PHILLIPS 66 PARTNERS LP
Form 10-K
February 12, 2016
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2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015
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 incorporation or organization)	(I.R.S. Employer Identification No.)

3010 Briarpark Drive, Houston, Texas 77042
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (855) 283-9237
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units, Representing Limited Partnership Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	[X] Yes [ ] No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	[ ] Yes [X] No
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.	[X] 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).	[X] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any	[ ]

amendment to this Form 10-K.

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 [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]

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

The aggregate market value of the registrant’s common units held by non-affiliates of the registrant on June 30, 2015, the last business day of the registrant’s most recently completed second fiscal quarter, based on the closing price on that date of $72.00, was $1,720 million. This figure excludes common units beneficially owned by the directors and executive officers of Phillips 66 Partners GP LLC, our General Partner, and Phillips 66 and its subsidiaries.

Documents incorporated by reference:

None

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Unless the context otherwise indicates, all references to "Phillips 66 Partners LP," "the Partnership," "us," "our," "we," or simi expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries, and references to "Phillips 66" include its consolidated subsidiaries. This Annual Report on Form 10-K contains forward-looking statements including, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressio forward-looking statements. The Partnership does not undertake to update, revise or correct any forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Partnership's disclosures under the heading "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS."

PART I

Items 1 and 2. BUSINESS AND PROPERTIES

ORGANIZATIONAL STRUCTURE

Phillips 66 Partners LP, headquartered in Houston, Texas, is a Delaware limited partnership formed in 2013 by Phillips 66 Company and Phillips 66 Partners GP LLC (our General Partner), both wholly owned subsidiaries of Phillips 66. On July 26, 2013, we completed our initial public offering (the Offering), and our common units trade on the New York Stock Exchange (NYSE) under the symbol PSXP. On August 1, 2015, Phillips 66 Company transferred all of its limited partner interest in us and its 100 percent interest in Phillips 66 Partners GP LLC to its wholly owned subsidiary, Phillips 66 Project Development Inc. (PDI). As of December 31, 2015, Phillips 66, through PDI, owned 58,349,042 common units, representing an aggregate 69.3 percent limited partner interest, as well as a 100 percent interest in our General Partner, which owned 1,683,425 general partner units, representing a 2 percent general partner interest.

We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and natural gas liquids (NGL) pipelines, terminals and other transportation and midstream assets.

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, rail racks and storage facilities. In addition, our equity affiliates generate revenue primarily from transporting NGL and refined petroleum products. Since we do not own any of the crude oil, refined petroleum products and NGL we handle, and do not engage in the trading of these commodities, 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.

We have multiple commercial agreements with Phillips 66, including transportation services agreements, terminal services agreements, storage services agreements and rail terminal services agreements. Under these long-term, fee-based agreements, we provide transportation, terminaling, storage and rail terminal services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil and refined petroleum products or minimum monthly capacity or service fees. We believe these agreements promote stable and predictable cash flows and they are the source of a substantial portion of our revenue. We also have several other agreements with

Phillips 66, including an amended omnibus agreement and an operational services agreement. See Note 20—Related Party Transactions, in the Notes to Consolidated Financial Statements, for a summary of all related party agreements.

Our operations consist of one reportable segment and are all conducted in the United States. See Item 8. Financial Statements and Supplementary Data, for financial information on our operations and assets.

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2015 DEVELOPMENTS

Bayou Bridge Joint Venture Acquisition
In December 2015, we acquired Phillips 66's 40 percent interest in Bayou Bridge Pipeline, LLC (Bayou Bridge Pipeline) for total consideration of $69.6 million, consisting of the assumption of a $34.8 million note payable to Phillips 66 that was immediately paid in full and the issuance of common units to PDI and general partner units to our General Partner. The transaction closed on December 1, 2015.

Cross-Channel Connector Products System Project
In October 2015, the Cross-Channel Connector Products System began providing shippers with a connection from our Pasadena terminal to third-party systems with water access on the Houston Ship Channel.

Eagle Ford Gathering System Project
In September 2015, full operations commenced at our crude oil gathering system connecting Eagle Ford production to third-party pipelines.

Sand Hills/Southern Hills/Explorer Equity Investment Acquisition
In March 2015, we acquired Phillips 66's one-third equity interests in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), as well as Phillips 66's 19.46 percent equity interest in Explorer Pipeline Company (Explorer). On February 23, 2015, we closed on a public offering of unsecured senior notes in an aggregate principal amount of $1.1 billion. On February 23, 2015, we closed on a public offering of 5,250,000 common units for total proceeds (net of underwriting discounts) of $384.5 million. These offerings were used to fund the acquisition of Sand Hills, Southern Hills and Explorer and for general partnership purposes.

Formation of Bakken Joint Ventures
In January 2015, we closed on the formation of two joint ventures with Paradigm Energy Partners LLC (Paradigm), to which we contributed cash and a North Dakota crude oil rail terminal growth project previously acquired from Phillips 66.

SUMMARY OF ASSETS AND OPERATIONS
At December 31, 2015, our assets consisted of the following systems:

- Clifton Ridge Crude System. A crude oil pipeline, terminal and storage system located in Sulphur, Louisiana, that is the 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 Phillips 66's jointly owned and operated Wood River Refinery to the Explorer pipeline system and third-party pipeline and terminal systems.

- Gold Line Products System. A refined petroleum product pipeline system that runs from the Phillips 66 jointly owned and operated refinery in Borger, Texas, to Cahokia, Illinois, with access to Phillips 66's Ponca City Refinery, as well as two parallel lateral lines that run from Paola, Kansas, to Kansas City, Kansas. The system includes four terminals located at Wichita, Kansas; Kansas City, Kansas; Jefferson City, Missouri; and Cahokia, Illinois.

- Medford Spheres. Two refinery-grade propylene storage spheres located in Medford, Oklahoma, that provide an outlet for delivery of refinery-grade propylene from Phillips 66's Ponca City Refinery, through interconnections with third-party pipelines, to Mont Belvieu, Texas.

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- Bayway Rail Rack. A four-track, 120-rail-car crude oil receiving facility located in Linden, New Jersey, within Phillips 66's Bayway Refinery. The rail rack unloads crude oil and delivers it to storage tanks within the Bayway Refinery.

- Ferndale Rail Rack. A two-track, 54-rail-car crude oil receiving facility located in Ferndale, Washington, adjacent to Phillips 66's Ferndale Refinery. The rail rack unloads crude oil and delivers it to storage tanks at the Ferndale Refinery.

- Cross-Channel Connector Products System. A refined petroleum product pipeline originating at our Pasadena terminal in Pasadena, Texas, running to terminal facilities located at Kinder Morgan's Pasadena terminal and its Galena Park Station in Galena Park, Texas, and terminating at the Holland Avenue Junction in Galena Park, Texas, where it connects to Magellan's Galena Park terminal and South System Pipeline. This system provides shippers with a connection from our Pasadena terminal to third-party systems with water access on the Houston Ship Channel. A third-party origination location and connection is anticipated to be completed and begin operations in the first half of 2016, which would provide additional product connectivity to our Cross-Channel Connector Products System.

- Eagle Ford Gathering System. In September 2015, full operations commenced on this crude oil gathering system that consists of two pipelines and a storage facility near Helena and Tilden, Texas. The gathering system connects Eagle Ford production to third-party pipelines.

- Sand Hills/Southern Hills/Explorer Pipeline Joint Ventures. We own one-third equity interests in Sand Hills and Southern Hills and a 19.46 percent equity interest in Explorer. The Sand Hills Pipeline transports NGL from plants in the Permian and Eagle Ford basins to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu, Texas, market hub. The Southern Hills Pipeline transports NGL from the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub. The Explorer Pipeline is a refined petroleum product pipeline extending from the Texas Gulf Coast to Indiana, transporting refined petroleum products to more than 70 major cities in 16 U.S. states.

- Bakken Joint Ventures. We participate in two joint ventures with Paradigm to develop midstream logistics infrastructure in North Dakota. We have a 70 percent ownership interest in Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal) and a 50 percent ownership interest in Paradigm Pipeline LLC (Paradigm Pipeline). The joint ventures are developing the Palermo Rail Terminal and the Sacagawea Pipeline. The terminal began rail-car loading from truck deliveries at the end of 2015. The pipeline is expected to start up in 2016.

- Bayou Bridge Joint Venture. A 40 percent interest in Bayou Bridge Pipeline, LLC, a joint venture that is constructing a pipeline system to deliver crude oil from the Beaumont, Texas, area to Lake Charles, Louisiana, which is expected to begin commercial operations by the end of first-quarter 2016. Further service from Lake Charles to St. James, Louisiana, is scheduled to commence operations in the second half of 2017.

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Pipeline Assets

The following table sets forth certain information regarding our wholly owned pipeline assets as of December 31, 2015. Each system listed below has an associated commercial agreement with Phillips 66.

System Name	Diameter	Length (Miles)	Active Throughput Capacity (Thousands of Barrels Daily)	Commodity Handled	Associated Phillips 66 Refinery
Clifton Ridge Crude System					
Clifton Ridge to Lake Charles Refinery	20”	10	260	Crude Oil	Lake Charles
Pecan Grove to Clifton Ridge	12”	0.6	56	Crude Oil	Lake Charles
Shell to Clifton Ridge	20”	0.6	312	Crude Oil	Lake Charles
Sweeny to Pasadena Products System					
Sweeny Refinery to Pasadena, Texas	12”	60	130	Refined Petroleum Products	Sweeny
Sweeny Refinery to Pasadena, Texas	18”	60	164	Refined Petroleum Products	Sweeny
Hartford Connector Products System					
Wood River Refinery to Hartford, Illinois	12”	3	80	Refined Petroleum Products	Wood River
Hartford, Illinois to Explorer Pipeline	24”	1	430	Refined Petroleum Products	Wood River
Gold Line Products System					
Borger Refinery to Wichita, Kansas	16”	273	120	Refined Petroleum Products	Borger
Wichita, Kansas to Paola, Kansas	16”	143	132	Refined Petroleum Products	Borger/ Ponca City
Paola, Kansas to East St. Louis, Illinois	8”-12”	265	53	Refined Petroleum Products	Borger/ Ponca City
Paola, Kansas to Kansas City, Kansas	8”	53	24	Refined Petroleum Products	Borger/ Ponca City
Paola, Kansas to Kansas City, Kansas	10”	53	72	Refined Petroleum Products	Borger/ Ponca City
Cross-Channel Connector Products System					
Pasadena, Texas to Galena Park, Texas	20”	5.2	180		Sweeny

				Refined Petroleum Products	
Eagle Ford Gathering System					
Helena, Texas	6’’	6	20	Crude Oil	—
Tilden, Texas to Whitsett, Texas	6”, 10”	22	34	Crude Oil	—

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The following table sets forth certain information regarding our equity investment pipeline assets as of December 31, 2015.

System Name	Ownership Interest		Diameter	Length (Miles)	Active Throughput Capacity (Thousands of Barrels Daily)	Commodity Handled
Explorer	19.46	%	24", 28"	1,830	660	Refined Petroleum Products
Sand Hills	33.34	%	20"	1,190	250	NGL
Southern Hills	33.34	%	20"	940	175	NGL

Terminal, Rail Rack and Storage Assets

The following table sets forth certain information regarding our wholly owned terminal, rail rack and storage assets as of December 31, 2015, each of which currently has an associated commercial agreement with Phillips 66:

System Name	Tank Shell Storage Capacity (Thousands of Barrels)	Active Terminaling Capacity* (Thousands of Barrels Daily)	Commodity Handled	Associated Phillips 66 Refinery
Clifton Ridge Crude System				
Clifton Ridge Terminal	3,410	12	Crude Oil	Lake Charles
Pecan Grove Storage	142	N/A	Crude Oil	Lake Charles
Sweeny to Pasadena Products System				
Pasadena Terminal	3,210	65	Refined Petroleum Products	Sweeny
Hartford Connector Products System				
Hartford Terminal	1,075	25	Refined Petroleum Products	Wood River
Gold Line Products System				
East St. Louis Terminal	2,085	78	Refined Petroleum Products	Borger/ Ponca City
Jefferson City Terminal	110	16	Refined Petroleum Products	Borger/ Ponca City
Kansas City Terminal	1,294	66		Borger/

			Refined Petroleum Products	Ponca City
Wichita North Terminal	679	19	Refined Petroleum Products	Borger/ Ponca City
Medford Spheres	70	N/A	Refined Petroleum Products	Ponca City
Bayway Rail Rack	N/A	75	Crude Oil	Bayway
Ferndale Rail Rack	N/A	30	Crude Oil	Ferndale

*Active terminaling capacity represents the amount of loading and unloading capacity currently available for use by our customers.

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The following table sets forth certain information regarding our equity investment terminal, rail rack and storage assets as of December 31, 2015.

System Name	Ownership Interest		Tank Shell Storage Capacity (Thousands of Barrels)	Active Terminaling Capacity* (Thousands of Barrels Daily)	Commodity Handled
Palermo Terminal	70	%	206	100	Crude Oil

*Active terminaling capacity represents the amount of rail car loading capacity currently available for use by our customers.

Marine Assets

The following table sets forth certain information regarding our marine assets as of December 31, 2015, each of which currently has an associated commercial agreement with Phillips 66:

System Name	Dock Throughput Capacity (Thousands of Barrels Hourly)	Commodity Handled	Associated Phillips 66 Refinery
Clifton Ridge Crude System			
Clifton Ridge Ship Dock	48	Crude Oil	Lake Charles
Pecan Grove Barge Dock	6	Crude Oil; Lubricant Base Stocks	Lake Charles
Hartford Connector Products System			
Hartford Barge Dock	3	Dyed Diesel; Naphtha; Lubricant Base Stocks	Wood River

COMMERCIAL AND OTHER AGREEMENTS WITH PHILLIPS 66

Many of our assets are physically connected to, and integral to the operation of, Phillips 66's wholly owned Lake Charles, Sweeny, Ponca City, Bayway and Ferndale refineries and its jointly owned Wood River and Borger refineries. We have entered into multiple commercial agreements with Phillips 66, which include minimum volume commitments and inflation escalators. Currently, those agreements are the source of a significant portion of our revenue. 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 volumes of crude oil and refined petroleum products or minimum monthly capacity or service fees.

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The following table sets forth minimum commitment information regarding certain commercial agreements with Phillips 66 as of December 31, 2015.

Agreement	Phillips 66 Minimum Volume Commitment (Thousands of Barrels Daily)[1]
Transportation Services Agreements	
Clifton Ridge Transportation Services Agreement	
Clifton Ridge to Lake Charles refinery pipeline	190
Sweeny to Pasadena Transportation Services Agreement	
Sweeny to Pasadena pipelines	200
Hartford Connector Throughput and Deficiency Agreement	
Wood River refinery to Hartford pipeline[2]	55
Hartford to Explorer pipeline[2]	55
Gold Line Transportation Services Agreement	
Borger refinery to Wichita pipeline	54
Wichita to Kansas City pipeline	45
Wichita to Jefferson City pipeline	7
Wichita to East St. Louis pipeline	10
Eagle Ford Gathering Throughput and Deficiency Agreement	
Helena pipeline	3.5
Tilden pipeline	16
Terminal and Storage Services Agreements	
Clifton Ridge Terminal Services Agreement	
Clifton Ridge terminal storage	190
Clifton Ridge ship dock / Pecan Grove barge dock	150
Hartford and Pasadena Terminal Services Agreement	
Pasadena terminal	135
Pasadena and Hartford terminal truck racks	55
Hartford Terminal Dock Services Throughput and Deficiency Agreement	
Hartford terminal dock	4.5
Gold Line Terminal Services Agreement	
Wichita North, Kansas City, Jefferson City and East St. Louis terminals truck racks	80
Gold Line Storage Services Agreement	
Wichita North, Kansas City and East St. Louis terminals[3]	1,010
Medford Spheres Storage Services Agreement	
Medford Spheres[3]	70
Bayway Terminal Services Agreement	
Bayway Rail Rack[3]	75
Ferndale Terminal Services Agreement	
Ferndale Rail Rack[3]	30

[1] Includes capacity reservation and capacity-based monthly fee arrangements.
[2] Total volume commitment includes both Phillips 66 minimum volume commitment and Phillips 66 capacity reservation.
[3] Capacity upon which minimum monthly fee is calculated.

See the “Commercial Agreements,” “Amended Operational Services Agreement,” “Amended Omnibus Agreement” and “Tax Sharing Agreement” sections of Note 20—Related Party Transactions, in the Notes to Consolidated Financial Statements, for summaries of the terms of these and other agreements with Phillips 66.

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COMPETITION

Many of our assets are subject to contractual relationships with Phillips 66 under our commercial agreements and are directly connected to Phillips 66's owned or operated refineries. As a result, we believe that our crude oil and refined petroleum product pipelines, terminals, storage facilities and rail racks will not face significant competition from other pipelines, terminals and storage facilities for Phillips 66's crude oil or refined petroleum product transportation requirements to and from the refineries we support. If Phillips 66's customers were to reduce their purchases of refined petroleum products, Phillips 66 might only ship the minimum volumes through our pipelines (or pay the shortfall payment if it does not ship the minimum volumes), which would cause a decrease in our revenue. Phillips 66 competes with integrated petroleum companies, which have their own crude oil supplies and distribution and marketing systems, as well as with independent refiners, many of which also have their own distribution and marketing systems. Phillips 66 also competes with other suppliers that purchase refined petroleum products for resale. The Sand Hills, Southern Hills and Explorer pipelines compete with other interstate and intrastate pipelines, rail and truck fleet operations, including those affiliated with major integrated petroleum and petrochemical companies, in terms of transportation fees, reliability and quality of customer service. Competition in any particular geographic area is affected significantly by the volume of products produced by refineries in that area, the volume of crude oil and natural gas liquids gathered and transported, and by the availability of products and the cost of transportation to that area from distant locations.

RATES AND SAFETY REGULATIONS

Our common carrier pipeline systems are subject to regulation by various federal, state and local agencies. The Federal Energy Regulatory Commission (FERC) regulates interstate transportation on our common carrier pipeline systems under the Interstate Commerce Act (ICA), the Energy Policy Act of 1992 (EPAct 1992) and the rules and regulations promulgated under those laws. FERC regulations require that rates for interstate service pipelines that transport crude oil and refined petroleum products (collectively referred to as "petroleum pipelines") and certain other liquids be just and reasonable and must not be unduly discriminatory or confer any undue preference upon any shipper. FERC regulations also require interstate common carrier petroleum pipelines to file with FERC and publicly post tariffs stating their interstate transportation rates and terms and conditions of service. Under the ICA, FERC or interested persons may challenge existing or changed rates or services. FERC is authorized to investigate such charges and may suspend the effectiveness of a new rate for up to seven months. A successful rate challenge could result in a common carrier paying refunds together with interest for the period that the rate was in effect. FERC may also order a pipeline to change its rates, and may require a common carrier to pay shippers reparations for damages sustained for a period up to two years prior to the filing of a complaint. EPAct 1992 deemed certain interstate petroleum pipeline rates then in effect to be just and reasonable under the ICA. These rates are commonly referred to as "grandfathered rates." Our rates in effect at the time of the passage of EPAct 1992 for interstate transportation service were deemed just and reasonable and therefore are grandfathered. New rates have since been established after EPAct 1992 for certain pipeline systems. FERC may change grandfathered rates upon complaint only after it is shown that:

- A substantial change has occurred since enactment in either the economic circumstances or the nature of the services that were a basis for the rate.
- The complainant was contractually barred from challenging the rate prior to enactment of EPAct 1992 and filed the complaint within 30 days of the expiration of the contractual bar.
- A provision of the tariff is unduly discriminatory or preferential.

