 Partners common units began trading on the New York Stock Exchange under the symbol "PSXP." On July 26, 2013, the Partnership completed its initial public offering (the Offering) of 18,888,750 common units (including 2,463,750 common units issued pursuant to the exercise of the underwriters' over-allotment option) representing limited partner interests. After completion of the Offering, the Partnership includes the assets, liabilities and results of operations of certain crude oil and refined petroleum product pipeline systems and associated terminal and storage assets, previously operated and owned by Phillips 66 (as described in more detail below, the Contributed Assets). Prior to the Offering, the assets, liabilities and results of operations of the aforementioned assets related to Phillips 66 Partners LP Predecessor. Unless otherwise stated or the context otherwise indicates, all references to "Phillips 66 Partners," "the Partnership," "us," "our," "we," or similar expressions for time periods prior to the Offering refer to Phillips 66 Partners LP Predecessor, "our Predecessor" for accounting purposes. For time periods subsequent to the Offering, these terms refer to the legal entity Phillips 66 Partners LP.

On April 30, 2012, ConocoPhillips completed the separation of its downstream businesses into Phillips 66. Accordingly, prior to April 30, 2012, the parent company of our Predecessor was ConocoPhillips, and subsequent to April 30, 2012, the parent company of our Predecessor has been Phillips 66. For ease of reference, we refer to Phillips 66 as our Predecessor's parent for the periods prior to April 30, 2012. For purposes of related party transactions, ConocoPhillips is not considered a related party for periods after April 30, 2012.

The Contributed Assets consist of:

Clifton Ridge crude system. A crude oil pipeline, terminal and storage system located in Sulphur, Louisiana, that is a primary source for delivery of crude oil to Phillips 66's Lake Charles Refinery.

Sweeny to Pasadena products system. A refined petroleum product pipeline, terminal and storage system extending from Phillips 66's Sweeny Refinery in Old Ocean, Texas, to our refined petroleum product terminal in Pasadena, Texas, and ultimately connecting to the Explorer and Colonial refined petroleum product pipeline systems and other third-party pipeline and terminal systems. This system is the primary distribution outlet for diesel and gasoline produced at Phillips 66's Sweeny Refinery.

Hartford Connector products system. A refined petroleum product pipeline, terminal and storage system located in Hartford, Illinois, that distributes diesel and gasoline produced at the Wood River Refinery (a refinery owned by a joint venture between Phillips 66 and Cenovus Energy Inc.) to third-party pipeline and terminal systems, including the Explorer pipeline system.

We generate revenue primarily by charging tariffs and fees for transporting crude oil and refined petroleum products through our pipelines, and terminaling and storing crude oil and refined petroleum products at our terminals. Since we do not own any of the crude oil or refined petroleum products that we handle and do not engage in the trading of crude oil or refined petroleum products, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term. Our operations consist of one reportable segment.

Basis of Presentation

For the periods prior to the Offering on July 26, 2013, the financial statements included in this Quarterly Report on Form 10-Q were derived from the financial statements and accounting records of Phillips 66. These financial statements reflect the combined historical results of operations, financial position and cash flows of the Contributed Assets as if such businesses had been combined for all periods presented. All intercompany transactions and accounts within our Predecessor have been eliminated. The assets and liabilities in these financial statements have been reflected on a historical cost basis, because immediately prior to the Offering, all of the assets and liabilities presented were wholly owned by Phillips 66 and were transferred within the Phillips 66 consolidated group. The statement of income for the periods prior to the Offering includes expense allocations for certain functions historically performed by Phillips 66 and not previously allocated to the Contributed Assets, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal,

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information technology and procurement; and operational support services such as engineering and logistics. These allocations were based primarily on relative values of net properties, plants and equipment (PP&E) and equity method investments. Our management believes the assumptions underlying the allocation of expenses from Phillips 66 were reasonable. Nevertheless, the financial statements for periods prior to the Offering may not include all of the actual expenses that would have been incurred had we been a stand-alone publicly traded partnership during the periods presented and may not reflect our actual results of operations, financial position and cash flows had we been a stand-alone publicly traded partnership during the periods prior to the Offering.