EPAct 1992 required FERC to establish a simplified and generally applicable methodology to adjust tariff rates for inflation for interstate petroleum pipelines. As a result, FERC adopted an indexing rate methodology which, as currently in effect, allows common carriers to change their rates within prescribed ceiling levels that are tied to changes in the Producer Price Index (PPI) for finished goods. FERC's indexing methodology is subject to review every five years. During the five-year period commencing July 1, 2011, and ending June 30, 2016, common carriers charging indexed rates are permitted to adjust their indexed ceilings annually by PPI plus 2.65 percent. The indexing methodology is applicable to existing rates, including grandfathered rates, with the exclusion of market-based rates. In December 2015, FERC issued a Final Order concluding its five-year review of the indexing methodology. FERC established an index level permitting annual adjustment of the indexed ceiling by PPI for finished goods plus 1.23 percent for the five-year

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period commencing July 1, 2016, and ending June 30, 2021. A pipeline is not required to raise its rates up to the indexed ceiling, but it is permitted to do so and rate increases made under the index are presumed to be just and reasonable unless a protesting party can demonstrate that the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline’s increase in costs. Under the indexing rate methodology, in any year in which the index is negative, pipelines must file to lower their rates if those rates would otherwise be above the rate ceiling.

While common carriers often use the indexing methodology to change their rates, they may elect to support proposed rates by using other methodologies such as cost-of-service rate making, market-based rates and settlement rates. A pipeline can follow a cost-of-service approach when seeking to increase its rates above the rate ceiling (or when seeking to avoid lowering rates to the reduced rate ceiling). A common carrier can charge market-based rates if it establishes that it lacks significant market power in the affected markets. In addition, a common carrier can establish rates under settlement if agreed upon by all current shippers. We have used indexed rates and settlement rates for our different pipeline systems. If we used cost-of-service rate making to establish or support our rates, the issue of the proper allowance for federal and state income taxes could arise. In 2005, FERC issued a policy statement stating that it would permit common carriers, among others, to include an income tax allowance in cost-of-service rates to reflect actual or potential tax liability attributable to a regulated entity’s operating income, regardless of the form of ownership. Under FERC’s policy, a tax pass-through entity seeking such an income tax allowance must establish that its partners or members have an actual or potential income tax liability on the regulated entity’s income. Whether a pipeline’s owners have such actual or potential income tax liability is subject to review by FERC on a case-by-case basis. Although this policy is generally favorable for common carriers that are organized as pass-through entities, it still entails rate risk due to the FERC’s case-by-case review approach. The application of this policy, as well as any decision by FERC regarding our cost of service, may also be subject to review in the courts. Intrastate services provided by certain of our pipeline systems are subject to regulation by state regulatory authorities. These state regulatory authorities use a complaint-based system of regulation, both as to matters involving rates and priority of access. State regulatory authorities could limit our ability to increase our rates or to set rates based on our costs or order us to reduce our rates and require the payment of refunds to shippers. FERC and state regulatory authorities generally have not investigated rates, unless the rates are the subject of a protest or a complaint. Phillips 66 has agreed not to contest our tariff rates applicable for our transportation services agreements for the term of those agreements. However, FERC or a state regulatory authority could investigate our rates on its own initiative or at the urging of a third party, and this could lead to a refund of previously collected revenue.

Pipeline Safety
Our assets are subject to increasingly strict safety laws and regulations. The transportation and storage of crude oil and refined petroleum products involves a risk that hazardous liquids may be released into the environment, potentially causing harm to the public or the environment. In turn, any such incidents may result in substantial expenditures for response actions, significant government penalties, liability to government agencies for natural resources damages, and significant business interruption. The United States Department of Transportation (DOT) has adopted safety regulations with respect to the design, construction, operation, maintenance, inspection and management of our assets. These regulations contain requirements for the development and implementation of pipeline integrity management programs, which include the inspection and testing of pipelines and necessary maintenance or repairs. These regulations also require that pipeline operation and maintenance personnel meet certain qualifications and that pipeline operators develop comprehensive spill response plans. We are subject to regulation by the DOT under the Hazardous Liquid Pipeline Safety Act of 1979 (the HLPSA). The HLPSA delegated to DOT the authority to develop, prescribe, and enforce minimum federal safety standards for the transportation of hazardous liquids by pipeline. Congress also enacted the Pipeline Safety Act of 1992 (the PSA), which added the environment to the list of statutory factors that must be considered in establishing safety standards for hazardous liquid pipelines, required regulations be

issued to define the term “gathering line” and establish safety standards for certain “regulated gathering lines,” and mandated that regulations be issued to establish criteria for operators to use in identifying and inspecting pipelines located in High Consequence Areas (HCAs), defined as those areas that are unusually sensitive to environmental damage, that cross a navigable waterway, or that have a high population density. In 1996, Congress enacted the Accountable Pipeline Safety and Partnership Act (the APSPA), which limited the operator identification requirement mandate to pipelines that cross a waterway where a substantial likelihood of commercial navigation exists, required that certain areas where a pipeline rupture would likely cause permanent or long-term environmental damage be considered in determining whether an area is unusually sensitive to environmental damage, and mandated that regulations be issued for the qualification and testing of certain pipeline personnel. In the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006, Congress required mandatory inspections for certain U.S. crude oil and natural gas transmission pipelines in HCAs and mandated that regulations be issued for low-stress hazardous liquid pipelines and pipeline control room management. We are also subject to the Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011, which increased penalties for safety violations, established additional safety requirements for newly constructed pipelines, and required studies of certain safety issues that could result in the adoption of new regulatory requirements for existing pipelines.

DOT’s Pipeline and Hazardous Materials Safety Administration (PHMSA) administers compliance with these statutes and has promulgated comprehensive safety standards and regulations for the transportation of hazardous liquid by pipeline, including regulations for the design and construction of new pipeline systems or those that have been relocated, replaced, or otherwise changed; pressure testing of new pipelines; operation and maintenance of pipeline systems, including inspecting and reburying pipelines in the Gulf of Mexico and its inlets, establishing programs for public awareness and damage prevention, and managing the operation of pipeline control rooms; protection of steel pipelines from the adverse effects of internal and external corrosion; and integrity management requirements for pipelines in HCAs. In addition, in 2015, PHMSA issued an advance notice of proposed rulemaking, entitled Pipeline Safety: Safety on Hazardous Liquids Pipelines, on a range of topics relating to the safety of crude oil and other hazardous liquids pipelines. Among other items, the advance notice of proposed rulemaking addresses effective procedures that hazardous liquid pipeline operators can use to improve the protection of HCAs and other vulnerable areas along their hazardous liquid onshore pipelines. PHMSA will be considering whether changes are needed to the regulations covering hazardous liquid onshore pipelines, whether other areas should be included as HCAs for integrity management protection, what the repair time frames should be for areas outside of HCAs that are assessed as part of the integrity management program, whether leak detection standards are necessary, whether valve spacing requirements are needed on new construction or existing pipelines and if PHMSA should extend regulation to certain pipelines currently exempt from federal safety regulations. We do not anticipate that we would be impacted by these regulatory initiatives to any greater degree than other similarly situated competitors if they are implemented. In addition, PHMSA has published an advisory bulletin providing guidance on verification of records related to pipeline maximum operating pressure. PHMSA is considering a rulemaking on this topic referred to as the Integrity Verification Process. We have performed hydrostatic tests of our facilities to confirm the maximum operating pressure and do not expect that any final rulemaking by PHMSA regarding verification of maximum operating pressure would materially affect our operations or revenue.

We monitor the structural integrity of our pipelines through a program of periodic internal assessments using high resolution internal inspection tools, as well as hydrostatic testing and direct assessment that conforms to regulatory standards. We accompany these assessments with a review of the data and repair anomalies, as required, to ensure the integrity of the pipeline. We then utilize sophisticated risk algorithms and a comprehensive data integration effort to ensure that the highest-risk pipelines receive the highest priority for scheduling subsequent integrity assessments. We use external coatings and impressed-current cathodic protection systems to protect against external corrosion. We conduct all cathodic protection work in accordance with National Association of Corrosion Engineers standards. We continually monitor, test, and record the effectiveness of these corrosion inhibiting systems.

Product Quality Standards

Refined petroleum products that we transport are generally sold by our customers for use by the public. Various federal, state and local agencies have the authority to prescribe product quality specifications for products. Changes in product quality specifications or blending requirements could reduce our throughput volumes, require us to incur additional handling costs or require capital expenditures. For example, different product specifications for different markets affect the fungibility of the products in our system and could require the construction of additional storage. If we are unable to recover these costs through increased revenue, our cash flows and ability to pay cash distributions could be adversely affected. In addition, changes in the product quality of the products we receive on our product pipeline systems could reduce or eliminate our ability to blend products.

Terminal Safety

Our operations are subject to regulations promulgated by the U.S. Occupational Safety and Health Administration (OSHA), DOT and comparable state and local regulations. For each of our terminal facilities, we have identified which assets are subject to the jurisdiction of OSHA or DOT. Certain of our terminals are under the dual jurisdiction of DOT and OSHA, whereby certain portions of the terminal are subject to OSHA regulation and other assets at the terminal are subject to DOT regulation due to the type of asset and the configuration of the terminal. Our terminal facilities are operated in a manner consistent with industry safe practices and standards. The tanks designed for crude oil and refined product storage at our terminals are equipped with appropriate emission controls to promote safety. Our terminal facilities have response plans, spill prevention and control plans, and other programs to respond to emergencies.

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Rail Safety

Our rail operations are currently limited to crude oil unloading and receiving activities. Generally, rail operations are subject to regulations promulgated by the U.S. Department of Transportation Federal Railroad Administration, PHMSA and comparable state and local regulations. We believe our rail operations are in material compliance with all applicable regulations and meet or exceed current industry standards and practices.

Security

We are also subject to Department of Homeland Security Chemical Facility Anti-Terrorism Standards, which are designed to regulate the security of high-risk chemical facilities, the Transportation Security Administration's Pipeline Security Guidelines, and other comparable state and local regulations. We have an internal program of inspection designed to monitor and provide for compliance with all of these requirements. We believe that we are in material compliance with all applicable laws and regulations regarding the security of our facilities. However, these laws and regulations are subject to changes, or to changes in their interpretation, by the regulatory authorities, and continued and future compliance with such laws and regulations may require us to incur significant expenditures. In addition, any incidents may result in substantial expenditures for response actions, government penalties, and business interruption.

While we are not currently subject to governmental standards for the protection of computer-based systems and technology from cyber threats and attacks, proposals to establish such standards are being considered in the U.S. Congress and by U.S. Executive Branch departments and agencies, including the Department of Homeland Security, and we may become subject to such standards in the future. We currently are implementing our own cyber security programs and protocols; however, we cannot guarantee their effectiveness. A significant cyber attack could have a material effect on operations and those of our customers.

ENVIRONMENTAL REGULATIONS

General

Our operations are subject to extensive and frequently changing federal, state and local laws, regulations and ordinances relating to the protection of the environment. Among other things, these laws and regulations govern the emission or discharge of pollutants into or onto the land, air and water, the handling and disposal of solid and hazardous wastes and the remediation of contamination. As with the industry generally, compliance with existing and anticipated environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, operate and upgrade equipment and facilities. While these laws and regulations affect our maintenance capital expenditures and net income, we believe they do not affect our competitive position, as the operations of our competitors are similarly affected. We believe our facilities are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to changes, or to changes in their interpretation, by regulatory authorities, and continued and future compliance with such laws and regulations may require us to incur significant expenditures. Additionally, violation of environmental laws, regulations, and permits can result in the imposition of significant administrative, civil and criminal penalties, injunctions limiting our operations, investigatory or remedial liabilities or construction bans or delays in the construction of additional facilities or equipment. Further, a release of hydrocarbons or hazardous substances into the environment could, to the extent the event is not insured, subject us to substantial expenses, including costs to comply with applicable laws and regulations and to resolve claims by third parties for personal injury or property damage, or by the U.S. federal government or state governments for natural resources damages. These impacts could directly and indirectly affect our business and have an adverse impact on our financial position, results of operations and liquidity. We cannot currently determine the amounts of such future impacts.

Expensed environmental costs were $6.7 million in 2015 and are expected to be approximately $2.8 million in 2016 and $0.7 million in 2017. The majority of the environmental expenses forecasted for 2016 and 2017 relate to environmental matters attributable to ownership of our current assets prior to our acquisition of these assets from Phillips 66. Phillips 66 has agreed to retain responsibility for these liabilities. Accordingly, although these amounts would be expensed by us, there would be no required cash outflow from us. See the “Indemnification” and “Excluded Liabilities of the Acquired Assets” sections to follow for additional information on Phillips 66-retained liabilities. Capitalized environmental costs were $2.1 million in 2015 and are expected to be approximately $2.2 million in 2016 and 2017. These amounts do not include capital expenditures made for other purposes that have an indirect benefit on environmental compliance.

Air Emissions and Climate Change
We are subject to the Federal Clean Air Act (CAA) and its regulations and comparable state and local statutes and regulations in connection with air emissions from our operations. Under these laws, permits may be required before construction can commence on a new source of potentially significant air emissions, and operating permits may be required for sources that are already constructed. These permits may require controls on our air emission sources, and we may become subject to more stringent regulations requiring the installation of additional emission control technologies.

Future expenditures may be required to comply with the CAA and other federal, state and local requirements for our various sites, including our pipeline and storage facilities. The impact of future legislative and regulatory developments, if enacted or adopted, could result in increased compliance costs and additional operating restrictions on our business, all of which could have an adverse impact on our financial position, results of operations and liquidity.

These air emissions requirements also affect Phillips 66's domestic refineries from which we directly or indirectly receive the majority of our revenue. Phillips 66 has been required in the past, and will likely be required in the future, to incur significant capital expenditures to comply with new legislative and regulatory requirements relating to its operations. To the extent these capital expenditures have a material effect on Phillips 66, they could have a material effect on our business and results of operations.

In December 2007, Congress passed the Energy Independence and Security Act (EISA) that created a second Renewable Fuels Standard (RFS2). This standard requires the total volume of renewable transportation fuels (including ethanol and advanced biofuels) sold or introduced annually in the United States to rise to 36 billion gallons by 2022. The requirements could reduce future demand for petroleum products and thereby have an indirect effect on certain aspects of our business. For compliance years 2014, 2015 and 2016, the U.S. Environmental Protection Agency (EPA) reduced the statutory volumes of advanced and total renewable fuels using authority granted to it under the EISA. The EPA's recently enacted regulations pertaining to these compliance years are the subject of a recently filed legal challenge.

Currently, various legislative and regulatory measures to address greenhouse gas (GHG) emissions (including carbon dioxide, methane and other gases) are in various phases of discussion or implementation. These include requirements effective in January 2010 to report emissions of GHGs to the EPA beginning in 2011, and proposed federal legislation and regulation as well as state actions to develop statewide or regional programs, each of which require or could require reductions in our GHG emissions or those of Phillips 66. Requiring reductions in GHG emissions could result in increased costs to (1) operate and maintain our facilities, (2) install new emission controls at our facilities and (3) administer and manage any GHG emissions programs, including acquiring emission credits or allotments. These requirements may also impact Phillips 66's domestic refinery operations and may have an indirect effect on our business, financial condition and results of operations.

In addition, the EPA has proposed and may adopt further regulations under the CAA addressing GHGs, some of which may directly impact Phillips 66's domestic refinery operations, while others, such as the EPA's Clean Power Plan (CO_2 emission rules for existing fossil fuel-fired electric generating units), may indirectly affect such operations. Both types of impacts may affect our business. Congress continues to consider legislation on GHG emissions, which may include a delay in the implementation of GHG regulations by the EPA or a limitation on the EPA's authority to regulate GHGs, although the ultimate adoption and form of any federal legislation cannot presently be predicted. The impact of future regulatory and legislative developments, if adopted or enacted, including any cap-and-trade program, is likely to result in increased compliance costs, increased utility costs, additional operating restrictions on our business, and an increase in the cost of products generally. Although such costs may impact our business directly or indirectly by impacting Phillips 66's facilities or operations, the extent and magnitude of that impact cannot be reliably or accurately estimated due to the present uncertainty regarding the additional measures and how they will be implemented.

Waste Management and Related Liabilities

To some extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater, and surface water, and include measures to control pollution of the environment. These laws generally regulate the generation, storage, treatment, transportation, and disposal of solid and hazardous waste. They also require corrective action, including investigation and remediation, at a facility where such waste may have been released or disposed.

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), which is also known as Superfund, and comparable state laws impose liability, without regard to fault or to the legality of the original conduct, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the former and present owner or operator of the site where the release occurred and the transporters and generators of the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several liabilities for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. In the course of our ordinary operations, we generate waste that falls within CERCLA's definition of a "hazardous substance" and, as a result, may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites.

We also generate solid wastes, including hazardous wastes, that are subject to the requirements of the Resource Conservation and Recovery Act (RCRA) and comparable state statutes. From time to time, the EPA considers the adoption of stricter disposal standards for non-hazardous wastes. Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Any changes in the regulations could increase our maintenance capital expenditures and operating expenses. We continue to seek methods to minimize the generation of hazardous wastes in our operations.

We currently own and lease, and Phillips 66 has in the past owned and leased, properties where hydrocarbons are being or for many years have been handled. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other waste may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes were not under our control. These properties and wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater), or to perform remedial operations to prevent further contamination.

Water
Our operations can result in the discharge of pollutants, including crude oil and petroleum products. Regulations under the Water Pollution Control Act of 1972 (Clean Water Act), Oil Pollution Act of 1990 (OPA 90) and comparable state laws impose regulatory burdens on our operations. Spill Prevention Control and Countermeasure (SPCC) requirements of federal laws and some state laws require containment to prevent or mitigate contamination of navigable waters in the event of an oil overflow, rupture, or leak. For example, the Clean Water Act requires us to maintain SPCC plans at many of our facilities. We maintain numerous discharge permits as required under the National Pollutant Discharge Elimination System program of the Clean Water Act and have implemented systems to oversee our compliance efforts.

In addition, the transportation and storage of crude oil and petroleum products over and adjacent to water involves risk and subjects us to the provisions of OPA 90 and related state requirements. Among other requirements, OPA 90 requires the owner or operator of a vessel or a facility to maintain an emergency plan to respond to releases of oil or hazardous substances. Also, in case of any such release, OPA 90 requires the responsible entity to pay resulting removal costs and damages. OPA 90 also provides for civil penalties and imposes criminal sanctions for violations of its provisions. We operate facilities at which releases of oil and hazardous substances could occur. We have implemented emergency oil response plans for all of our components and facilities covered by OPA 90 and we have established SPCC plans for facilities subject to Clean Water Act SPCC requirements. Construction or maintenance of our pipelines, terminals and storage facilities may impact wetlands, which are also regulated under the Clean Water Act by the EPA and the United States Army Corps of Engineers. Regulatory requirements governing wetlands (including associated mitigation projects) may result in the delay of our projects while we obtain necessary permits and may increase the cost of new projects and maintenance activities.

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Employee Safety

We are subject to requirements promulgated by OSHA and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with OSHA requirements, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances.