All financial information presented for the periods after the Offering represents the consolidated results of operations, financial position and cash flows of the Partnership. Accordingly:

Our consolidated statement of income for the three months ended September 30, 2013, consists of the consolidated results of the Partnership for the period from July 26, 2013, through September 30, 2013, and the combined results of our Predecessor for the period from July 1, 2013, through July 25, 2013. Our consolidated statement of income for the nine months ended September 30, 2013, consists of the consolidated results of the Partnership for the period from July 26, 2013, through September 30, 2013, and the combined results of our Predecessor for the period from January 1, 2013, through July 25, 2013. Our consolidated statement of income for the three and nine months ended September 30, 2012, consists entirely of the combined results of our Predecessor.

Our consolidated balance sheet at September 30, 2013, consists of the consolidated balances of the Partnership, while at December 31, 2012, it consists of the combined balances of our Predecessor.

Our consolidated statement of cash flows for the nine months ended September 30, 2013, consists of the consolidated results of the Partnership for the period from July 26, 2013, through September 30, 2013, and the combined results of our Predecessor for the period from January 1, 2013, through July 25, 2013. Our consolidated statement of cash flows for the nine months ended September 30, 2012, consists entirely of the combined results of our Predecessor.

Our consolidated statement of changes in equity for the nine months ended September 30, 2013, consists of both the combined activity for our Predecessor prior to July 26, 2013, and the consolidated activity for the Partnership completed at and subsequent to the Offering on July 26, 2013. Our consolidated statement of changes in equity for the nine months ended September 30, 2012, consists entirely of the combined activity of our Predecessor.

Note 2—Interim Financial Information

The interim financial information presented in the financial statements included in this report is unaudited and includes all known accruals and adjustments necessary, in the opinion of management, for a fair presentation of our consolidated financial position, results of operations and cash flows for the periods presented. Unless otherwise specified, all such adjustments are of a normal and recurring nature. Certain notes and other information have been condensed or omitted from the interim financial statements included in this report. Therefore, these interim financial statements should be read in conjunction with the audited combined financial statements and notes thereto for the year ended December 31, 2012, and the interim financial information for the quarterly period ended March 31, 2013, both included in the prospectus dated July 22, 2013, as filed with the SEC on July 24, 2013, as well as in conjunction with the interim financial information in our report on Form 10-Q for the quarterly period ended June 30, 2013. The results of operations for the three and nine months ended September 30, 2013, are not necessarily indicative of the results to be expected for the full year.



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## Note 3—Initial Public Offering

On July 23, 2013, the Partnership's common units began trading on the New York Stock Exchange under the symbol "PSXP." On July 26, 2013, the Partnership completed the Offering of 18,888,750 common units to the public at a price of \$23.00 per unit, which included a 2,463,750 common unit over-allotment option that was fully exercised by the underwriters.

In exchange for the Contributed Assets, Phillips 66 received:

16,328,362 common units and 35,217,112 subordinated units, representing an aggregate 71.7 percent limited partner interest.

All of the incentive distribution rights.

4,437,433 general partner units, representing a 2.0 percent general partner interest.

The Partnership received net proceeds of \$404.4 million from the sale of the common units to the public, after deducting underwriting discounts and commissions, structuring fees and other offering costs of \$30.0 million. The Partnership retained the net proceeds from the Offering for general partnership purposes, including potential future acquisitions from Phillips 66 and third parties, as well as potential future expansion capital expenditures.

## Note 4—Properties, Plants and Equipment

Our investment in PP&E, with the associated accumulated depreciation, was:

	Millions of Dollars	
	September 30 2013	December 31 2012
Cost:		
Land	\$4.0	4.0
Buildings and improvements	6.2	5.4
Pipelines and related assets	35.9	35.9
Terminals and related assets	162.7	161.2
Construction-in-progress	3.3	1.7
Gross PP&E	212.1	208.2
Less: accumulated depreciation	(77.1	)(72.4
Net PP&E	\$ 135.0	135.8

There were no material impairments of PP&E for the three- and nine-month periods ended September 30, 2013 and 2012.

## Note 5—Debt

On June 7, 2013, we entered into a \$250 million senior unsecured revolving credit agreement (Credit Agreement) with a syndicate of financial institutions. On July 26, 2013, concurrent with the closing of the Offering, we closed the Credit Agreement. We have the option to increase the overall capacity of the Credit Agreement by up to an additional

\$250 million, subject to, among other things, the consent of the existing lenders whose commitments would be increased or any additional lenders providing such additional capacity. The Credit Agreement has an initial five-year term beginning on the day we entered into the Credit Agreement, and we have the option to extend for two additional one-year terms, subject to certain conditions, including the consent of the lenders holding the majority of the commitments and each lender extending its individual commitment. The Credit Agreement includes sub-facilities for swingline loans and letters of credit.