Endangered Species Act

The Endangered Species Act restricts activities that may affect endangered species or their habitats. While some of our facilities are in areas that may be designated as habitats for endangered species, we believe that we are in substantial compliance with the Endangered Species Act. However, the discovery of previously unidentified endangered species could cause us to incur additional costs or become subject to operating restrictions or bans in the affected area.

Hazardous Materials Transportation Requirements

The DOT regulations affecting pipeline safety require pipeline operators to implement measures designed to reduce the environmental impact of crude oil and petroleum products discharge from onshore crude oil and petroleum product pipelines. These regulations require operators to maintain comprehensive spill response plans, including extensive spill response training for pipeline personnel. In addition, the DOT regulations contain detailed specifications for pipeline operation and maintenance. We believe our operations are in substantial compliance with these regulations. The DOT also has a pipeline integrity management rule, with which we are in substantial compliance.

Indemnification

Under our amended omnibus agreement, Phillips 66 indemnifies us for certain environmental liabilities, tax liabilities, and litigation and other matters attributable to the initial assets contributed by Phillips 66 in connection with the Offering (the Initial Assets) and which arose prior to their contribution to us (Effective Date). Indemnification for any unknown environmental liabilities is limited to liabilities due to occurrences prior to the Effective Date and that are identified before the fifth anniversary of the Effective Date, subject to an aggregate deductible of $0.1 million before we are entitled to indemnification. Indemnification for litigation matters provided therein (other than legal actions pending as of the Offering) is subject to an aggregate deductible of $0.2 million before we are entitled to indemnification. Phillips 66 also indemnifies us under our amended omnibus agreement 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 Effective Date, 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 Initial Assets that occur on or after the Effective Date and for certain environmental liabilities related to the Initial Assets to the extent Phillips 66 is not required to indemnify us. For Acquired Assets (defined below), Phillips 66 indemnifies us for certain environmental liabilities, tax liabilities, and litigation and other matters attributable to the Acquired Assets. This indemnity is subject to a deductible of 1 percent of the purchase price and an aggregate cap of 10 to 15 percent of the purchase price.

Excluded Liabilities of the Acquired Assets

Pursuant to the terms of the various agreements under which we acquired assets from Phillips 66 since the Effective Date (Acquired Assets), Phillips 66 assumed the responsibility for any liabilities arising out of or attributable to the ownership or operation of the Acquired Assets, or other activities occurring in connection with and attributable to the ownership or operation of the Acquired Assets, prior to the effective date of each acquisition. We have assumed, and have agreed to pay, discharge and perform as and when due, all liabilities arising out of or attributable to the ownership or operation of the Acquired Assets, or other activities occurring in connection with and attributable to the ownership or operation of the Acquired Assets, from and after the effective date of each acquisition.

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GENERAL

Major Customer
Phillips 66 accounted for 96 percent, 95 percent and 94 percent of our total transportation and terminaling services revenues in the years ended December 31, 2015, 2014 and 2013, respectively. Through our wholly owned and joint venture operations, we provide crude oil, refined petroleum products and NGL pipeline transportation, terminaling and storage, and crude oil gathering and rail-unloading services to Phillips 66 and other related and third parties.

Seasonality
The volumes of crude oil, refined petroleum products and NGL transported in our wholly owned and joint venture pipelines and stored in our terminals, rail racks and storage facilities are directly affected by the level of supply and demand for crude oil, refined petroleum products and NGL in the markets served directly or indirectly by our assets. The effects of seasonality on our revenue should be substantially mitigated through the use of our fee-based commercial agreements with Phillips 66 that include minimum volume commitments.

Pipeline Control Operations
Our wholly owned pipeline systems are operated from a central control room owned and operated by Phillips 66, located in Bartlesville, Oklahoma. The control center operates with a supervisory control and data acquisition system equipped with computer systems designed to continuously monitor operational data. Monitored data includes pressures, temperatures, gravities, flow rates and alarm conditions. The control center operates remote pumps, motors, and valves associated with the receipt and delivery of crude oil and refined petroleum products, and provides for the remote-controlled shutdown of pump stations on the pipeline systems. A fully functional back-up operations center is also maintained and routinely operated throughout the year to ensure safe and reliable operations.

Employees
We are managed and operated by the executive officers of our General Partner with oversight provided by its Board of Directors. Neither we nor our subsidiaries have any employees. Our General Partner has the sole responsibility for providing the employees and other personnel necessary to conduct our operations. All of the employees that conduct our business are employed by Phillips 66. As of December 31, 2015, Phillips 66 employed approximately 180 people who provided direct support for our operations. We believe that Phillips 66 has a satisfactory relationship with those employees.

Website Access to SEC Reports
Our Internet website address is http://www.phillips66partners.com. Information contained on our Internet website is not part of this Annual Report on Form 10-K.

Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to these reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website, free of charge, as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the SEC). Alternatively, you may access these reports at the SEC’s website at http://www.sec.gov. We also post on our website our beneficial ownership reports filed by officers and directors of our General Partner, as well as principal security holders, under Section 16(a) of the Securities Exchange Act of 1934, governance guidelines, audit and conflicts committee charters, code of business ethics and conduct, and information on how to communicate directly with our General Partner’s Board of Directors.

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Item 1A. RISK FACTORS

You should carefully consider the risks described below with all of the other information included in this Annual Report on Form 10-K. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common units.

Risks Related to Our Business

Phillips 66 accounts for a substantial portion of our revenue. If Phillips 66 changes its business strategy, is unable for any reason, including financial or other limitations, to satisfy its obligations under our commercial agreements or significantly reduces the volumes transported through our pipelines or terminals or stored at our storage assets, our revenue would decline and our financial condition, results of operations, cash flows, and ability to make distributions to our unitholders would be materially and adversely affected.

We derive a substantial portion of our revenue from multiple commercial agreements with Phillips 66. Any event, whether in our areas of operation or elsewhere, that materially and adversely affects Phillips 66's financial condition, results of operations or cash flows may adversely affect our ability to sustain or increase cash distributions to our unitholders. Accordingly, we are indirectly subject to the operational and business risks of Phillips 66, the most significant of which include the following:

- The effects of changing commodity prices and refining, marketing and petrochemical margins.

- The ability to obtain credit and financing on acceptable terms in light of current uncertainty and illiquidity in credit and capital markets, which could also adversely affect the financial strength of business partners.

- A deterioration in Phillips 66's credit profile could increase Phillips 66's costs of borrowing money and limit Phillips 66's access to the capital markets and commercial credit, which could also trigger co-venturer rights under Phillips 66's joint venture arrangements.

- The substantial capital expenditures and operating costs required to comply with existing and future environmental laws and regulations, which could also impact or limit Phillips 66's current business plans and reduce product demand.

- The effects of domestic and worldwide political and economic developments could materially reduce Phillips 66's profitability and cash flows.

- Large capital projects can take many years to complete, and market conditions could deteriorate significantly between the project approval date and the project startup date, negatively impacting project returns.

- Investments in joint ventures decrease Phillips 66's ability to manage risk and may adversely affect the distributions that Phillips 66 receives from the joint ventures.

- Significant losses resulting from the hazards and risks of operations may not be fully covered by insurance, and could adversely affect Phillips 66's operations and financial results.

- Interruptions of supply and increased costs as a result of Phillips 66's reliance on third-party transportation of crude oil and refined products.

- Increased regulation of hydraulic fracturing could result in reductions or delays in domestic production of crude oil and natural gas, which could adversely impact Phillips 66's results of operations.

- Competitors that produce their own supply of feedstocks, have more extensive retail outlets, or have greater financial resources may have a competitive advantage over Phillips 66.

- Potential losses from Phillips 66's forward-contract and derivative transactions may have an adverse impact on its results of operations and financial condition.

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- A significant interruption in one or more of Phillips 66's facilities could adversely affect business.

- Any decision by Phillips 66 to temporarily or permanently curtail or shut down operations at one or more of its domestic refineries or other facilities and reduce or terminate its obligations under our commercial agreements.

- Phillips 66's performance depends on the uninterrupted operation of its refineries and other facilities, which are becoming increasingly dependent on information technology systems.

- Potential indemnification of ConocoPhillips by Phillips 66 for various matters related to Phillips 66's separation from ConocoPhillips may have an adverse impact on its results of operations and financial condition.

Phillips 66 is not obligated to use our services with respect to volumes of crude oil or products in excess of the minimum volume commitments under its commercial agreements with us. See Items 1 and 2. Business and Properties—Commercial and Other Agreements with Phillips 66 and Related Parties, for a description of each of these commercial agreements.

We may not generate sufficient distributable cash flow to support the payment of the minimum quarterly distribution to our unitholders.

The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- The volume of crude oil and refined petroleum products we transport.

- The tariff rates with respect to volumes that we transport.

- Changes in revenue we realize under the loss allowance provisions of our regulated tariffs resulting from changes in underlying commodity prices.

In addition, the actual amount of distributable cash flow we generate will also depend on other factors, some of which are beyond our control, including:

- The amount of our operating expenses and general and administrative expenses, including reimbursements to Phillips 66, which are not subject to any caps or other limits, in respect of those expenses.

- The application by Phillips 66 of any remaining credit amounts to any volumes handled by our assets after the expiration or termination of our commercial agreement.

- The application by Phillips 66 of credit amounts under our Hartford Connector throughput and deficiency agreement, which may be applied towards deficiency payments in future periods.

- The level of maintenance capital expenditures we make.

- Our debt service requirements and other liabilities.

- Our ability to borrow funds and access capital markets.

- Restrictions contained in our revolving credit facility and other debt service requirements.
- Changes in commodity prices.
- Other business risks affecting our cash levels.

Phillips 66 may suspend, reduce or terminate its obligations under our commercial agreements, which could have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

Our commercial agreements and operational services agreement with Phillips 66 include provisions that permit Phillips 66 to suspend, reduce or terminate its obligations under the applicable agreement if certain events occur, such as Phillips 66's determination to suspend refining operations at one of its refineries in which any of our assets are integrated, either permanently or indefinitely for a period that will continue for at least twelve months. Under our commercial agreements, Phillips 66's minimum volume commitments will cover less than 100 percent of the operating capacity of our assets. Any such reduction, suspension or termination of Phillips 66's obligations would have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

Certain components of our revenue have exposure to direct commodity price risk.

We have exposure to direct commodity price risk through the loss allowance provisions of our regulated tariffs and the commodity imbalance provisions of our commercial agreements. Any future losses due to our commodity price risk exposure could materially and adversely affect our results of operations and financial condition and our ability in the future to make distributions to our unitholders. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk, for more information.

Our operations and Phillips 66's refining operations are subject to many risks and operational hazards, some of which may result in business interruptions and shutdowns of our or Phillips 66's facilities and damages for which we may not be fully covered by insurance. If a significant accident or event occurs that results in a business interruption or shutdown for which we are not adequately insured, our operations and financial results could be materially and adversely affected.

Our operations are subject to all of the risks and operational hazards inherent in transporting, terminaling and storing crude oil and refined petroleum products, including:

- Damages to pipelines, terminals and facilities, related equipment and surrounding properties caused by earthquakes, tornados, hurricanes, floods, fires, severe weather, explosions and other natural disasters and acts of terrorism.

- Maintenance, repairs, mechanical or structural failures at our or Phillips 66's facilities or at third-party facilities on which our or Phillips 66's operations are dependent, including electrical shortages, power disruptions and power grid failures.

- Damages to and loss of availability of interconnecting third-party pipelines, terminals and other means of delivering crude oil, feedstocks and refined petroleum products.

- Disruption or failure of information technology systems and network infrastructure due to various causes, including unauthorized access or attack.

- Curtailments of operations due to severe seasonal weather.

- Riots, strikes, lockouts or other industrial disturbances.

- Inadvertent damage to pipelines from construction, farm and utility equipment.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage, as well as business interruptions or shutdowns of our facilities. Any such event or unplanned shutdown could have a material adverse effect on our business, financial condition and results of operations. In addition, Phillips 66’s refining operations, on which our operations are substantially dependent, are subject to similar operational hazards and risks inherent in refining crude oil. A serious accident at our facilities or at Phillips 66’s facilities could result in serious injury or death to our employees or contractors or those of Phillips 66 or its affiliates and could expose us to significant liability for personal injury claims and reputational risk. We have no control over the operations at Phillips 66's refineries and their associated facilities.

We do not maintain insurance coverage against all potential losses and could suffer losses for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. We carry separate policies for certain property damage, business interruption and third-party liabilities, which includes pollution liabilities, and are also insured under certain of Phillips 66's liability policies and are subject to Phillips 66's policy limits under these policies. The occurrence of an event that is not fully covered by insurance or failure by one or more insurers to honor its coverage commitments for an insured event could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to make acquisitions on economically acceptable terms from Phillips 66 or third parties, our future growth could be limited, and any acquisitions we may make may reduce, rather than increase, our cash flows and ability to make distributions to our unitholders.

A portion of our strategy to grow our business and increase distributions to our unitholders is dependent on our ability to make acquisitions that result in an increase in distributable cash flow per unit. The acquisition component of our growth strategy is based, in large part, on our expectation of ongoing divestitures of transportation and storage assets by industry participants, including Phillips 66.

If we are unable to make acquisitions from Phillips 66 or third parties because (1) there is a material decrease in divestitures of transportation and storage assets, (2) we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, (3) we are unable to obtain financing for these acquisitions on economically acceptable terms, (4) we are outbid by competitors or (5) for any other reason, our future growth and ability to increase distributions will be limited. Furthermore, even if we do consummate acquisitions that we believe will be accretive, they may in fact result in a decrease in distributable cash flow per unit as a result of incorrect assumptions in our evaluation of such acquisitions or unforeseen consequences or other external events beyond our control. If we consummate any future acquisitions, unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in evaluating any such acquisitions.

Our expansion of existing assets and construction of new assets may not result in revenue increases and will be subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our operations and financial condition.

In order to optimize our existing asset base, we intend to evaluate and capitalize on organic opportunities for expansion projects in order to increase revenue on our pipeline, terminal and storage systems. The expansion of an existing pipeline, terminal or storage facility, such as by adding horsepower, pump stations or loading/unloading racks, or the construction of a new pipeline, terminal or storage asset, involves numerous regulatory, environmental, political and legal uncertainties, most of which are beyond our control. If we undertake these projects, they may not be completed on schedule, at the budgeted cost, or at all. Moreover, we may not receive sufficient long-term contractual commitments from customers to provide the revenue needed to support such projects and we may be unable to negotiate acceptable interconnection agreements with third-party pipelines to provide destinations for increased throughput. Even if we receive such commitments or make such interconnections, we may not realize an increase in revenue for an extended period of time. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return, which could materially and adversely affect our results of operations and financial condition and our ability in the future to make distributions to our unitholders.

Our investments in joint ventures involve numerous risks that may affect the ability of these joint ventures to make distributions to us.

We conduct some of our operations through joint ventures in which we share control with our joint venture participants. Our joint venture participants may have economic, business or legal interests or goals that are inconsistent with those of the joint venture or us, or our joint venture participants may be unable to meet their economic or other obligations, and we may be required to fulfill those obligations alone. Failure by us, or an entity in which we have a joint-venture interest, to adequately manage the risks associated with any acquisitions or joint ventures could have a material adverse effect on the financial condition or results of operations of our joint ventures and, in turn, our business and operations. In addition, should any of these risks materialize, it could have a material adverse effect on the ability of the venture to make future distributions to us.

We do not own all of the land on which our pipelines are located, which could result in disruptions to our operations.

We do not own all of the land on which our pipelines are located, and therefore, we are subject to the possibility of more onerous terms and increased costs to retain necessary land use if we do not have valid leases or rights-of-way or if such rights-of-way lapse or terminate. We obtain the rights to construct and operate our pipelines on land owned by third parties and governmental agencies, and some of our agreements may grant us those rights for only a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts or otherwise, could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions to our unitholders.

Restrictions in our revolving credit facility could adversely affect our business, financial condition, results of operations, ability to make cash distributions to our unitholders and the value of our units.

We are dependent upon the earnings and cash flows generated by our operations in order to meet any debt service obligations and to allow us to make cash distributions to our unitholders. The operating and financial restrictions and covenants in our revolving credit facility and any other financing agreements could restrict our ability to finance our future operations or capital needs or to expand or pursue our business activities, which may, in turn, limit our ability to make cash distributions to our unitholders.

The provisions of our revolving credit facility could affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our revolving credit facility could result in an event of default which would enable our lenders to terminate their commitments and declare any outstanding principal of that debt, together with accrued interest, to be immediately due and payable. If the payment of our debt is accelerated, defaults under our other debt instruments, if any, may be triggered, and our assets may be insufficient to repay such debt in full, and the holders of our units could experience a partial or total loss of their investment. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity, for additional information about our revolving credit facility and the notes payable with Phillips 66.

Our assets and operations (including our pipeline systems) are subject to federal, state and local laws and regulations relating to environmental protection and safety, including spills, releases, and pipeline integrity, any of which could require us to make substantial expenditures.

Our assets and operations involve the transportation of crude oil and refined petroleum products, which are subject to increasingly stringent federal, state and local laws and regulations related to protection of the environment. These regulations have raised operating costs for the crude oil and refined petroleum products industry and compliance with such laws and regulations may cause us and Phillips 66 to incur potentially material capital expenditures.

Transportation of crude oil and refined petroleum products involves inherent risks of spills and releases from our facilities, and can subject us to various federal and state laws governing spills and releases, including reporting and remediation obligations. The costs associated with such obligations can be substantial, as can costs associated with related enforcement matters, including possible fines and penalties. Transportation of such products over water or proximate to navigable water bodies involves inherent risks (including risks of spills) and could subject us to the provisions of the Oil Pollution Act of 1990 and similar state environmental laws should a spill occur from our pipelines. We and Phillips 66 have contracted with various spill response service companies in the areas in which we transport or store crude oil and refined petroleum products; however, these companies may not be able to adequately contain a "worst case discharge" in all instances, and we cannot ensure that all of their services would be available at any given time. In these and other cases, we may be subject to liability in connection with the discharge of crude oil or petroleum products into navigable waters. We could incur potentially significant additional expenses should we determine that any of our assets are not in compliance with applicable laws and regulations. Our failure to comply with these or any other environmental, safety or pipeline-related regulations could result in the assessment of administrative, civil, or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of injunctions that may subject us to additional operational constraints. Any such penalties or liability could have a material adverse effect on our business,

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financial condition, or results of operations. We will be subject to an aggregate deductible of $0.1 million before we are entitled to indemnification from Phillips 66 for certain environmental liabilities under our amended omnibus agreement. Even if we are insured or indemnified against such risks, we may be responsible for costs or penalties to the extent our insurers or indemnitors do not fulfill their obligations to us. See Items 1 and 2. Business and Properties—Environmental Regulations and Items 1 and 2. Business and Properties—Rates and Other Regulations—Pipeline Safety, for additional information.

Evolving environmental laws and regulations on climate change could adversely affect our financial performance.

Potential additional laws and regulations regarding climate change could affect our operations. Currently, various U.S. legislative and regulatory agencies and bodies are considering various measures in regard to GHG emissions. These measures include EPA programs to control GHG emissions and state actions to develop statewide or regional programs, each of which could impose reductions in GHG emissions. These actions could result in increased (1) costs to operate and maintain our facilities, (2) capital expenditures to install new emission controls on our facilities and (3) costs to administer and manage any potential GHG emissions regulations or carbon trading or tax programs. These actions could also have an indirect adverse effect on our business if Phillips 66's refinery operations are adversely affected due to increased regulation of Phillips 66's facilities or reduced demand for crude oil, refined petroleum products and NGL, and a direct adverse effect on our business from increased regulation of our facilities. See Items 1 and 2. Business and Properties—Environmental Regulations—Air Emissions and Climate Change, for additional information.

Climate change may adversely affect our facilities and our ongoing operations.

The potential physical effects of climate change on our operations are highly uncertain and depend upon the unique geographic and environmental factors present. Examples of such effects include rising sea levels at our coastal facilities, changing storm patterns and intensities, and changing temperature levels. As many of our facilities are located near coastal areas or serve refineries in coastal areas, rising sea levels may disrupt our ability to transport crude oil and refined petroleum products. Extended periods of such disruption could have an adverse effect on our results of operations. Similar potential physical effects, impacts and disruptions could affect facilities and operations of Phillips 66, with which our facilities and operations are connected.

We may be unable to obtain or renew permits necessary for our operations, which could inhibit our ability to do business.

Our facilities operate under a number of federal and state permits, licenses and approvals with terms and conditions containing a significant number of prescriptive limits and performance standards in order to operate. All of these permits, licenses, approval limits and standards require a significant amount of monitoring, record keeping and reporting in order to demonstrate compliance with the underlying permit, license, approval limit or standard. Noncompliance or incomplete documentation of our compliance status may result in the imposition of fines, penalties and injunctive relief. A decision by a government agency to deny or delay issuing a new or renewed material permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on our ability to continue operations and on our financial condition, results of operations and cash flows.

Evolving environmental laws and regulations on hydraulic fracturing could have an indirect effect on our financial performance.

Hydraulic fracturing is a common practice used to stimulate production of crude oil and/or natural gas from dense subsurface rock formations, and is primarily presently regulated by state agencies. However, Congress has in the past and may in the future consider legislation to regulate hydraulic fracturing by federal agencies. Many states have already adopted laws and/or regulations that require disclosure of the chemicals used in hydraulic fracturing, and are considering legal requirements that could impose more stringent permitting, disclosure and well construction requirements on oil and/or natural gas drilling activities. The EPA also has adopted regulations requiring “green completions” of hydraulically fractured wells and is moving forward with, among other things, various regulations relating to certain emission requirements for some midstream equipment. We do not believe these new regulations will have a direct effect on our operations, but because oil and/or natural gas production using hydraulic fracturing is growing rapidly in the United States, if new or more stringent federal, state or local legal restrictions relating to such drilling activities or to the hydraulic fracturing process are adopted in areas where our shippers’ producer suppliers operate, those producers could incur potentially significant added costs to comply with such requirements and experience delays or curtailment in the pursuit of production or development activities, which could reduce demand for our transportation and midstream services.

New and proposed regulations governing fuel efficiency and renewable fuels could have an indirect but material adverse effect on our business.

Increases in fuel mileage standards and the increased use of renewable fuels could decrease demand for refined petroleum products, which could have an indirect, but material, adverse effect on our business, financial condition and results of operations. For example, in 2007, Congress passed the EISA, which, among other things, sets a target of 35 miles per gallon for the combined fleet of cars and light trucks in the United States by model year 2020, and contains RFS2. In August 2012, the National Highway Traffic Safety Administration enacted regulations establishing an average industry fleet fuel economy standard of 54.5 miles per gallon by 2025. RFS2 presents production and logistics challenges for both the renewable fuels and petroleum refining industries. RFS2 has required, and may in the future continue to require, additional capital expenditures or expenses by Phillips 66 to accommodate increased renewable fuels use. Phillips 66 may experience a decrease in demand for refined petroleum products due to an increase in combined fleet mileage or due to refined petroleum products being replaced by renewable fuels.

Many of our assets have been in service for many years and require significant expenditures to maintain them. As a result, our maintenance or repair costs may increase in the future.

Our pipelines, terminals and storage assets are generally long-lived assets, and many of them have been in service for many years. The age and condition of our assets could result in increased maintenance or repair expenditures in the future. Any significant increase in these expenditures could adversely affect our results of operations, financial position or cash flows, as well as our ability to make cash distributions to our unitholders.

Terrorist attacks and threats, cyber attacks, or escalation of military activity in response to these attacks, could have a material adverse effect on our business, financial condition or results of operations.

Terrorist attacks and threats, cyber attacks, or escalation of military activity in response to these attacks, may have significant effects on general economic conditions, fluctuations in consumer confidence and spending and market liquidity, each of which could materially and adversely affect our business. Strategic targets, such as energy-related assets and transportation assets, may be at greater risk of future terrorist or cyber attacks than other targets in the United States. We do not maintain specialized insurance for possible liability or loss resulting from a cyber attack on our assets that may shut down all or part of our business. It is possible that any of these occurrences, or a combination of them, could have a material adverse effect on our business, financial condition and results of operations.

We may incur greater than anticipated costs and liabilities in order to comply with safety regulation, including pipeline integrity management program testing and related repairs.

The DOT, through its PHMSA, has adopted regulations requiring, among other things, pipeline operators to develop integrity management programs for transmission pipelines located where a leak or rupture could harm HCAs. The regulations require operators, including us, to, among other matters, perform ongoing assessments of pipeline integrity; repair and remediate pipelines as necessary; and implement preventative and mitigating actions. PHMSA is considering whether to revise the integrity management requirements or to include additional pipelines in HCAs, which could have a material adverse effect on our operations and costs of transportation services.

Although some of our facilities fall within a class that is currently not subject to these requirements, we may incur significant costs and liabilities associated with repair, remediation, preventative or mitigation measures associated with our non-exempt pipelines. We have not estimated the costs for any repair, remediation, preventative or mitigating actions that may be determined to be necessary as a result of the testing program, which could be substantial, or any lost cash flows resulting from shutting down our pipelines during the pendency of such repairs. Additionally, should we fail to comply with the DOT or comparable state regulations, we could be subject to penalties and fines.

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The tariff rates of our regulated assets are subject to review and possible adjustment by federal and state regulators, which could adversely affect our revenue and our ability to make distributions to our unitholders.

Certain of our pipelines provide interstate service that is subject to regulation by FERC. FERC uses prescribed rate methodologies for developing regulated tariff rates for interstate oil and product pipelines. Our tariff rates approved by FERC may not recover all of our costs of providing services. In addition, these methodologies and changes to FERC’s approved rate methodologies, or challenges to our application of an approved methodology, could also adversely affect our rates.

Shippers may protest (and FERC may investigate) the lawfulness of new or changed tariff rates. FERC can suspend those tariff rates for up to seven months and can also require refunds of amounts collected pursuant to rates that are ultimately found to be unlawful and prescribe new rates prospectively. FERC and interested parties can also challenge tariff rates that have become final and effective. Under our existing commercial agreements, Phillips 66 has agreed not to challenge, or to cause others to challenge or assist others in challenging, our tariff rates in effect during the term of the agreements, except to the extent changes to the base tariff rate are inconsistent with FERC’s indexing methodology or other rate changing methodologies. This agreement does not prevent other shippers or interested persons from challenging our tariffs, including our tariff rates and proration rules. Due to the complexity of rate making, the lawfulness of any rate is never assured. A successful challenge of our rates could adversely affect our revenues and our ability to make distributions to our unitholders.

Our pipelines are common carriers and, as a consequence, we may be required to provide service to customers with credit and other performance characteristics with whom we would choose not to do business if permitted to do so.

Certain of our pipelines provide intrastate service that is subject to regulation by various state agencies. These state agencies could limit our ability to increase our rates or to set rates based on our costs or could order us to reduce our rates and could require the payment of refunds to shippers. Such regulation or a successful challenge to our intrastate pipeline rates could adversely affect our financial position, cash flows or results of operations. See Items 1 and 2. Business and Properties—Rates and Other Regulations, for additional information.

Risks Inherent in an Investment in Us

Our General Partner and its affiliates, including Phillips 66, have conflicts of interest with us and limited fiduciary duties to us and our unitholders, and they may favor their own interests to our detriment and that of our unitholders. Additionally, we have no control over the business decisions and operations of Phillips 66, and Phillips 66 is under no obligation to adopt a business strategy that favors us.

As of December 31, 2015, Phillips 66 owned, through PDI, a 2.0 percent general partner interest and a 69.3 percent limited partner interest in us and owned and controlled our General Partner. Additionally, Phillips 66 continues to own a 50 percent equity interest in DCP Midstream, LLC (DCP Midstream), and a 50 percent equity interest in Chevron Phillips Chemical Company LLC (CPChem). Although our General Partner has a duty to manage us in a manner that is in the best interests of our partnership and our unitholders, the directors and officers of our General Partner also have a duty to manage our General Partner in a manner that is in the best interests of its owner, Phillips 66. Conflicts of interest may arise between Phillips 66 and its affiliates, including our General Partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts, our General Partner may favor its own interests and the interests of its affiliates, including Phillips 66, over the interests of our common unitholders. These conflicts include, among others, the following situations:

- Neither our partnership agreement nor any other agreement requires Phillips 66 to pursue a business strategy that favors us or utilizes our assets. For example, Phillips 66 could decide to increase or decrease refinery production, shut down or reconfigure a refinery, pursue and grow particular markets, or undertake acquisition opportunities, all without regard for the decisions' impact on us. Phillips 66's directors and officers have a fiduciary duty to make these decisions in the best interests of the stockholders of Phillips 66.

- Phillips 66, as our primary customer, has an economic incentive to cause us to not seek higher tariff rates, even if such higher rates or fees would reflect rates and fees that could be obtained in arm's-length, third-party transactions.

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- Phillips 66 may be constrained by the terms of its debt instruments from taking actions, or refraining from taking actions, that may be in our best interests.
- Our partnership agreement replaces the fiduciary duties that would otherwise be owed by our General Partner with contractual standards governing its duties, limiting our General Partner's liabilities and restricting the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty.
- Except in limited circumstances, our General Partner has the power and authority to conduct our business without unitholder approval.
- Our General Partner will determine the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and the creation, reduction or increase of cash reserves, each of which can affect the amount of cash that is distributed to our unitholders.
- Our General Partner will determine the amount and timing of many of our cash expenditures and whether a cash expenditure is classified as an expansion capital expenditure, which would not reduce operating surplus, or a maintenance capital expenditure, which would reduce our operating surplus. This determination can affect the amount of available cash from operating surplus that is distributed to our unitholders and to our General Partner and the amount of adjusted operating surplus generated in any given period.
- Our General Partner will determine which costs incurred by it are reimbursable by us.
- Our General Partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions.
- Our partnership agreement permits us to classify up to $60.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions to our General Partner in respect of the general partner interest or the incentive distribution rights.
- Our partnership agreement does not restrict our General Partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.
- Our General Partner intends to limit its liability regarding our contractual and other obligations.
- Our General Partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if it and its affiliates own more than 80 percent of the common units.
- Our General Partner controls the enforcement of obligations owed to us by our General Partner and its affiliates, including our commercial agreements with Phillips 66.
- Our General Partner decides whether to retain separate counsel, accountants or others to perform services for us.
- Our General Partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our General Partner's incentive distribution rights without the approval of the conflicts committee of the Board of Directors of our General Partner, which we refer to as our conflicts committee, or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

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Under the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our General Partner or any of its affiliates, including its executive officers, directors and owners. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our General Partner and result in less than favorable treatment of us and our unitholders.

Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions.

Our partnership agreement requires that we distribute all of our available cash to our unitholders. As a result, we expect to rely primarily upon external financing sources, including related-party financing from Phillips 66, borrowings under our revolving credit facility and future issuances of equity and debt securities, to fund our acquisitions and expansion capital expenditures. Therefore, to the extent we are unable to finance our growth externally, our cash distribution policy will significantly impair our ability to grow. In addition, because we will distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement on our ability to issue additional units, including units ranking senior to our common units as to distributions or in liquidation or that have special voting rights and other rights, and our unitholders will have no preemptive or other rights (solely as a result of their status as unitholders) to purchase any such additional units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which, in turn, may reduce the amount of cash that we have available to distribute to our unitholders.

Our partnership agreement replaces our General Partner’s fiduciary duties to holders of our common units with contractual standards governing its duties.

Delaware law provides that Delaware limited partnerships may, in their partnership agreements, expand, restrict or eliminate the fiduciary duties otherwise owed by the general partner to limited partners and the partnership, provided that partnership agreements may not eliminate the implied contractual covenant of good faith and fair dealing. This implied covenant is a judicial doctrine utilized by Delaware courts in connection with interpreting ambiguities in partnership agreements and other contracts, and does not form the basis of any separate or independent fiduciary duty in addition to the express contractual duties set forth in our partnership agreement. Under the implied contractual covenant of good faith and fair dealing, a court will enforce the reasonable expectations of the partners where the language in the partnership agreement does not provide for a clear course of action. As permitted by Delaware law, our partnership agreement contains provisions that eliminate the fiduciary standards to which our General Partner would otherwise be held by state fiduciary duty law and replaces those duties with several different contractual standards. For example, our partnership agreement permits our General Partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our General Partner, free of any duties to us and our unitholders other than the implied contractual covenant of good faith and fair dealing. This provision entitles our General Partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. By purchasing a common unit, a unitholder is treated as having consented to the provisions in our partnership agreement, including the provisions discussed above.

Our partnership agreement restricts the remedies available to holders of our common units for actions taken by our General Partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that restrict the remedies available to unitholders for actions taken by our General Partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement:

- Provides that whenever our General Partner makes a determination or takes, or declines to take, any other action in its capacity as our General Partner, our General Partner is required to make such determination, or take or

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decline to take such other action, in good faith, meaning that it subjectively believed that the determination or the decision to take or decline to take such action was in the best interests of our partnership, and will not be subject to any other or different standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or at equity.

- Provides that our General Partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith.

- Provides that our General Partner and its officers and directors will not be liable for monetary damages to us or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our General Partner or its officers and directors, as the case may be, acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal.

- Provides that our General Partner will not be in breach of its obligations under our partnership agreement or its fiduciary duties to us or our limited partners if a transaction with an affiliate or the resolution of a conflict of interest is approved in accordance with, or otherwise meets the standards set forth in, our partnership agreement.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, our partnership agreement provides that any determination by our General Partner must be made in good faith, and that our conflicts committee and the Board of Directors of our General Partner are entitled to a presumption that they acted in good faith. In any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

If you are not both a citizenship eligible holder and a rate eligible holder, your common units may be subject to redemption.

In order to avoid (1) any material adverse effect on the maximum applicable rates that can be charged to customers by our subsidiaries on assets that are subject to rate regulation by FERC or any analogous regulatory body, and (2) any substantial risk of cancellation or forfeiture of any property, including any governmental permit, endorsement or other authorization, in which we have an interest, we have adopted certain requirements regarding those investors who may own our common units. Citizenship eligible holders are individuals or entities whose nationality, citizenship or other related status does not create a substantial risk of cancellation or forfeiture of any property, including any governmental permit, endorsement or authorization, in which we have an interest, and will generally include individuals and entities who are U.S. citizens. Rate eligible holders are individuals or entities subject to U.S. federal income taxation on the income generated by us or entities not subject to U.S. federal income taxation on the income generated by us, so long as all of the entity's owners are subject to such taxation. If you are not a person who meets the requirements to be a citizenship eligible holder and a rate eligible holder, you run the risk of having your units redeemed by us at the market price as of the date three days before the date the notice of redemption is mailed. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our General Partner. In addition, if you are not a person who meets the requirements to be a citizenship eligible holder, you will not be entitled to voting rights.

Cost reimbursements, which will be determined in our General Partner's sole discretion, and fees due to our General Partner and its affiliates for services provided will be substantial and will reduce the amount of cash we have available for distribution to our unitholders.

Under our partnership agreement, we are required to reimburse our General Partner and its affiliates for all costs and expenses that they incur on our behalf for managing and controlling our business and operations. Except to the extent specified under our amended omnibus agreement, amended operational services agreement and tax sharing agreement, our General Partner determines the amount of these expenses. Under the terms of the amended omnibus agreement we will be required to reimburse Phillips 66 for the provision of certain operational and administrative support services to us. Under our amended operational services agreement, we will be required to reimburse Phillips 66 for the provision of certain maintenance, operating, administrative and construction services in support of our operations. Under our tax sharing agreement, we will reimburse Phillips 66 for our share of state and local income and other taxes incurred by Phillips 66 as a result of our results of operations being included in a combined or consolidated tax return filed by Phillips 66. Our General Partner and its affiliates also may provide us other services for which we will be charged fees as determined by our General Partner. The costs and expenses for which we are required to reimburse our General Partner and its affiliates are not subject to any caps or other limits. Payments to our General Partner and its affiliates will be substantial and will reduce the amount of cash we have available to distribute to unitholders.

Unitholders have very limited voting rights and, even if they are dissatisfied, they cannot remove our General Partner without its consent.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. For example, unlike holders of stock in a public corporation, unitholders will not have "say-on-pay" advisory voting rights. Unitholders did not elect our General Partner or the Board of Directors of our General Partner and will have no right to elect our General Partner or the Board of Directors of our General Partner on an annual or other continuing basis. The Board of Directors of our General Partner is chosen by the member of our General Partner, which is a wholly owned subsidiary of Phillips 66. Furthermore, if the unitholders are dissatisfied with the performance of our General Partner, they have little ability to remove our General Partner. As a result of these limitations, the price at which our common units trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

The unitholders are unable initially to remove our General Partner without its consent because our General Partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3 percent of all outstanding common units voting together as a single class is required to remove our General Partner. Our General Partner and its affiliates own approximately 71 percent of our total outstanding common units on an aggregate basis.

Unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20 percent or more of any class of units then outstanding, other than our General Partner, its affiliates, their transferees, and persons who acquired such units with the prior approval of the Board of Directors of our General Partner, cannot vote on any matter.

Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

Our General Partner units or the control of our General Partner may be transferred to a third party without unitholder consent.

Our General Partner may transfer its general partner units to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in our partnership agreement on the ability of Phillips 66 to transfer its membership interest in our General Partner to a third party. The new owner of our General Partner would then be in a position to replace the Board of Directors and officers of our General Partner with its own choices.

We may issue additional units without unitholder approval, which would dilute unitholder interests.

At any time, we may issue an unlimited number of general partner interests or limited partner interests of any type without the approval of our unitholders and our unitholders will have no preemptive or other rights (solely as a result of their status as unitholders) to purchase any such general partner interests or limited partner interests. Further, there are no limitations in our partnership agreement on our ability to issue equity securities that rank equal or senior to our common units as to distributions or in liquidation or that have special voting rights and other rights. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- Our unitholders' proportionate ownership interest in us will decrease.

- The amount of cash we have available to distribute on each unit may decrease.

- The ratio of taxable income to distributions may increase.

- The relative voting strength of each previously outstanding unit may be diminished.

- The market price of our common units may decline.

The issuance by us of additional general partner interests may have the following effects, among others, if such general partner interests are issued to a person who is not an affiliate of Phillips 66:

- Management of our business may no longer reside solely with our General Partner.

- Affiliates of the newly admitted general partner may compete with us, and neither that general partner nor such affiliates will have any obligation to present business opportunities to us.

Phillips 66 may sell units in the public or private markets, and such sales could have an adverse impact on the trading price of the common units.