Outstanding borrowings under the Credit Agreement will bear interest, at our option, at either: (a) the Eurodollar rate in effect from time to time plus the applicable margin; or (b) the base rate (as described in the Credit Agreement) plus the applicable margin. The Credit Agreement also provides for customary fees, including administrative agent fees and commitment fees.

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Commitment fees began to accrue beginning on the date we entered into the Credit Agreement. Prior to our obtaining credit ratings, if ever, the pricing levels for the commitment fee and interest-rate margins will be based on our ratio of total debt to EBITDA (as described in the Credit Agreement) for the prior four fiscal quarters. After we obtain credit ratings, if ever, the pricing levels will be based on our credit ratings in effect from time to time. The Credit Agreement contains representations and warranties, affirmative and negative covenants and events of default that we consider to be customary for an agreement of this type, including a covenant that requires us to maintain a ratio of total debt to EBITDA for the prior four fiscal quarters of not greater than 5.0 to 1.0 as of the last day of each fiscal quarter (5.5 to 1.0 during the specified period following certain acquisitions). If an event of default occurs under the Credit Agreement and is continuing, the lenders may terminate their commitments and declare the amount of all outstanding borrowings, together with accrued interest and all fees, to be immediately due and payable. Among other things and until such time as we have an investment grade rating, we would not be able to make any cash distributions to our unitholders for so long as an event of default is continuing. As of September 30, 2013, no amount had been drawn under the Credit Agreement.

## Note 6—Net Income Per Limited Partner Unit

Net income per unit applicable to common limited partner units and to subordinated limited partner units is computed by dividing the respective limited partners' interest in net income for the period subsequent to the Offering by the weighted-average number of common units and subordinated units outstanding for the period. Because we have more than one class of participating securities, we use the two-class method when calculating the net income per unit applicable to limited partners. The classes of participating securities include common units, subordinated units, general partner units, and incentive distribution rights. Basic and diluted net income per unit are the same because we do not have any potentially dilutive units outstanding for the periods presented.

On October 23, 2013, the Board of Directors of our general partner declared our prorated initial quarterly cash distribution for the period July 26, 2013, through September 30, 2013, of \$0.1548 per unit, or \$11.1 million in total. This distribution is payable November 13, 2013, to unitholders of record as of November 4, 2013.

	Millions of Dollars	
	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Net income subsequent to the Offering	\$ 11.9	11.9
Less: General partner's distribution declared	0.2	0.2
Limited partners' distribution declared on common units*	5.4	5.4
Limited partner's distribution declared on subordinated units*	5.5	5.5
Distribution less than (in excess of) net income subsequent to the Offering	\$0.8	0.8

\*Common and subordinated unitholders, as a group, will each receive distributions totaling \$5.45 million. Differences in the above table are due to rounding impacts.

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	General Partner	Limited Partners' Common Units	Limited Partner's Subordinated Units	Total
Three Months Ended September 30, 2013				
Net income subsequent to the Offering:				
Distribution declared* (millions)	\$0.2	5.4	5.5	11.1
Distribution less than (in excess of) net income subsequent to the Offering (millions)	—	0.4	0.4	0.8
Net income subsequent to the Offering (millions)	\$0.2	5.8	5.9	11.9
Weighted average units outstanding:				
Basic	1,437,433	35,217,112	35,217,112	71,871,657
Diluted	1,437,433	35,217,112	35,217,112	71,871,657
Net income per limited partner unit:				
Basic		\$0.17	0.17	
Diluted		0.17	0.17	
Nine Months Ended September 30, 2013				
Net income subsequent to the Offering:				
Distribution declared* (millions)	\$0.2	5.4	5.5	11.1
Distribution less than (in excess of) net income subsequent to the Offering (millions)	—	0.4	0.4	0.8
Net income subsequent to the Offering (millions)	\$0.2	5.8	5.9	11.9
Weighted average units outstanding:				
Basic	1,437,433	35,217,112	35,217,112	71,871,657
Diluted	1,437,433	35,217,112	35,217,112	71,871,657
Net income per limited partner unit:				
Basic		\$0.17	0.17	
Diluted		0.17	0.17	

\*Common and subordinated unitholders, as a group, will each receive distributions totaling \$5.45 million. Differences in the above table are due to rounding impacts.