At December 31, 2015, Phillips 66 held 58,349,042 common units. We have agreed to provide Phillips 66 with certain registration rights under applicable securities laws. The sale of these units in the public or private markets could have an adverse impact on the price of the common units or on any trading market that may develop.

Our General Partner’s discretion in establishing cash reserves may reduce the amount of cash we have available to distribute to our unitholders.

Our partnership agreement requires our General Partner to deduct from operating surplus the cash reserves that it determines are necessary to fund our future operating expenditures. In addition, the partnership agreement permits the general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party, or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash we have available to distribute to our unitholders.

Affiliates of our General Partner, including Phillips 66, DCP Midstream and CPChem, may compete with us, and neither our General Partner nor its affiliates have any obligation to present business opportunities to us.

Neither our partnership agreement nor our amended omnibus agreement prohibits Phillips 66 or any other affiliates of our General Partner, including DCP Midstream and CPChem, from owning assets or engaging in businesses that compete directly or indirectly with us. Under the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our General Partner or any of its affiliates, including Phillips 66, DCP Midstream and CPChem. Any such entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us does not have any duty to communicate or offer such opportunity to us. Consequently, Phillips 66 and other affiliates of our General Partner, including DCP Midstream and CPChem, may acquire, construct or dispose of additional midstream assets in the future without any obligation to offer us the opportunity to purchase any of those assets. As a result, competition from Phillips 66 and other affiliates of our General Partner, including DCP Midstream and CPChem, could materially and adversely impact our results of operations and distributable cash flow.

Our General Partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our General Partner and its affiliates own more than 80 percent of our then-outstanding common units, our General Partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units. Our General Partner and its affiliates owned approximately 71 percent of our common units at December 31, 2015.

Our General Partner, or any transferee holding incentive distribution rights, may elect to cause us to issue common units and general partner units to it in connection with a resetting of the target distribution levels related to its incentive distribution rights, without the approval of our conflicts committee or the holders of our common units. This could result in lower distributions to holders of our common units.

Our General Partner has the right, at any time when it has received distributions on its incentive distribution rights at the highest level to which it is entitled (48 percent, in addition to distributions paid on its 2 percent general partner interest) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our distributions at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution. If our General Partner elects to reset the target distribution levels, it will be entitled to receive a number of common units and general partner units. The number of common units to be issued to our General Partner will be equal to that number of common units that would have entitled their holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our General Partner on the incentive distribution rights in such two quarters. Our General Partner will also be issued the number of general partner units necessary to maintain our General Partner's interest in us at the level that existed immediately prior to the reset election. We anticipate that our General Partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion. It is possible, however, that our General Partner could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may, therefore, desire to be issued common units rather than retain the right to receive distributions based on the initial target distribution levels. This risk could be elevated if our incentive distribution rights have been transferred to a third party. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that they would have otherwise received had we not issued new common units and general partner units in connection with resetting the target distribution levels. Additionally, our General Partner has the right to transfer all or any portion of our incentive distribution rights at any time, and such transferee shall have the same rights as the general partner relative to resetting target distributions if our General Partner concurs that the tests for resetting target distributions have been fulfilled.

Our significant indebtedness and the restrictions in our debt agreements may adversely affect our future financial and operating flexibility.

We have significant indebtedness and may incur substantial additional indebtedness in the future. Our indebtedness may impose various restrictions and covenants on us that could have material adverse consequences, including:

- limiting our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes;

- reducing our funds available for operations, business opportunities and distributions to unitholders because of the amount of our cash flow required to make interest payments on our debt;

- making us more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

- limiting our flexibility to respond to changing business and economic conditions.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service any future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, investments or capital expenditures, selling assets or issuing equity, which could materially and adversely affect our financial condition, results of operations, cash flows and ability to make distributions to unitholders, as well as the trading price of our common units. We may not be able to affect any of these actions on satisfactory terms or at all.

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A deterioration of our credit profile could limit our access to the capital markets, which could materially and adversely affect our business.

A decrease in our debt or commercial credit capacity, including a deterioration of our credit profile, could increase our costs of borrowing money and/or limit our access to the capital markets and commercial credit, which could materially and adversely affect our business, financial condition, results of operations and cash flows. The terms of our debt arrangements may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with such terms could result in an event of default that would enable our lenders to declare the outstanding principal of that debt, together with accrued interest, to be immediately due and payable. If the payment of our debt is accelerated, defaults under our other debt instruments, if any, may be triggered. Our assets may be insufficient to repay such debt in full, and the holders of our units could experience a partial or total loss of their investment.

The NYSE does not require a publicly traded limited partnership like us to comply with certain of its corporate governance requirements.

We currently list our common units on the NYSE under the symbol PSXP. Because we are a publicly traded limited partnership, the NYSE does not require us to have a majority of independent directors on our General Partner’s Board of Directors or to establish a compensation committee or a nominating and corporate governance committee. Additionally, any future issuance of additional common units or other securities, including to affiliates, will not be subject to the NYSE’s shareholder approval rules that apply to a corporation. Accordingly, unitholders do not have the same protections afforded to certain corporations that are subject to all of the NYSE corporate governance requirements. See Item 10. Directors, Executive Officers and Corporate Governance, for additional information.

Tax Risks

Our tax treatment depends on our status as a partnership for federal income tax purposes. If the Internal Revenue Service (IRS) were to treat us as a corporation for federal income tax purposes, which would subject us to entity-level taxation, or if we were otherwise subjected to a material amount of additional entity-level taxation, then our distributable cash flow to our unitholders would be substantially reduced.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested a ruling from the IRS on this or any other tax matter affecting us.

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. A change in our business or a change in current law could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35 percent, and would likely pay state and local income tax at varying rates. Distributions would generally be taxed again as corporate dividends (to the extent of our current and accumulated earnings and profits), and no income, gains, losses, deductions, or credits would flow through to unitholders. Because a tax would be imposed upon us as a corporation, our distributable cash flow would be substantially reduced. In addition, changes in current state law may subject us to additional entity-level taxation by individual states. Because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Imposition of any such taxes may substantially reduce the cash available for distribution to unitholders. Therefore, if we were treated as a corporation for federal income tax purposes or otherwise subjected to a material amount of entity-level taxation, there would be material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution levels may be adjusted to reflect the impact of that law on us.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, from time to time, members of Congress propose and consider substantive changes to the existing federal income tax laws that affect publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be retroactively applied and could make it more difficult or impossible to meet the exception for us to be treated as a partnership for federal income tax purposes. We are unable to predict whether any such changes will ultimately be enacted. However, it is possible that a change in law could affect us, and any such changes could negatively impact the value of an investment in our common units.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our distributable cash flow to our unitholders.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the positions we take, and the IRS’s positions may ultimately be sustained. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take and such positions may not ultimately be sustained. A court may not agree with some or all of the positions we take. Any contest with the IRS, and the outcome of any IRS contest, may have a materially adverse impact on the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our General Partner because the costs will reduce our distributable cash flow.

If the IRS makes audit adjustments to our income tax returns for tax years beginning after 2017, it may collect any resulting taxes (including any applicable penalties and interest) directly from us, in which case our cash available for distribution to our unitholders might be substantially reduced.

Pursuant to the Bipartisan Budget Act of 2015, if the IRS makes audit adjustments to our income tax returns for tax years beginning after 2017, it may collect any resulting taxes (including any applicable penalties and interest) directly from us. We will generally have the ability to shift any such tax liability to our general partner and our unitholders in accordance with their interests in us during the year under audit, but there can be no assurance that we will be able to do so under all circumstances. If we are required to make payments of taxes, penalties and interest resulting from audit adjustments, our cash available for distribution to our unitholders might be substantially reduced.

We treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of our common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to unitholders. It also could affect the timing of these tax benefits or the amount of gain from sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to our unitholders’ tax returns.

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We prorate our items of income, gain, loss and deduction for federal income tax purposes between transferors and transferees of our units each month based upon the ownership of our units on the first business day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge aspects of our proration method, and, if successful, we would be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction for federal income tax purposes between transferors and transferees of our units each month based upon the ownership of our units on the first business day of each month, instead of on the basis of the date a particular unit is transferred. The U.S. Department of Treasury and the IRS recently issued Treasury Regulations that permit publicly traded partnerships to use a monthly simplifying convention that is similar to ours, but they do not specifically authorize all aspects of the proration method we have adopted. If the IRS were to successfully challenge this method, we could be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

We have adopted certain valuation methodologies in determining a unitholder's allocations of income, gain, loss and deduction. The IRS may challenge these methodologies or the resulting allocations, and such a challenge could adversely affect the value of our common units.

In determining the items of income, gain, loss and deduction allocable to our unitholders, in certain circumstances, including when we issue additional units, we must determine the fair market value of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we make many fair market value estimates using a methodology based on the market value of our common units as a means to measure the fair market value of our assets. The IRS may challenge these valuation methods and the resulting allocations of income, gain, loss and deduction.

A successful IRS challenge to these methods or allocations could adversely affect the amount, character and timing of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

The sale or exchange of 50 percent or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have technically terminated our partnership for federal income tax purposes if there is a sale or exchange of 50 percent or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50 percent threshold has been met, multiple sales of the same interest will be counted only once. Our technical termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1 if relief was not available, as described below) for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead we would be treated as a new partnership for federal income tax purposes. If treated as a new partnership, we must make new tax elections, including a new election under Section 754 of the Internal Revenue Code, and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has announced a publicly traded partnership technical termination relief program whereby, if a publicly traded partnership that technically terminated requests publicly traded partnership technical termination relief and such relief is granted by the IRS, among other things, the partnership will only have to provide one Schedule K-1 to unitholders for the year notwithstanding two partnership tax years.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 3. LEGAL PROCEEDINGS

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not a party to any reportable litigation or governmental or other proceeding, including those involving governmental authorities under federal, state and local laws regulating the discharge of materials into the environment, that we believe will have a material adverse impact on our consolidated financial position. In addition, as discussed in Note 13—Contingencies, under our amended omnibus agreement, Phillips 66 indemnifies us or assumes responsibility for certain liabilities relating to litigation and environmental matters attributable to the ownership or operation of our assets prior to their contribution to us from Phillips 66.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Common Unit Prices and Cash Distributions Per Unit
Our common units trade on the New York Stock Exchange (NYSE) under the symbol PSXP. The following table reflects intraday high and low sales prices per common unit and cash distributions declared to unitholders for each quarter presented:

	Common Unit Price		Quarterly Cash Distribution Per Unit*
	High	Low	
2015			
First Quarter	$81.63	61.50	.3700
Second Quarter	76.95	67.46	.4000
Third Quarter	72.25	40.00	.4280
Fourth Quarter	66.75	46.20	.4580
2014			
First Quarter	$50.45	35.50	.2743
Second Quarter	79.92	47.50	.3017
Third Quarter	79.83	61.82	.3168
Fourth Quarter	71.00	51.35	.3400

*Represents cash distribution attributable to the quarter and declared and paid within 45 days of quarter end pursuant to our partnership agreement.

Closing Common Unit Price at December 31, 2015	$61.40
Closing Common Unit Price at January 29, 2016	$56.68
Number of Unitholders of Record at January 30, 2016*	7

*In determining the number of unitholders, we consider clearing agencies and security position listings as one unitholder for each agency or listing.

Distributions of Available Cash
Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our "available cash" to unitholders of record on the applicable record date.

Definition of Available Cash. Available cash is defined in our partnership agreement. Available cash generally means, for any quarter, all cash and cash equivalents on hand at the end of that quarter:

less, the amount of cash reserves established by our General Partner to:

- Provide for the proper conduct of our business (including reserves for our future capital expenditures and future credit needs).

- Comply with applicable law or any of our debt instruments or other agreements.

- Provide funds for distributions to our unitholders and to our General Partner for any one or more of the next four quarters (provided that our General Partner may not establish cash reserves for distributions if the effect of the establishment of such reserves will prevent us from distributing the minimum quarterly distribution on all common units and any cumulative arrearages on such common units for the current quarter).

plus, if our General Partner so determines, all or any portion of the cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made subsequent to the end of such quarter.

Intent to Distribute the Minimum Quarterly Distribution. Under our current cash distribution policy, we intend to make at least the minimum quarterly distribution to the holders of our common units of $0.2125 per unit, to the extent we have sufficient available cash after the establishment of cash reserves. However, there is no guarantee that we will pay the minimum quarterly distribution on our units in any quarter. The amount of distributions paid under our cash distribution policy and the decision to make any distribution will be determined by our General Partner, taking into consideration the terms of our partnership agreement. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Revolving Credit Facility, for a discussion of the restrictions included in our revolving credit facility that may restrict our ability to make distributions.

General Partner Interest and Incentive Distribution Rights. Our General Partner is entitled to 2 percent of all quarterly distributions that we make. This general partner interest was represented by 1,683,425 general partner units at December 31, 2015. Our General Partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. The general partner's initial 2 percent interest in these distributions will be reduced if we issue additional units in the future and our General Partner does not contribute a proportionate amount of capital to us to maintain its 2 percent general partner interest.

Our General Partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 48 percent, of the available cash we distribute from operating surplus (as defined in our partnership agreement) in excess of $0.244375 per unit per quarter. The maximum distribution of 48 percent does not include any distributions that our General Partner or its affiliates may receive on common or general partner units that they own.

Percentage Allocations of Available Cash. The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our General Partner based on the specified target distribution levels in the partnership agreement. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our General Partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Per Unit Target Amount." The percentage interests shown for our unitholders and our General Partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our General Partner include its 2 percent general partner interest and assume that our General Partner has contributed any additional capital necessary to maintain its 2 percent general partner interest, our General Partner has not transferred its incentive distribution rights and there are no arrearages on common units.

	Total Quarterly Distribution Per Unit Target Amount		Marginal Percentage Interest in Distributions	
			Unitholders	General Partner
Minimum Quarterly Distribution	$0.212500		98%	2%
First Target Distribution	Above $0.212500	up to $0.244375	98%	2%
Second Target Distribution	Above $0.244375	up to $0.265625	85%	15%
Third Target Distribution	Above $0.265625	up to $0.318750	75%	25%
Thereafter	Above $0.318750		50%	50%

Subordination Unit Conversion

Following the May 12, 2015, payment of the cash distribution attributable to the first quarter of 2015, the requirements under the partnership agreement for the conversion of all subordinated units into common units were satisfied. As a result, in the second quarter of 2015, the 35,217,112 subordinated units held by Phillips 66 converted into common units on a one-for-one basis and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion of the subordinated units does not impact the amount of cash distributions paid by us or the total number of outstanding units.

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Item 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data as of and for each of the five years in the period ended December 31, 2015.

Acquisitions from Phillips 66 are considered common control transactions. When businesses are acquired from Phillips 66 that will be consolidated by us, the financial information contained in the table below for periods prior to the acquisition date has been retrospectively adjusted to include the historical financial results of the businesses acquired (referred to as the results of our “Predecessors”).

When an asset or an investment accounted for by the equity method is acquired from Phillips 66, the financial information in the table below includes the results of those investments or assets prospectively from the date of acquisition. The most significant investment acquisition affecting the comparability of the periods in the table was the March 2, 2015, acquisition of one-third equity interests in Sand Hills and Southern Hills and a 19.46 percent interest in Explorer.

See Note 4—Acquisitions and Note 5—Equity Investments, in the Notes to Consolidated Financial Statements, for additional information on our acquisitions that affect the comparability of the information below.

To ensure full understanding, you should read the selected financial data presented below in conjunction with Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and accompanying notes included elsewhere in this Annual Report on Form 10-K.

	Millions of Dollars Except Per Unit Amounts				
	2015	2014	2013	2012	2011
Transportation and terminaling services revenue—related parties	$260.6	222.9	181.9	141.8	134.6
Transportation and terminaling services revenue—third parties	5.0	6.1	5.1	3.5	5.2
Equity in earnings of affiliates	77.1	—	—	—	—
Net income	194.2	124.4	96.7	59.1	63.2
Net income attributable to the Partnership	194.2	116.0	28.9	**	**
Limited partners’ interest in net income attributable to the Partnership	153.2	107.7	28.3	**	**
Net income attributable to the Partnership per limited partner unit (basic and diluted)					
Common units	2.02	1.48	0.40	**	**
Subordinated units—Phillips 66	1.24	1.45	0.40	**	**
Total assets	1,523.5	539.5	775.3	262.3	240.5
Long term debt	1,090.7	18.0	—	—	—
Note payable—related parties	—	411.6	—	—	—
Cash distributions declared per limited partner unit	1.5380	1.1176	0.1548	**	**

**Information is not applicable for the periods prior to the Offering.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis is the Partnership's analysis of its financial performance, financial condition, and significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. It contains forward-looking statements including, without limitation, statements relating to the Partnership's plans, strategies, objectives, expectations and intentions. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "plan," "potential," "predict," "seek," "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guida "effort," "target" and similar expressions identify forward-looking statements. The Partnership does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Partnership's disclosures under the heading: "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS."

BUSINESS ENVIRONMENT AND EXECUTIVE OVERVIEW

Partnership Overview

We are a Delaware limited partnership formed in 2013 by Phillips 66 Company and Phillips 66 Partners GP LLC (our General Partner), both wholly owned subsidiaries of Phillips 66. On August 1, 2015, Phillips 66 Company transferred all of its limited partner interest in us and its 100 percent interest in Phillips 66 Partners GP LLC to its wholly owned subsidiary, Phillips 66 Project Development Inc. We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum products and natural gas liquids (NGL) pipelines and other transportation and midstream assets. On July 26, 2013, we completed our initial public offering (the Offering), and our common units trade on the New York Stock Exchange under the symbol PSXP.

2015 developments included:

- Bayou Bridge Joint Venture Acquisition. On December 1, 2015, we acquired Phillips 66's 40 percent interest in Bayou Bridge Pipeline, LLC (Bayou Bridge Pipeline) for total consideration of approximately $69.6 million, consisting of the assumption of a $34.8 million note payable to Phillips 66 that was immediately paid in full and the issuance of common and general partner units to Phillips 66.

- Cross-Channel Connector Products System Project. In October 2015, the Cross-Channel Connector Products System began providing shippers with a connection from our Pasadena terminal to third-party systems with water access on the Houston Ship Channel.

- Eagle Ford Gathering System Project. In September 2015, full operations commenced at our crude oil gathering system connecting Eagle Ford production to third-party pipelines.

- Sand Hills/Southern Hills/Explorer Equity Investment Acquisition. On March 2, 2015, we acquired Phillips 66's one-third equity interests in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), as well as Phillips 66's 19.46 percent equity interest in Explorer Pipeline Company (Explorer).

- Issuance of Senior Notes. On February 23, 2015, we closed on a public offering of unsecured senior notes in an aggregate principal amount of $1.1 billion (Notes Offering).

- Issuance of Common Units. On February 23, 2015, we closed on a public offering of 5,250,000 common units for total proceeds (net of underwriting discounts) of $384.5 million (Units Offering).

- Formation of Bakken Joint Ventures. On January 16, 2015, we closed on the formation of two joint ventures with Paradigm Energy Partners LLC (Paradigm). We contributed cash and a North Dakota crude oil rail terminal growth project previously acquired from Phillips 66.

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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, rail racks and storage facilities. In addition, our equity affiliates generate revenue primarily from transporting NGL and refined petroleum products. Since we do not own any of the crude oil, refined petroleum products and NGL we handle, and do not engage in the trading of these commodities, 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.

We have multiple commercial agreements with Phillips 66, including transportation services agreements, terminal services agreements, storage services agreements and rail terminal services agreements. Under these long-term, fee-based agreements, we provide transportation, terminaling, storage and rail terminal services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly throughput volumes of crude oil and refined petroleum products or minimum monthly capacity or service fees. We believe these agreements promote stable and predictable cash flows and they are the source of a substantial portion of our revenue. We also have several other agreements with Phillips 66, including an amended omnibus agreement and an operational services agreement. See Note 20—Related Party Transactions, in the Notes to Consolidated Financial Statements, for a summary of the terms of these agreements.

Basis of Presentation

See the "Basis of Presentation" section of Note 1—Business and Basis of Presentation, in the Notes to Consolidated Financial Statements, for important information on the content and comparability of our historical financial statements.

Executive Overview

Net income and net income attributable to the Partnership was $194.2 million in 2015. We generated cash from operations of $229.8 million, and we raised $1,474 million from the Notes and Unit Offerings. This cash was primarily used to fund strategic acquisitions of businesses and assets, pay off notes to affiliates, fund capital expenditures, and make quarterly cash distributions to our unitholders and General Partner. As of December 31, 2015, we had cash and cash equivalents of $48.0 million, total debt of $1,090.7 million, and unused capacity under our revolving credit facility of $500.0 million.

Our 2015 operations and strategic initiatives demonstrated our continuing focus on our business strategies:

- Maintain safe and reliable operations. We are committed to maintaining and improving the safety, reliability and efficiency of our operations, which we believe to be key components in generating stable cash flows. We strive for operational excellence by utilizing Phillips 66's existing programs to integrate health, occupational safety, process safety and environmental principles throughout our business with a commitment to continuous improvement. We continue to employ Phillips 66's rigorous training, integrity and audit programs to drive ongoing improvements in both personal and process safety as we strive for zero incidents. Controlling operating expenses and overhead costs, within the context of our commitment to safety and environmental stewardship, is a high priority. We actively monitor these costs using various methodologies that are reported to senior management. We are committed to protecting the environment and strive to reduce our environmental footprint throughout our operations.

- Focus on fee-based businesses supported by contracts with minimum volume commitments and inflation escalators. We are focused on generating stable and predictable cash flows by providing fee-based transportation and midstream services to Phillips 66 and third parties. We have multiple long-term, fee-based commercial agreements with Phillips 66 that include minimum volume commitments and inflation escalators. We believe these agreements will substantially mitigate volatility in our cash flows by reducing our direct exposure to commodity price fluctuations.

- Grow through strategic acquisitions. We plan to pursue strategic acquisitions of assets from Phillips 66 and third parties. We believe Phillips 66 will offer us opportunities to purchase additional transportation and midstream assets that it currently owns or that it may acquire or develop in the future. We also may have opportunities to pursue the acquisition or development of additional assets jointly with Phillips 66.

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- Optimize existing assets and pursue organic growth opportunities. We will seek to enhance the profitability of our existing assets by pursuing opportunities to increase throughput and storage volumes, as well as by managing costs and improving operating efficiencies. We also intend to consider opportunities to increase revenue on our pipeline, terminal, rail rack and storage systems by evaluating and capitalizing on organic expansion projects that may arise in the markets we serve.

How We Evaluate Our Operations
Our management uses a variety of financial and operating metrics to analyze our performance, including: (1) volumes handled (including pipeline throughput, terminaling throughput and storage volumes); (2) operating and maintenance expenses; (3) net income (loss) before net interest expense, income taxes, depreciation and amortization (EBITDA); (4) adjusted EBITDA; and (5) distributable cash flow.

Volumes Handled
The amount of revenue we generate primarily depends on the volumes of crude oil and refined petroleum products that we handle in our pipeline, terminal, rail rack and storage systems. In addition, our equity affiliates generate revenue from transporting NGL and refined petroleum products. These volumes are primarily affected by the supply of, and demand for, crude oil and refined petroleum products in the markets served directly or indirectly by our assets, as well as the operational status of the refineries served by our assets. Phillips 66 has committed to minimum throughput volumes under many of our commercial agreements.

Operating and Maintenance Expenses
Our management seeks to maximize the profitability of our operations by effectively managing operating and maintenance expenses. These expenses primarily consist of labor expenses (including contractor services), utility costs, and repair and maintenance expenses. These expenses generally remain relatively stable across broad ranges of throughput volumes, but can fluctuate from period to period depending on the mix of activities, particularly maintenance activities, performed during that period. Although we seek to manage our maintenance expenditures on our pipelines, terminals, rail racks and storage facilities to avoid significant variability in our quarterly cash flows, we balance this approach with our high standards of safety and environmental stewardship, such that critical maintenance is performed regularly.

Our operating and maintenance expenses are also affected by volumetric gain/loss resulting from variances in meter readings and other measurement methods, as well as volume fluctuations due to pressure and temperature changes. Under certain commercial agreements with Phillips 66, the value of any crude oil or refined petroleum product volumetric gain/loss is determined by reference to the monthly average reference price for the applicable commodity. Any gains and losses under these provisions decrease or increase, respectively, our operating and maintenance expenses in the period in which they are realized. These contractual volumetric gain/loss provisions could increase variability in our operating and maintenance expenses.

EBITDA, Adjusted EBITDA and Distributable Cash Flow
We define EBITDA as net income plus net interest expense, income taxes, depreciation and amortization, attributable to both the Partnership and our Predecessors.

Adjusted EBITDA is the EBITDA directly attributable to the Partnership after deducting the EBITDA attributable to our Predecessors, adjusted for:

- The difference between cash distributions received and equity earnings from our affiliates.

- Transaction costs associated with acquisitions.
- Certain other noncash items, including expenses indemnified by Phillips 66.

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Distributable cash flow is generally defined as adjusted EBITDA less net interest, maintenance capital expenditures and income taxes paid, plus adjustments for deferred revenue from minimum volume commitments and prefunded maintenance capital expenditures.

EBITDA, adjusted EBITDA and distributable cash flow are not presentations made in accordance with accounting principles generally accepted in the United States (GAAP). EBITDA, adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may find useful to assess:

- Our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or, in the case of EBITDA and adjusted EBITDA, financing methods.

- The ability of our business to generate sufficient cash to support our decision to make distributions to our unitholders.

- Our ability to incur and service debt and fund capital expenditures.

- The viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

The GAAP performance measure most directly comparable to EBITDA, adjusted EBITDA and distributable cash flow is net income. The GAAP liquidity measure most directly comparable to EBITDA and distributable cash flow is net cash provided by operating activities. These non-GAAP financial measures should not be considered alternatives to GAAP net income or net cash provided by operating activities. They have important limitations as analytical tools because they exclude some items that affect net income and net cash provided by operating activities. Additionally, because EBITDA, adjusted EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definition of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Business Environment

We generate revenue primarily from long-term, fee-based agreements with Phillips 66. These agreements are intended to promote cash flow stability and minimize our direct exposure to commodity price fluctuations. In addition, our equity affiliates generate revenue primarily from transporting NGL and refined petroleum products. Although there has been a sustained decline in commodity prices, because we do not take ownership of the crude oil, refined petroleum products and NGL that we transport and store for our customers, and we do not engage in the trading of any commodities, our direct exposure to commodity price fluctuations is limited to the loss allowance provisions in our tariffs and the volumetric gain/loss calculations included in our commercial agreements with Phillips 66 and other customers. We also have indirect exposure to commodity price fluctuations to the extent such fluctuations affect the shipping and terminaling patterns of Phillips 66 or our other customers.

Our throughput volumes depend primarily on the volume of crude oil processed and refined petroleum products produced at Phillips 66’s owned or operated refineries with which our assets are integrated, which in turn is primarily dependent on Phillips 66’s refining margins and maintenance schedules. Refining margins depend on the cost of crude oil or other feedstocks and the price of refined petroleum products. These prices are affected by numerous factors beyond our or Phillips 66’s control, including the domestic and global supply of and demand for crude oil and refined petroleum products. Our equity investment throughput volumes depend primarily on upstream drilling activities, market performance and product supply and demand.

While we believe we have substantially mitigated our indirect exposure to commodity price fluctuations through the minimum volume commitments in our commercial agreements with Phillips 66 during the respective terms of those agreements, our ability to execute our growth strategy in our areas of operation will depend, in part, on the availability of attractively priced crude oil in the areas served by our crude oil pipelines and rail racks, demand for refined petroleum products in the markets served by our refined petroleum product pipelines and terminals, and the general demand for midstream services, including NGL transportation.

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RESULTS OF OPERATIONS

	Millions of Dollars		
	Year Ended December 31		
	2015	2014	2013
Revenues			
Transportation and terminaling services—related parties	$260.6	222.9	181.9
Transportation and terminaling services—third parties	5.0	6.1	5.1
Equity in earnings of affiliates	77.1	—	—
Other income	5.4	0.1	0.2
Total revenues and other income	348.1	229.1	187.2
Costs and Expenses			
Operating and maintenance expenses	62.2	52.5	52.2
Depreciation	21.8	16.2	14.3
General and administrative expenses	26.6	25.6	18.4
Taxes other than income taxes	9.0	4.2	4.8
Interest and debt expense	33.9	5.3	0.3
Other expenses	0.1	0.1	—
Total costs and expenses	153.6	103.9	90.0
Income before income taxes	194.5	125.2	97.2
Provision for income taxes	0.3	0.8	0.5
Net Income	194.2	124.4	96.7
Less: Net income attributable to Predecessors	—	8.4	67.8
Net income attributable to the Partnership	194.2	116.0	28.9
Less: General Partner's interest in net income attributable to the Partnership	41.0	8.3	0.6
Limited partners' interest in net income attributable to the Partnership	$153.2	107.7	28.3
Adjusted EBITDA	$266.5	141.0	32.5
Distributable cash flow	$228.2	128.2	30.4
Net cash provided by operating activities	$229.8	142.4	97.6

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	Year Ended December 31		
	2015	2014	2013
	Thousands of Barrels Daily		
Pipeline, Terminal and Storage Volumes			
Pipelines[1]			
Pipeline throughput volumes			
Wholly Owned Pipelines			
Crude oil	289	286	272
Refined products	467	420	400
Total	756	706	672
Selected Joint Venture Pipelines[2]			
Natural gas liquids	236	—	—
Terminals			
Terminaling throughput and storage volumes			
Crude oil[3]	519	477	383
Refined products	435	430	391
Total	954	907	774
Revenue Per Barrel (dollars)			
Average pipeline revenue per barrel[4]	$0.46	0.50	0.52
Average terminaling and storage revenue per barrel	0.40	0.30	0.22

(1) Represents the sum of volumes transported through each separately tariffed pipeline segment.
(2) Total post-acquisition pipeline system throughput volumes for the Sand Hills and Southern Hills pipelines (100 percent basis) per day for each period presented.
(3) Crude oil terminals include Bayway and Ferndale rail rack volumes.
(4) Excludes average pipeline revenue per barrel from equity affiliates.

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The following tables present reconciliations of EBITDA, adjusted EBITDA and distributable cash flow to net income and EBITDA and distributable cash flow to net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

	Millions of Dollars		
	Year Ended December 31		
	2015	2014	2013
Reconciliation to Net Income			
Net income	$194.2	124.4	96.7
Plus:			
Depreciation	21.8	16.2	14.3
Net interest expense	33.6	5.2	0.1
Amortization of deferred rentals	0.4	0.4	0.2
Provision for income taxes	0.3	0.8	0.5
EBITDA	250.3	147.0	111.8
Distributions in excess of equity earnings	12.1	—	—
Expenses indemnified or prefunded by Phillips 66	1.9	1.6	0.1
Transaction costs associated with acquisitions	2.2	2.7	0.4
EBITDA attributable to Predecessors	—	(10.3)	(79.8)
Adjusted EBITDA	266.5	141.0	32.5
Plus:			
Adjustments related to minimum volume commitments	4.0	0.6	—
Phillips 66 prefunded maintenance capital expenditures	—	1.9	0.7
Less:			
Net interest	34.3	3.2	0.1
Income taxes paid	0.3	0.2	—
Maintenance capital expenditures	7.7	11.9	2.7
Distributable Cash Flow	$228.2	128.2	30.4

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	Millions of Dollars		
	Year Ended December 31		
	2015	2014	2013
Reconciliation to Net Cash Provided by Operating Activities			
Net cash provided by operating activities	$229.8	142.4	97.6
Plus:			
Net interest expense	33.6	5.2	0.1
Provision for income taxes	0.3	0.8	0.5
Changes in working capital	(10.3)	(0.3)	12.3
Undistributed equity earnings	0.1	—	—
Accrued environmental costs	(0.8)	—	1.1
Other	(2.4)	(1.1)	0.2
EBITDA	250.3	147.0	111.8
Distributions in excess of equity earnings	12.1	—	—
Expenses indemnified or prefunded by Phillips 66	1.9	1.6	0.1
Transaction costs associated with acquisitions	2.2	2.7	0.4
EBITDA attributable to Predecessors	—	(10.3)	(79.8)
Adjusted EBITDA	266.5	141.0	32.5
Plus:			
Adjustments related to minimum volume commitments	4.0	0.6	—
Phillips 66 prefunded maintenance capital expenditures	—	1.9	0.7
Less:			
Net interest	34.3	3.2	0.1
Income taxes paid	0.3	0.2	—
Maintenance capital expenditures	7.7	11.9	2.7
Distributable Cash Flow	$228.2	128.2	30.4

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Minimum Volume Commitments

Under certain of our transportation services agreements, if Phillips 66 fails to transport a minimum throughput volume during any quarter, then Phillips 66 will pay us a deficiency payment based on the calculation described in the agreement. Billings to Phillips 66 for these shortfall volumes are recorded as "Deferred revenues—related parties" on our consolidated balance sheet, as Phillips 66 generally has the right to make up the shortfall volumes in the following four quarters. The deferred revenue is recognized at the earlier of the quarter in which Phillips 66 makes up the shortfall volumes or the expiration of the period in which Phillips 66 is contractually allowed to make up the shortfall volumes.

Detail on these deferred revenues follows.

	Millions of Dollars Years Ended December 31 2015	2014	2013
Deferred revenues—beginning of period	$0.6	—	—
Quarterly deficiency payments[1]	9.2	6.4	—
Quarterly deficiency make-up/expirations[2]	(5.4)	(5.8)	—
Deferred revenues—end of period	$4.4	0.6	—

[1] Cash received with deferred revenue recognition.
[2] Revenue recognized on cash previously received.

Statement of Income Analysis

2015 vs. 2014

Transportation and terminaling services revenues increased $36.6 million, or 16 percent, in 2015. The increase was primarily attributable to additional terminaling revenues from the Bayway and Ferndale rail racks, which we acquired in December 2014, and additional pipeline volumes from the Cross-Channel Connector Products System, which was also acquired in December 2014. There were also additional pipeline volumes from the Eagle Ford Gathering System, which began phase one of operations in January 2015. There was also a benefit from increased storage revenues attributable to the Medford Spheres, which began operations in March 2014.

Equity in earnings of affiliates increased $77.1 million due to the acquisition of the equity interests in Sand Hills, Southern Hills and Explorer in March 2015.

Other income increased $5.3 million primarily due to receiving contractual make-whole payments associated with the transfer of a co-venturer's interests in Sand Hills and Southern Hills to DCP Midstream, LLC.

Operating expense and maintenance expenses increased $9.7 million, or 18 percent, in 2015. The increase was primarily due to additional costs associated with the assets acquired in the fourth quarter of 2014 and cleanup costs associated with a diesel fuel release in April 2015 on our pipeline that transports products from the Hartford Terminal to a dock on the Mississippi River. The increase was partially offset by lower maintenance costs.

Depreciation increased $5.6 million, or 35 percent, in 2015, primarily due to depreciation associated with the Bayway and Ferndale rail racks, which commenced operations in the second half of 2014.

Taxes other than income taxes increased $4.8 million in 2015, resulting from higher property taxes assessed on assets acquired in 2014.

Interest and debt expense increased $28.6 million in 2015, primarily due to the issuance of $1.1 billion in aggregate principal amount of senior notes in February 2015. See Note 11—Debt, in the Notes to Consolidated Financial Statements, for additional information.

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2014 vs. 2013

Transportation and terminaling services revenues increased $42.0 million, or 22 percent, in 2014, primarily attributable to:

- Higher terminaling and storage volumes and rates resulting from the terminal and storage services agreements entered into with Phillips 66 in connection with the Offering and the Gold Line/Medford Acquisition.

- Additional storage revenues from the Medford Spheres, which commenced operations in March 2014.

- Additional terminaling revenues from the Bayway and Ferndale rail racks, which commenced operations in August and November 2014, respectively.

- Higher pipeline tariff rates on our pipelines.

- Higher pipeline throughput volumes primarily on our Sweeny to Pasadena Products System, driven by higher volumes shipped from the Sweeny Refinery in 2014. This was partially offset by lower pipeline throughput volumes on our Gold Line Products System due to lower volumes shipped from the Borger Refinery in 2014.

Depreciation increased $1.9 million, or 13 percent, in 2014, primarily due to additional depreciation associated with the Medford Spheres, which commenced operations in March 2014, and the Bayway and Ferndale rail racks, which commenced operations in August and November 2014, respectively. In addition, the increase in 2014 included asset retirements on our Gold Line Products System and Clifton Ridge Crude System.

General and administrative expenses increased $7.2 million, or 39 percent, in 2014, primarily reflecting a full year of incremental expenses associated with operating as a stand-alone publicly traded partnership after the Offering, including audit fees, director fees, insurance costs for directors and officers, and incremental employee costs. Additionally, the increase in 2014 reflected transaction costs, including legal, advisory and audit fees, associated with the 2014 acquisitions.

Interest and debt expense increased $5.0 million in 2014, primarily due to the notes payable assumed in the first and fourth quarters of 2014 associated with the acquisitions of the Gold Line/Medford Assets, the Bayway/Ferndale/Cross–Channel Assets and the Palermo Rail Terminal project. See Note 11—Debt, in the Notes to Consolidated Financial Statements, for additional information.

CAPITAL RESOURCES AND LIQUIDITY

Significant Sources of Capital

Our sources of liquidity include cash generated from operations, borrowings from related parties and under our revolving credit facility, and issuances of additional debt and equity securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements, and make our quarterly cash distributions.

Operating Activities

During 2015, cash of $229.8 million was provided by operating activities, a 61 percent improvement over cash from operations of $142.4 million in 2014. The improvement was mainly driven by distributions from our equity affiliates that were acquired in March 2015 and higher revenues primarily from assets that commenced operations in the second half of 2014. These increases were partially offset by interest and debt expense and increased operating and maintenance expenses.

During 2014, cash of $142.4 million was provided by operating activities, a 46 percent improvement over cash from operations of $97.6 million in 2013. The improvement was driven by higher revenues and favorable working capital impacts, partially offset by higher general and administrative expenses and interest and debt expense. Favorable working capital impacts in 2014, compared with 2013, primarily reflected the payment of accrued environmental costs in 2013, and increased accounts payable and accrued interest in 2014.

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Senior Notes
In February 2015, we issued, through a public offering, $1.1 billion of debt consisting of:

- $300 million of 2.646% Senior Notes due February 15, 2020.
- $500 million of 3.605% Senior Notes due February 15, 2025.
- $300 million of 4.680% Senior Notes due February 15, 2045.