## Note 7—Contingencies

From time to time, lawsuits involving a variety of claims that arise in the ordinary course of business may be filed against us. We also may be required to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical, mineral and petroleum substances at various sites. We regularly assess the need for accounting recognition or disclosure of these contingencies. In the case of all known contingencies (other than those related to income taxes), we accrue a liability when the loss is probable and the amount is reasonably estimable. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. We do not reduce these liabilities for potential insurance or third-party recoveries. If applicable, we accrue receivables for probable insurance or other third-party recoveries. In the case of income-tax-related contingencies, we use a cumulative probability-weighted loss accrual in cases where sustaining a tax position is less than certain.



As we learn new facts concerning contingencies, we reassess our position both with respect to accrued liabilities and other potential exposures. Estimates particularly sensitive to future changes include any contingent liabilities recorded for environmental remediation, tax and legal matters. Estimated future environmental remediation costs are subject to change due to such factors as the uncertain magnitude of cleanup costs, the unknown time and extent of such remedial actions that may be

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required, and the determination of our liability in proportion to that of other responsible parties. Estimated future costs related to tax and legal matters are subject to change as events evolve and as additional information becomes available during the administrative and litigation processes.

**Environmental**

We are subject to federal, state and local environmental laws and regulations. When we prepare our consolidated financial statements, we record accruals for environmental liabilities based on management's best estimates, using all information that is available at the time. We measure estimates and base liabilities on currently available facts, existing technology, and presently enacted laws and regulations, taking into account stakeholder and business considerations. When measuring environmental liabilities, we also consider our prior experience in remediation of contaminated sites, other companies' cleanup experience, and data released by the U.S. Environmental Protection Agency (EPA) or other organizations. We consider unasserted claims in our determination of environmental liabilities, and we accrue them in the period they are both probable and reasonably estimable. At December 31, 2012, our Predecessor recorded a total environmental accrual of \$0.3 million. Pursuant to our omnibus agreement, Phillips 66 indemnifies us for these environmental liabilities. As of September 30, 2013, we did not have any accrued environmental liabilities. In the future, we may be involved in environmental assessments, cleanups and proceedings.

**Legal Proceedings**

Under our omnibus agreement, Phillips 66 provides certain services for our benefit, including legal support services, and we pay an operational and administrative support fee for these services. Phillips 66's legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. The process facilitates the early evaluation and quantification of potential exposures in individual cases and enables tracking of those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation management tools and available information about current developments in all our cases, Phillips 66's legal organization regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, is required. As of September 30, 2013, we did not have any accrued contingent liabilities.

**Indemnification**

Under our omnibus agreement, Phillips 66 will indemnify us for certain environmental liabilities, tax liabilities, and litigation and other matters attributable to the ownership or operation of the Contributed Assets prior to the closing of the Offering. Indemnification for any unknown environmental liabilities is limited to liabilities due to occurrences prior to the closing of the Offering and that are identified before the fifth anniversary of the closing of the Offering, subject to a deductible of \$0.1 million per claim before we are entitled to indemnification. Indemnification for litigation matters (other than currently pending legal actions) is subject to an aggregate deductible of \$0.2 million before we are entitled to indemnification. Phillips 66 will also indemnify us for failure to obtain certain consents, licenses and permits necessary to conduct our business, including the cost of curing any such condition, in each case that is identified prior to the fifth anniversary of the closing of the Offering, subject to an aggregate deductible of \$0.2 million before we are entitled to indemnification. We have agreed to indemnify Phillips 66 for events and conditions associated with the ownership or operation of the Contributed Assets that occur on or after the closing of the Offering and for certain environmental liabilities related to the Contributed Assets to the extent Phillips 66 is not required to indemnify us.

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## Note 8—Leases

In connection with the Offering, we entered into certain transportation services agreements and terminal services agreements with Phillips 66 that are considered operating leases under U.S. generally accepted accounting principles. See Note 11—Related Party Transactions for additional information on these agreements. These agreements include escalation clauses to adjust transportation tariffs and terminaling fees to reflect changes in price indices. Revenues from these agreements are recorded within "Transportation and terminaling services—related parties" on our consolidated statement of income.