Total proceeds (net of underwriting discounts) received from the Notes Offering were $1,092.0 million. We utilized a portion of the net proceeds to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments. In addition, we used a portion of the proceeds to repay three notes payable to a subsidiary of Phillips 66. Interest on each series of senior notes is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on August 15, 2015. Our senior unsecured long-term debt has been rated investment grade by Standard & Poor’s Rating Services (BBB) and Moody’s Investor Services (Baa3).

Common Units
In February 2015, we issued an aggregate of 5,250,000 common units representing limited partner interests to the public at a price of $75.50 per common unit. We received proceeds (net of underwriting discounts) from the Units Offering of $384.5 million. We utilized a portion of the net proceeds from the Units Offering to partially fund the acquisition of the Sand Hills, Southern Hills and Explorer equity investments and to repay amounts outstanding under our revolving credit facility. We used the remaining proceeds to fund expansion capital expenditures and for general partnership purposes.

Revolving Credit Facility
In November 2014, we entered into a first amendment (the Amendment) to our revolving credit agreement (the Credit Agreement) with several commercial lending institutions (the Credit Agreement and the Amendment are referred to as the Amended Credit Agreement). The Amendment increased the available amount to $500 million and extended the termination date to November 21, 2019. We have the option to increase the overall capacity of the Amended Credit Agreement by up to an additional $250 million for a total of $750 million, subject to, among other things, the consent of the existing lenders whose commitments will be increased or any additional lenders providing such additional capacity. We also have the option to extend the Amended Credit Agreement for two additional one-year terms after November 21, 2019, subject to, among other things, the consent of the lenders holding the majority of the commitments and of each lender extending its commitment.

Outstanding borrowings under the Amended Credit Agreement bear interest, at our option, at either: (a) the Eurodollar rate in effect from time to time plus the applicable margin; or (b) the reference rate (as described in the Amended Credit Agreement) plus the applicable margin. Prior to our obtaining credit ratings, if any, the pricing levels for the commitment fee and interest-rate margins are determined based on the ratio of total debt as of such date to EBITDA (as described in the Amended Credit Agreement) for the prior four fiscal quarters (debt-to-EBITDA). With an investment grade credit rating, the pricing levels are determined based on the credit ratings in effect from time to time. The Amendment modifies the debt-to-EBITDA covenant such that, prior to our obtaining an investment grade rating, the debt-to-EBITDA ratio must be not greater than 4.0 to 1.0 as of the last day of each fiscal quarter (and 4.5 to 1.0 during the specified period following certain acquisitions). With an investment grade rating, the debt-to-EBITDA ratio reverts back to the pre-Amendment requirement of it being not greater than 5.0 to 1.0 as of the last day of each fiscal quarter (and 5.5 to 1.0 during the specified period following certain acquisitions). If an event of default occurs under the Amended 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. During the first quarter of 2015, we repaid all amounts borrowed under our revolving credit facility. No amounts were outstanding at December 31, 2015.

Notes Payable

In March 2014, we entered into an agreement with certain subsidiaries of Phillips 66 as part of the consideration for the acquisition of the Gold Line Pipeline and Medford Spheres pursuant to which we assumed a 5-year, $160 million note payable, due February 28, 2019, to a subsidiary of Phillips 66. Interest on the note payable was at a fixed rate of 3.0 percent per annum.

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In December 2014, we entered into an agreement with certain subsidiaries of Phillips 66 as part of the consideration for the acquisition of the Bayway, Ferndale and Cross-Channel Connector assets pursuant to which we assumed a 5-year, $244 million note payable, due December 1, 2019, to a subsidiary of Phillips 66. Interest on the note payable was at a fixed rate of 3.1 percent per annum. We also entered into an agreement with certain subsidiaries of Phillips 66 as part of the consideration for the acquisition of Phillips 66's interests in the Palermo Rail Terminal project pursuant to which we assumed a 5-year, $7.6 million note payable to a subsidiary of Phillips 66. Interest on the note payable was at a fixed rate of 2.9 percent per annum.

During the first quarter of 2015, we repaid all amounts borrowed under these notes to Phillips 66's subsidiaries.

Shelf Registration
We have a universal shelf registration statement on file with the U.S. Securities and Exchange Commission (the SEC) under which we, as a well-known seasoned issuer, have the ability to issue and sell an indeterminate amount of common units representing limited partner interests and debt securities.

Off-Balance Sheet Arrangements
We have not entered into any transactions, agreements or other contractual arrangements that would result in off-balance sheet liabilities.

Capital Requirements

Acquisitions
During 2015 and 2014 we completed several major acquisitions, including:

- The December 2015 acquisition of Phillips 66's 40 percent interest in Bayou Bridge Pipeline.
- The March 2015 acquisition of Phillips 66's one-third equity interests in Sand Hills and Southern Hills and its 19.46 percent equity interest in Explorer.
- The December 2014 acquisition of Phillips 66's Bayway and Ferndale rail racks.
- The March 2014 acquisition of Phillips 66's Gold Line and Medford assets.

See Note 4—Acquisitions, Note 5—Equity Investments and Note 18—Cash Flow Information, in the Notes to Consolidated Financial Statements, for additional information on our acquisitions, including consideration paid and the cash and noncash elements of the transactions.

Capital Expenditures and Investments
Our operations can be capital intensive, requiring investments to expand, upgrade, maintain or enhance existing operations and to meet environmental and operational requirements of our wholly owned and equity affiliated entities. Our capital requirements consist of maintenance capital expenditures and expansion capital expenditures, including contributions to our joint ventures. Examples of maintenance capital expenditures are those made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. In contrast, expansion capital expenditures are those made to expand and upgrade our systems and facilities and to construct or acquire new systems or facilities to grow our business, including contributions to joint ventures that are using the contributed funds for such purposes.

Our capital expenditures and investments for the years ended December 31, 2015, 2014 and 2013 were:

	Millions of Dollars		
	2015	2014	2013
Capital Expenditures and Investments Attributable to our Predecessors	$—	90.8	84.1
Capital expenditures and investments attributable to the Partnership			
Expansion	197.3	54.2	1.2
Maintenance	7.7	11.9	2.7
Total	205.0	66.1	3.9
Total capital expenditures and investments	$205.0	156.9	88.0

Our capital expenditures and investments for the year ended December 31, 2015, were $205.0 million, primarily associated with the following activities:

- Acquisition of Phillips 66’s interest in Bayou Bridge Pipeline.
- Shared construction costs of the joint venture projects with Paradigm, including construction of the Palermo Rail Terminal, the Sacagawea Pipeline, a crude oil storage terminal and a central delivery facility in North Dakota.
- Construction, completion and start up of the Eagle Ford Gathering System.
- Contributions to our Sand Hills joint venture.
- Reactivation and expansion of the Cross-Channel Connector Products System.

Our capital expenditures and investments for the year ended December 31, 2014, were $156.9 million, reflecting:

- Construction of rail racks to accept crude deliveries at the Bayway and Ferndale refineries.
- Construction and acquisition costs associated with the Palermo Rail Terminal project.
- Acquisition costs associated with the Eagle Ford Gathering System project.
- Reactivation of the Cross-Channel Connector Products System.
- Replacement of buried piping with above-ground piping on our Clifton Ridge Crude System.
- Engineering and survey work in preparation for the construction of a new tank and installation of enhanced equipment at our Hartford terminal, as well as the reactivation of a portion of the Hartford connector pipeline to a new connection point to increase available capacity.

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Our capital expenditures and investments for the year ended December 31, 2013, were $88.0 million, reflecting:

- Construction of rail racks to accept crude deliveries at the Bayway and Ferndale refineries.
- Construction of two refinery-grade propylene storage spheres at Medford, Oklahoma.
- Returning an idled tank back to service, activating an additional bay at the truck rack, and commissioning biodiesel blending services at our Hartford terminal, thereby increasing the terminal's available capacity.
- Expansion of ethanol storage capacity at our Wichita terminal.

We have forecasted capital expenditures and investments to be approximately $314 million for the year ending December 31, 2016. Of that amount, $300 million is allocated to growth projects and $14 million is targeted for maintenance capital spending. The forecasted capital expenditures and investments are primarily directed toward spending on:

- Shared construction costs of the Sacagawea Pipeline, a crude oil storage terminal and a central delivery facility in North Dakota within our Bakken joint ventures.
- Construction of the first segment of the pipeline to Lake Charles and continued funding of the St. James segment within our Bayou Bridge Pipeline joint venture.
- Contributions to our Sand Hills joint venture.
- Various upgrades and replacements on our assets.

We anticipate the forecasted maintenance capital expenditures will be funded primarily with cash from operations. We expect to rely primarily upon financing sources, including borrowings under the Amended Credit Agreement, borrowings from related parties and the issuance of debt and equity securities, to fund any significant future expansion capital expenditures.

Cash Distributions
On January 21, 2016, the Board of Directors of our General Partner declared a quarterly cash distribution of $0.458 per limited partner unit which, combined with distributions to our General Partner, will result in total distributions of $51.4 million attributable to the fourth quarter of 2015. This distribution was paid February 12, 2016, to unitholders of record as of February 3, 2016.

Cash distributions will be made to our General Partner in respect of its 2 percent general partner interest and its ownership of all incentive distribution rights (IDRs), which entitle our General Partner to receive increasing percentages, up to 50 percent, of quarterly cash distributions in excess of $0.244375 per unit. Accordingly, based on the per-unit distribution declared on January 21, 2016, our General Partner received approximately 27 percent of the total cash distributions attributable to the fourth quarter of 2015.

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The following table summarizes our announced quarterly cash distributions for 2015 and 2014:

Quarter Ended	Quarterly Cash Distribution Per Limited Partner Unit* (Dollars)	Total Quarterly Cash Distribution (Millions of Dollars)	Date of Distribution
December 31, 2015	$0.4580	$51.4	February 12, 2016
September 30, 2015	0.4280	46.2	November 12, 2015
June 30, 2015	0.4000	41.5	August 12, 2015
March 31, 2015	0.3700	36.7	May 12, 2015
December 31, 2014	0.3400	29.1	February 13, 2015
September 30, 2014	0.3168	25.3	November 13, 2014
June 30, 2014	0.3017	23.9	August 13, 2014
March 31, 2014	0.2743	21.1	May 13, 2014

*Cash distributions declared attributable to the indicated periods.

Subordination Unit Conversion

Following the May 12, 2015, payment of the cash distribution attributable to the first quarter of 2015, the requirements under the partnership agreement for the conversion of all subordinated units into common units were satisfied. As a result, in the second quarter of 2015 the 35,217,112 subordinated units held by Phillips 66 converted into common units on a one-for-one basis, and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion of the subordinated units does not impact the amount of cash distributions paid by us or the total number of outstanding units.

Contractual Obligations

The following table summarizes our aggregate contractual obligations as of December 31, 2015:

	Millions of Dollars Payments Due by Period				
	Total	Up to 1 Year	Years 2-3	Years 4-5	After 5 Years
Debt obligations (a)	$1,090.7	—	—	300.0	790.7
Interest on debt	621.1	40.0	80.0	76.0	425.1
Operating lease obligations	73.6	1.9	3.8	3.8	64.1
Purchase obligations (b)	23.5	14.1	2.6	2.6	4.2
Other short-term and long-term liabilities:					
Asset retirement obligations	3.4	—	—	—	3.4
Accrued environmental costs	1.6	0.8	—	—	0.8
Total	$1,813.9	56.8	86.4	382.4	1,288.3

(a) See Note 11—Debt, in the Notes to Consolidated Financial Statements, for additional information.

(b)

Represents any agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms. Includes accounts payable reflected on our consolidated balance sheet.

In addition to the obligations included in the table above, we are party to an amended omnibus agreement with Phillips 66. The amended omnibus agreement contractually requires us to pay a fixed annual fee of $29.7 million to Phillips 66 for certain administrative and operational support services being provided to us. The amended omnibus agreement generally remains in full force and effect so long as Phillips 66 controls our General Partner. Due to the indefinite nature of the agreement's term, the fixed fee is not included in the contractual obligations table above.

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.

Based on currently available information, we believe it is remote that future costs related to known contingent liability exposures will exceed current accruals by an amount that would have a material adverse impact on our consolidated financial statements. 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 required, and the determination of our liability in proportion to that of other potentially 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.

Regulatory Matters
Our interstate common carrier crude oil and refined petroleum products pipeline operations are subject to rate regulation by the Federal Energy Regulatory Commission under the Interstate Commerce Act and Energy Policy Act of 1992, and certain of our pipeline systems providing intrastate service are subject to rate regulation by applicable state authorities under their respective laws and regulations. Our pipeline, rail rack and terminal operations are also subject to safety regulations adopted by the Department of Transportation, as well as to state regulations. See Items 1 and 2. Business and Properties—Rates and Other Regulations, for more information on federal and state regulations affecting our business.

Legal and Tax Matters
Under our amended omnibus agreement, Phillips 66 provides certain services for our benefit, including legal and tax support services, and we pay an operational and administrative support fee for these services. Phillips 66's legal and tax organizations apply their knowledge, experience and professional judgment to the specific characteristics of our cases and uncertain tax positions. Phillips 66's legal organization employs 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 December 31, 2015, and December 31, 2014, we did not have any material accrued contingent liabilities associated with litigation matters. In the case of income-tax-related contingencies, Phillips 66's tax

organization monitors tax legislation and court decisions, the status of tax audits and the statute of limitations within which a taxing authority can assert a liability. See Note 17—Income Taxes, in the Notes to Consolidated Financial Statements, for additional information about income-tax-related contingencies.

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Environmental
We are subject to extensive federal, state and local environmental laws and regulations. These requirements, which change frequently, regulate the discharge of materials into the environment or otherwise relate to protection of the environment. Compliance with these laws and regulations may require us to remediate environmental damage from any discharge of petroleum or chemical substances from our facilities or require us to install additional pollution control equipment at or on our facilities. Our failure to comply with these or any other environmental or safety-related regulations could result in the assessment of administrative, civil, or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of governmental orders that may subject us to additional operational constraints. Future expenditures may be required to comply with the Clean Air Act and other federal, state and local requirements in respect of our various sites, including our pipelines and storage assets. The impact of legislative and regulatory developments, if enacted or adopted, could result in increased compliance costs and additional operating restrictions on our business, each of which could have an adverse impact on our financial position, results of operations and liquidity.

As with all costs, if these expenditures are not ultimately reflected in the tariffs and other fees we receive for our services, our operating results will be adversely affected. We believe that substantially all similarly situated parties and holders of comparable assets must comply with similar environmental laws and regulations. However, the specific impact on each may vary depending on a number of factors, including, but not limited to, the age and location of its operating facilities.

We accrue for environmental remediation activities when the responsibility to remediate is probable and the amount of associated costs can be reasonably estimated. As environmental remediation matters proceed toward ultimate resolution or as additional remediation obligations arise, charges in excess of those previously accrued may be required. New or expanded environmental requirements, which could increase our environmental costs, may arise in the future. We believe we are in substantial compliance with all legal requirements regarding the environment; however, it is not possible to predict all of the ultimate costs of compliance, including remediation costs that may be incurred and penalties that may be imposed, because not all of the costs are fixed or presently determinable (even under existing legislation) and the costs may be affected by future legislation or regulations.

In April 2015, our pipeline that transports products from the Hartford Terminal to a dock on the Mississippi River experienced a diesel fuel release of approximately 800 barrels. The release was halted on the same day, and cleanup and remediation efforts followed. Costs recognized during 2015 associated with cleanup and remediation of the release were $5.0 million. We continue to work with the appropriate authorities and costs are subject to change if additional information on the environmental impact of the release becomes known. We carry property and third-party liability insurance, each in excess of $5.0 million self-insured retentions.

At December 31, 2015, we had $1.6 million of environmental accruals. In the future, we may be involved in additional environmental assessments, cleanups and proceedings. See Items 1 and 2. Business and Properties—Environmental Regulations, for additional information regarding environmental regulations.

Indemnifications and Excluded Liabilities
See Note 13—Contingencies, in the Notes to Consolidated Financial Statements, for information on indemnifications provided to us by Phillips 66 on certain assets we acquired from Phillips 66, as well as assumed responsibility for liabilities on certain assets acquired from Phillips 66, in each case related to the ownership of those assets by Phillips 66 prior to their contribution to us.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 2—Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements, for descriptions of our major accounting policies. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used. The following discussions of critical accounting estimates, along with the discussion of contingencies in this report, address all important accounting areas where the nature of accounting estimates or assumptions could be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change.

Depreciation
We calculate depreciation expense using the straight-line method over the estimated useful lives of our properties, plants and equipment (PP&E), currently ranging from 3 years to 45 years. Changes in the estimated useful lives of our PP&E could have a material effect on our results of operations.

Impairments
Long-lived assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in future cash flows expected to be generated by an asset group. If, upon review, the sum of the undiscounted pretax cash flows is less than the carrying value of the asset group, including applicable liabilities, the carrying value of the long-lived assets included in the asset group is written down to estimated fair value. Individual assets are grouped for impairment purposes based on a judgmental assessment of the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, generally at a pipeline system or terminal level. Because there usually is a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined using one of the following methods: present values of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants; a market multiple of earnings for similar assets; or historical market transactions of similar assets, adjusted for principal market participant assumptions when necessary. The expected future cash flows used for impairment reviews and related fair value calculations are based on judgmental assessments of future tariffs, volumes, operating costs, and capital project decisions, considering all available information at the date of review.

Investments in nonconsolidated entities accounted for under the equity method are reviewed for impairment when there is evidence of a loss in value. Such evidence of a loss in value might include our inability to recover the carrying amount, the lack of sustained earnings capacity which would justify the current investment amount, or a current fair value less than the investment's carrying amount. When it is determined such a loss in value is other than temporary, an impairment charge is recognized for the difference between the investment's carrying value and its estimated fair value. When determining whether a decline in value is other than temporary, management considers factors such as the length of time and extent of the decline, the investee's financial condition and near-term prospects, and our ability and intention to retain our investment for a period that will be sufficient to allow for any anticipated recovery in the market value of the investment. When quoted market prices are not available, the fair value is usually based on the present value of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants and a market analysis of comparable assets, if appropriate. Differing assumptions could affect the timing and the amount of an impairment of an investment in any period.

Asset Retirement Obligations
Under various contracts, permits and regulations, we have legal obligations to remove tangible equipment and restore the land at the end of operations at certain operational sites. Our largest asset removal obligations involve the abandonment or removal of pipeline. Estimating the timing and amount of payments for future asset removal costs is difficult. Most of these removal obligations are many years, or decades, in the future and the contracts and regulations often have vague descriptions of what removal practices and criteria must be met when the removal event actually occurs. Asset removal technologies and costs, regulatory and other compliance considerations, expenditure timing, and other inputs into valuation of the obligation, including discount and inflation rates, are also subject to change.

Environmental Costs

In addition to asset retirement obligations discussed above, under the above or similar contracts, permits and regulations, we have certain obligations to complete environmental-related projects. These obligations are primarily related to historical releases of refined petroleum products. Future environmental remediation costs are difficult to estimate because they 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 required, and the determination of our liability in proportion to that of other responsible parties.