As of September 30, 2013, future minimum payments to be received related to these agreements were estimated to be:

	Millions of Dollars
2014	\$95.2
2015	95.2
2016	95.5
2017	95.3
2018	76.7
2019 and thereafter	350.6
Total	\$808.5

## Note 9—Employee Benefit Plans

Employees of Phillips 66 who directly or indirectly support our operations participate in the pension, postretirement health insurance, and defined contribution benefit plans sponsored by Phillips 66, which includes other subsidiaries of Phillips 66. Prior to the Offering, costs associated with benefit plans included the cost allocated to us from Phillips 66's transportation organization and for employees of Phillips 66 who are fully dedicated to supporting our business. Our Predecessor recorded its share of pension and postretirement costs of \$0.1 million and \$0.6 million for the period from July 1, 2013, through July 25, 2013, and the period from January 1, 2013, to July 25, 2013, respectively, compared with \$0.2 million and \$0.9 million for the three and nine months ended September 30, 2012. Our Predecessor's share of defined contribution benefit plan costs for the period from July 1, 2013, through July 25, 2013, and the period from January 1, 2013, through July 25, 2013, was \$0.1 million and \$0.3 million, respectively, compared with \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2012. These costs are included in either "General and administrative expenses" or "Operating and maintenance expenses" on our consolidated statement of income, depending on the nature of the employee's role in our operations.

## Note 10—Unit-Based Compensation

The Board of Directors of our general partner adopted the Phillips 66 Partners LP 2013 Incentive Compensation Plan (the ICP Plan) in the third quarter of 2013. Awards under the ICP Plan are available for officers, directors and employees of the general partner or its affiliates, and any consultants or other individuals who perform services for the Partnership. The ICP Plan allows for the grant of unit awards, restricted units, phantom units, unit options, unit appreciation rights, distribution equivalent rights, profits interest units and other unit-based awards. The ICP Plan limits the number of common units that may be delivered pursuant to awards to 2,500,000, subject to proportionate adjustment in the event of unit splits and similar events.

Through September 30, 2013, only phantom units have been issued under the ICP Plan. A phantom unit entitles the grantee to receive cash equal to the fair market value of a common unit on the settlement date. From July 26, 2013, through September 30, 2013, 2,171 phantom units were granted to three non-employee directors of Phillips 66 Partners. Phantom units granted to non-employee directors vest immediately at the time of the grant, because they are non-forfeitable. These phantom units do not convey voting rights, but recipients of these units do participate in quarterly cash distributions, receiving, for each unit held, cash equal to any cash distribution paid on a common unit between the grant date and the date that the phantom units are settled.

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Note 11—Related Party Transactions

Commercial Agreements

We entered into multiple commercial agreements with Phillips 66 and amended an existing commercial agreement with Phillips 66 at the closing of the Offering. Under these long-term, fee-based agreements, we provide transportation, terminaling and storage services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil and refined petroleum products.

The commercial agreements with Phillips 66 include:

A 10-year transportation services agreement under which we charge Phillips 66 for transporting crude oil on our Clifton Ridge to Lake Charles Refinery pipeline, our Pecan Grove to Clifton Ridge pipeline and our Shell to Clifton Ridge pipeline.

A 10-year transportation services agreement under which we charge Phillips 66 for transporting diesel, gasoline and other refined petroleum products on our two 60-mile Sweeny to Pasadena pipelines.

A 23-year throughput and deficiency agreement under which we charge Phillips 66 for transporting gasoline, diesel, jet fuel and other refined petroleum products on our Wood River to Hartford pipeline and our Hartford to Explorer pipeline.

- A 5-year terminal services agreement under which we charge Phillips 66 for offloading ships and barges at our Clifton Ridge ship dock and Pecan Grove barge dock and for unloading trucks and storing crude oil at our Clifton Ridge terminal.

A 5-year terminal services agreement under which we charge Phillips 66 for providing terminaling services at our Pasadena and Hartford terminals and at our Hartford barge dock.

Other than our Hartford Connector throughput and deficiency agreement (Hartford Connector T&D), each of our transportation services agreements includes a 10-year initial term, and Phillips 66 has the option to renew each agreement for up to two additional five-year terms. Our Hartford Connector T&D, which was amended in connection with the Offering, has a 23-year term that began in January 2008 and will expire on December 31, 2030. Each of our terminal services agreements includes a five-year initial term, and Phillips 66 has the option to renew each agreement for up to three additional five-year terms.

Under each of our transportation services agreements, if Phillips 66 fails to transport its minimum throughput volume during any quarter, then Phillips 66 will pay us a deficiency payment based on the calculation described in the agreement. If the minimum capacity of the pipeline(s) falls below the level of Phillips 66's commitment at any time (other than outages caused by our planned maintenance) or if capacity on the pipeline(s) is required to be allocated among shippers as a result of volume nominations exceeding available capacity, Phillips 66's minimum throughput commitment may be proportionately reduced until such time that the available capacity is sufficient to fulfill Phillips 66's minimum volume commitment. We may elect to adjust our tariffs on an annual basis and the new tariffs become effective in July of each year. Under each of our transportation services agreements other than our Hartford Connector T&D, if we agree to make any capital expenditures at Phillips 66's request, Phillips 66 will reimburse us for, or we will have the right under certain circumstances to file for an increased tariff rate to recover, the actual amount we incur for such expenditures.

Under our terminal services agreements, Phillips 66 is obligated to throughput or store minimum volumes of crude oil and refined petroleum products and pay us terminaling fees, as well as fees for providing related ancillary services

(such as ethanol and biodiesel blending and additive injection) at our terminals. If Phillips 66 fails to meet its minimum volume commitment on certain terminaling services during any quarter, then Phillips 66 will pay us a deficiency payment based on the calculation described in each agreement. Beginning on January 1, 2014, we may adjust our per-barrel fees annually on January 1 of each year.

These commercial agreements include provisions that permit Phillips 66 to suspend, reduce or terminate its obligations under the applicable agreement if certain events occur. Under all of our commercial agreements other than our Hartford Connector T&D, these events include Phillips 66 deciding to completely suspend refining operations at a refinery that is supported by our assets for at least twelve consecutive months, unless it publicly announces its intent to resume operations at a refinery prior to the expiration of the 12-month notice period, and, under all of our commercial agreements, these events include certain force majeure events that would prevent us or Phillips 66 from performing our respective obligations under the applicable agreement.

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In connection with the Offering, we entered into two storage and stevedoring services agreements with Phillips 66. Under these agreements, we provide Phillips 66 certain storage, stevedoring, sampling and testing services and such other services as we and Phillips 66 may mutually agree upon from time to time, and Phillips 66 commits to provide us with minimum storage volumes of lubricant base stocks at our Hartford and Pecan Grove terminals.

In connection with the Offering, we also entered into naphtha storage services agreements with WRB Refining LP and Phillips 66. Under these agreements, we will provide certain storage, sampling and testing services and such other services as we and WRB or Phillips 66, as applicable, may mutually agree upon from time to time, and WRB and Phillips 66 commit to provide us with minimum storage volumes of naphtha at our Hartford terminal.

With respect to periods prior to the Offering, our Predecessor was part of the consolidated operations of Phillips 66, and substantially all of our Predecessor's revenues were derived from transactions with Phillips 66 and its affiliates. The contractual rates used for these revenue transactions may be materially different than rates we might have received had they been transacted with third parties. With effect from the Offering, we entered into several commercial agreements with Phillips 66 as discussed above, under which Phillips 66 pays us fees for transporting, terminaling and storing crude oil and refined products.

Operational Services Agreement

In connection with the Offering, we entered into an operational services agreement with Phillips 66. Under this agreement, we reimburse Phillips 66 for providing certain operational services to us in support of our pipelines, terminaling and storage facilities. These services include routine and emergency maintenance and repair services, routine operational activities, routine administrative services, construction and related services and such other services as we and Phillips 66 may mutually agree upon from time to time. The agreement has an initial term of five years and will continue in full force and effect thereafter unless terminated by either party.

Omnibus Agreement

In connection with the Offering, we entered into an omnibus agreement with Phillips 66, certain of its subsidiaries and our general partner. This agreement addresses our payment of an annual operating and administrative support fee, in an initial amount of \$13.7 million (prorated for the first year of operations), and our obligation to reimburse Phillips 66 for all other direct or allocated costs and expenses incurred by Phillips 66 in providing general and administrative services. It also addresses our right of first offer to acquire Phillips 66's direct one-third equity interest in each of DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC. Additionally, the omnibus agreement addresses Phillips 66's indemnification to us and our indemnification to Phillips 66 for certain environmental and other liabilities related to the Contributed Assets, and the prefunding of certain projects by Phillips 66. Further, it addresses the granting of a license from Phillips 66 to us with respect to the use of certain Phillips 66 trademarks.

Related Party Transactions

Significant related-party transactions included in general and administrative expenses and operating and maintenance expenses were:

	Millions of Dollars			
	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
General and administrative expenses	\$2.5	2.3	6.9	5.4
Operating and maintenance expenses	2.6	1.7	6.7	6.2
Total	\$5.1	4.0	13.6	11.6

Our management believes the charges allocated to our Predecessor prior to the Offering were a reasonable reflection of the utilization of services provided. Howev