NEW ACCOUNTING STANDARDS

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments-Overall (Subtopic 825-10),” to meet its objective of providing more decision-useful information about financial instruments. The majority of this ASU’s provisions amend only the presentation or disclosures of financial instruments; however, one provision will also affect net income. Equity investments carried under the cost method or lower of cost or fair value method of accounting, in accordance with current generally accepted accounting principles, will have to be carried at fair value upon adoption of ASU 2016-01, with changes in fair value recorded in net income. For equity investments that do not have readily determinable fair values, a company may elect to carry such investments at cost less impairments, if any, adjusted up or down for price changes in similar financial instruments issued by the investee, when and if observed. Public business entities should apply the guidance in ASU 2016-01 for annual periods beginning after December 15, 2017, and interim periods within those annual periods, with early adoption prohibited. We are currently evaluating the provisions of ASU 2016-01 and assessing the impact, if any, it may have on our financial position and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes - Balance Sheet Classification of Deferred Taxes.” The new update will simplify the presentation of deferred income taxes and will require deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The classification shall be made at the tax-paying component level of an entity, after reflecting any offset of deferred tax liabilities, deferred tax assets and any related valuation allowances. Public business entities should apply the guidance in ASU 2015-17 for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application for public entities is permitted. The amendments can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We are currently evaluating the provisions of ASU 2015-17, but do not expect it to have a material impact on our financial statements.

In June 2014, the FASB issued ASU 2014-10, “Development Stage Entities (Topic 915).” The new standard removes the definition of a development stage entity from the Master Glossary of Accounting Standard Codification and the related financial reporting requirements specific to development stage entities. This ASU is intended to reduce cost and complexity of financial reporting for entities that have not commenced planned principal operations. For financial reporting requirements other than the variable interest entity (VIE) guidance in ASC Topic 810, “Consolidation,” ASU 2014-10 was effective for annual and quarterly reporting periods of public entities beginning after December 15, 2014. For the financial reporting requirements related to VIEs in ASC Topic 810, “Consolidation,” ASU 2014-10 is effective for annual and quarterly reporting periods of public entities beginning after December 15, 2015. Early application for public entities is permitted. We are currently evaluating the provisions of ASU 2014-10. Our preliminary assessment indicates that additional disclosures related to VIEs may be required for our joint ventures if the planned principal operations have not commenced.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The new standard converged guidance on recognizing revenues in contracts with customers under accounting principles generally accepted in the United States and International Financial Reporting Standards. This ASU is intended to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” The amendment in this ASU defers the effective date of ASU 2014-09 for all entities for one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period. Retrospective or modified retrospective application of the accounting standard is required. We are currently evaluating the provisions of ASU 2014-09 and assessing the impact, if any, it may have on our financial position and results of operations. As part of our assessment work to-date, we have formed an implementation work team, completed training of the new ASU's revenue recognition model and begun contract review and documentation.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse fluctuations in interest rates, the exchange rates of foreign currency markets, and commodity prices. Since we operate only in the United States, we are not exposed to foreign currency exchange-rate risk.

Commodity Price Risk

As we neither take ownership of the crude oil, refined petroleum products or NGLs we transport or store for our customers nor engage in commodity trading, we have limited direct exposure to risks associated with fluctuating commodity prices. Certain of our pipeline tariffs include a contractual loss allowance, calculated as a percentage of throughput volume multiplied by the quoted market price of the commodities being shipped. This loss allowance, which represented 5 percent, 10 percent and 13 percent of our total transportation and terminaling services revenues in 2015, 2014 and 2013, respectively, is more volatile than tariffs and terminaling fees, as it depends on and fluctuates with commodity prices; however, we do not intend to mitigate this risk to our revenues by hedging this commodity price exposure.

Interest Rate Risk

During the first quarter of 2015, we repaid our $411.6 million of notes payable to Phillips 66, as well as the then outstanding balance on our revolving credit facility. In February 2015, we issued $1.1 billion in aggregate principal amount of senior notes with varying maturity dates. Because the senior notes have fixed rates, their fair value is sensitive to changes in U.S. interest rates. The following table presents the principal cash flow and associated interest rates of these notes by their expected maturity dates, as of December 31, 2015. The fair value of the fixed-rate financial instruments is estimated based on quoted market prices of comparable notes.

	Millions of Dollars Except as Indicated			
Expected Maturity Date	Fixed-Rate Maturity	Average Interest Rate	Floating Rate Maturity	Average Interest Rate
Year-End 2015				
2016	$—		$—	
2017	—		—	
2018	—		—	
2019	—		—	
2020	300.0	2.6 %	—	
Remaining years	800.0	4.0 %	—	
Total	$1,100.0		—	
Fair value	$939.1		$—	

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	Millions of Dollars Except as Indicated					
Expected Maturity Date	Fixed-Rate Maturity	Average Interest Rate		Floating Rate Maturity	Average Interest Rate	
Year-End 2014						
2015	$—			$—		
2016	—			—		
2017	—			—		
2018	—			—		
2019	411.6	3.1	%	18.0	1.3	%
Remaining years	—			—		
Total	$411.6			18.0		
Fair value	$415.4			$18.0		

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. You can identify our forward-looking statements by the words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "sho "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about us and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

- The continued ability of Phillips 66 to satisfy its obligations under our commercial and other agreements.
- The volume of crude oil, NGL and refined petroleum products we transport, terminal and store.
- The tariff rates with respect to volumes that we transport through our regulated assets, which rates are subject to review and possible adjustment by federal and state regulators.
- Changes in revenue we realize under the loss allowance provisions of our regulated tariffs resulting from changes in underlying commodity prices.
- Fluctuations in the prices for crude oil, NGL and refined petroleum products.
- Changes in global economic conditions and the effects of a global economic downturn on the business of Phillips 66 and the business of its suppliers, customers, business partners and credit lenders.
- Liabilities associated with the risks and operational hazards inherent in transporting, terminaling and storing crude oil, NGL and refined petroleum products.
- Curtailment of operations due to severe weather disruption; riots, strikes, lockouts or other industrial disturbances; or failure of information technology systems due to various causes, including unauthorized access or attack.
- Inability to timely obtain or maintain permits, including those necessary for capital projects; comply with government regulations; or make capital expenditures required to maintain compliance.
- Failure to timely complete construction of announced and future capital projects.
- The operation, financing and distribution decisions of our joint ventures.
- Costs or liabilities associated with federal, state and local laws and regulations relating to environmental protection and safety, including spills, releases and pipeline integrity.
- Costs associated with compliance with evolving environmental laws and regulations on climate change.
- Costs associated with compliance with safety regulations, including pipeline integrity management program testing and related repairs.
- Changes in the cost or availability of third-party vessels, pipelines, rail cars and other means of delivering and transporting crude oil, NGL and refined petroleum products.
- Direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war.
- The factors generally described in Item 1A. Risk Factors in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PHILLIPS 66 PARTNERS LP

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Report of Management

The accompanying consolidated financial statements of Phillips 66 Partners LP (the Partnership) and the other information appearing in this Annual Report were prepared by, and are the responsibility of, management of the Partnership's general partner, Phillips 66 Partners GP LLC. The consolidated financial statements present fairly the Partnership's financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. In preparing its consolidated financial statements, the Partnership includes amounts that are based on estimates and judgments management of the Partnership's general partner believes are reasonable under the circumstances. The Partnership's financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm appointed by the Audit Committee of the Phillips 66 Partners GP LLC Board of Directors. The management of the Partnership's general partner has made available to Ernst & Young LLP all of the Partnership's financial records and related data, as well as the minutes of directors' meetings.

Assessment of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Phillips 66 Partners' internal control system was designed to provide reasonable assurance to the management and directors of the Partnership's general partner regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this assessment, management concluded the Partnership's internal control over financial reporting was effective as of December 31, 2015.

Ernst & Young LLP has issued an audit report on the Partnership's internal control over financial reporting as of December 31, 2015, and their report is included herein.

/s/ Greg C. Garland

Greg C. Garland
Chairman of the Board of Directors and
Chief Executive Officer
Phillips 66 Partners GP LLC
(the general partner of Phillips 66
Partners LP)

/s/ Kevin J. Mitchell

Kevin J. Mitchell
Director, Vice President and
Chief Financial Officer
Phillips 66 Partners GP LLC
(the general partner of Phillips 66
Partners LP)

February 12, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors of Phillips 66 Partners GP LLC and
Unitholders of Phillips 66 Partners LP

We have audited the accompanying consolidated balance sheet of Phillips 66 Partners LP as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the management of the Partnership's general partner, Phillips 66 Partners GP LLC. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC (the "Pipelines"). The Partnership accounts for its 33.34% interest in each of the Pipelines using the equity method of accounting. In the consolidated financial statements, the Partnership's total investment in the Pipelines is stated at $643.4 million as of December 31, 2015, and the Partnership's total equity in net income of the Pipelines is stated at $62.3 million for the year ended December 31, 2015. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pipelines, is based solely on the reports of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phillips 66 Partners LP at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Phillips 66 Partners LP's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 12, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 12, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors of Phillips 66 Partners GP LLC and
Unitholders of Phillips 66 Partners LP

We have audited Phillips 66 Partners LP's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Management of the Partnership’s general partner, Phillips 66 Partners GP LLC, is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included under the heading “Assessment of Internal Control Over Financial Reporting” in the accompanying “Report of Management.” Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Phillips 66 Partners LP maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of Phillips 66 Partners LP and our report dated February 12, 2016 expressed an unqualified opinion thereon.
/s/ Ernst & Young LLP

Houston, Texas

February 12, 2016

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Report of Independent Registered Public Accounting Firm

To the Members of
DCP Sand Hills Pipeline, LLC
Denver, Colorado

We have audited the consolidated balance sheet of DCP Sand Hills Pipeline, LLC and subsidiaries (the “Company”) as of December 31, 2015, and the related consolidated statements of operations, changes in members’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Denver, Colorado
February 12, 2016

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Report of Independent Registered Public Accounting Firm

To the Members of
DCP Southern Hills Pipeline, LLC
Denver, Colorado

We have audited the consolidated balance sheet of DCP Southern Hills Pipeline, LLC and subsidiaries (the "Company") as of December 31, 2015, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Denver, Colorado
February 12, 2016

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Consolidated Statement of Income Phillips 66 Partners LP

	Millions of Dollars		
Years Ended December 31	2015	2014	2013
Revenues and Other Income			
Transportation and terminaling services—related parties	$260.6	222.9	181.9
Transportation and terminaling services—third parties	5.0	6.1	5.1
Equity in earnings of affiliates	77.1	—	—
Other income	5.4	0.1	0.2
Total revenues and other income	348.1	229.1	187.2
Costs and Expenses			
Operating and maintenance expenses	62.2	52.5	52.2
Depreciation	21.8	16.2	14.3
General and administrative expenses	26.6	25.6	18.4
Taxes other than income taxes	9.0	4.2	4.8
Interest and debt expense	33.9	5.3	0.3
Other expenses	0.1	0.1	—
Total costs and expenses	153.6	103.9	90.0
Income before income taxes	194.5	125.2	97.2
Provision for income taxes	0.3	0.8	0.5
Net Income	194.2	124.4	96.7
Less: Net income attributable to Predecessors	—	8.4	67.8
Net income attributable to the Partnership	194.2	116.0	28.9
Less: General partner’s interest in net income attributable to the Partnership	41.0	8.3	0.6
Limited partners’ interest in net income attributable to the Partnership	$153.2	107.7	28.3
Net Income Attributable to the Partnership Per Limited Partner Unit—Basic and Diluted (dollars)			
Common units	$2.02	1.48	0.40
Subordinated units—Phillips 66	1.24	1.45	0.40
Cash Distributions Paid Per Limited Partner Unit (dollars)	$1.5380	1.1176	0.1548
Average Limited Partner Units Outstanding—Basic and Diluted			
Common units—public	23,376,421	18,888,750	18,888,750
Common units—Phillips 66	44,797,469	19,379,621	16,328,362
Subordinated units—Phillips 66	12,736,051	35,217,112	35,217,112

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income Phillips 66 Partners LP

	Millions of Dollars		
	2015	2014	2013
Net Income	$ 194.2	124.4	96.7
Other comprehensive income	—	—	—
Comprehensive Income	$ 194.2	124.4	96.7

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheet Phillips 66 Partners LP

	Millions of Dollars	
At December 31	2015	2014
Assets		
Cash and cash equivalents	$48.0	8.3
Accounts receivable—related parties	21.4	21.5
Accounts receivable—third parties	3.3	1.5
Materials and supplies	2.5	2.2
Other current assets	2.2	2.7
Total Current Assets	77.4	36.2
Equity investments	944.9	—
Net properties, plants and equipment	492.4	485.1
Goodwill	2.5	2.5
Intangibles	—	8.4
Deferred rentals—related parties	5.6	5.9
Deferred tax assets	—	0.5
Other assets	0.7	0.9
Total Assets	$1,523.5	539.5
Liabilities		
Accounts payable—related parties	$3.9	18.0
Accounts payable—third parties	8.3	10.2
Accrued property and other taxes	5.1	2.7
Accrued interest	15.1	1.9
Current portion of accrued environmental costs	0.8	—
Deferred revenues—related parties	4.4	0.6
Other current liabilities	0.1	0.3
Total Current Liabilities	37.7	33.7
Notes payable—related parties	—	411.6
Long-term debt	1,090.7	18.0
Asset retirement obligations	3.4	3.5
Accrued environmental costs	0.8	—
Deferred income taxes	0.3	—
Other liabilities	0.5	0.5
Total Liabilities	1,133.4	467.3
Equity		
Common unitholders—public (2015—24,138,750 units issued and outstanding; 2014—18,888,750 units issued and outstanding)	808.9	415.3
Common unitholder—Phillips 66 (2015—58,349,042 units issued and outstanding; 2014—20,938,498 units issued and outstanding)	233.0	57.1
Subordinated unitholder—Phillips 66 (2015—0 units issued and outstanding; 2014—35,217,112 units issued and outstanding)	—	116.8
General partner—Phillips 66 (2015—1,683,425 units issued and outstanding; 2014—1,531,518 units issued and outstanding)	(650.3)	(517.0)
Accumulated other comprehensive loss	(1.5)	—

Total Equity	390.1	72.2
Total Liabilities and Equity	$1,523.5	539.5

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows Phillips 66 Partners LP

	Millions of Dollars		
Years Ended December 31	2015	2014	2013
Cash Flows From Operating Activities			
Net income	$194.2	124.4	96.7
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	21.8	16.2	14.3
Deferred rentals—related parties	0.4	0.4	(0.3)
Accrued environmental costs	0.8	—	(1.1)
Undistributed Equity Earnings	(0.1)	—	—
Deferred taxes	0.1	0.2	—
Other	2.3	0.9	0.3
Working capital adjustments			
Decrease (increase) in accounts receivable	(1.7)	(11.3)	(11.0)
Decrease (increase) in materials and supplies	(0.2)	(0.2)	(0.3)
Decrease (increase) in other current assets	0.4	(0.3)	(2.2)
Increase (decrease) in accounts payable	(8.4)	9.4	6.6
Increase (decrease) in accrued interest	13.2	1.9	—
Increase (decrease) in deferred revenues	3.8	0.5	—
Increase (decrease) in environmental accruals	0.8	—	(6.0)
Increase (decrease) in other accruals	2.4	0.3	0.6
Net Cash Provided by Operating Activities	229.8	142.4	97.6
Cash Flows From Investing Activities			
Sand Hills/Southern Hills/Explorer equity investment acquisition*	(734.3)	—	—
Gold Line/Medford acquisition*	—	(138.0)	—
Bayway/Ferndale/Cross-Channel acquisition*	—	(28.0)	—
Capital expenditures and investments*	(205.0)	(156.9)	(88.0)
Return of investment from equity affiliates	12.1	—	—
Other	(7.7)	7.6	10.8
Net Cash Used in Investing Activities	(934.9)	(315.3)	(77.2)
Cash Flows From Financing Activities			
Net contributions from Phillips 66 to Predecessors	—	81.5	8.5
Project prefunding from Phillips 66	—	2.2	3.0
Issuance of debt	1,168.7	28.0	—
Repayment of debt	(498.6)	(10.0)	—
Issuance of common units	396.4	—	434.4
Offering costs	(12.5)	—	(30.0)
Debt issuance costs	(9.9)	(0.7)	(0.1)
Distributions to General Partner associated with acquisitions*	(145.7)	(262.0)	—
Quarterly distributions to common unitholders—public	(35.3)	(21.2)	(2.9)
Quarterly distributions to common unitholder—Phillips 66	(63.3)	(21.4)	(2.5)
Quarterly distributions to subordinated unitholder—Phillips 66	(25.0)	(39.3)	(5.5)
Quarterly distributions to General Partner—Phillips 66	(29.9)	(4.6)	(0.2)
Other cash contributions from (to) Phillips 66	(0.1)	3.6	—
Net Cash Provided by (Used in) Financing Activities	744.8	(243.9)	404.7

Net Change in Cash and Cash Equivalents	39.7	(416.8)	425.1
Cash and cash equivalents at beginning of period	8.3	425.1	—
Cash and Cash Equivalents at End of Period	$48.0	8.3	425.1

* See Note 18—Cash Flow Information for additional information.
See Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Equity Phillips 66 Partners LP

	Millions of Dollars						
	Partnership						
	Common Unitholders Public	Common Unitholder Phillips 66	Subordinated Unitholder Phillips 66	General Partner Phillips 66	Accum. Other Comprehensive Loss	Net Investment	Total
December 31, 2012	$—	—	—	—	—	242.4	242.4
Net income attributable to Predecessors	—	—	—	—	—	67.8	67.8
Net contributions from Phillips 66—Predecessors	—	—	—	—	—	8.5	8.5
Project prefunding from Phillips 66	—	—	—	—	—	3.0	3.0
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 attributable to the Partnership	7.6	6.5	14.2	0.6	—	—	28.9
Quarterly cash distributions to unitholders and General Partner	(2.9)	(2.5)	(5.5)	(0.2)	—	—	(11.1)
Other contributions from Phillips 66	—	—	0.1	—	—	—	0.1
December 31, 2013	409.1	48.6	104.9	11.5	—	169.9	744.0
Net income attributable to Predecessors	—	—	—	—	—	8.4	8.4
Net contributions from Phillips 66—Predecessors	—	—	—	—	—	96.3	96.3
Contributions from Phillips 66 prior to acquisitions	—	—	—	—	—	4.0	4.0
Project prefunding from Phillips 66	—	—	—	—	—	2.2	2.2
Allocation of net investment—Predecessors and deemed net distributions to General Partner	—	—	—	(535.7)	—	(280.8)	(816.5)
Issuance of units associated with acquisitions	—	0.8	—	—	—	—	0.8
Net income attributable to the Partnership	27.4	29.1	51.2	8.3	—	—	116.0
Quarterly cash distributions to unitholders and General Partner	(21.2)	(21.4)	(39.3)	(4.6)	—	—	(86.5)
	—	—	—	3.5	—	—	3.5

Other contributions from Phillips 66							
December 31, 2014	415.3	57.1	116.8	(517.0)	—	—	72.2
Issuance of common units	383.9	—	—	—	—	—	383.9
Conversion of subordinated units	—	107.6	(107.6)	—	—	—	—
Deemed net distributions to General Partner associated with acquisitions	—	5.1	—	(150.1)	—	—	(145.0)
Issuance of units associated with acquisitions	—	34.1	—	0.7	—	—	34.8
Net income attributable to the Partnership	45.0	92.4	15.8	41.0	—	—	194.2
Accumulated other comprehensive loss	—	—	—	—	(1.5)	—	(1.5)
Quarterly cash distributions to unitholders and General Partner	(35.3)	(63.3)	(25.0)	(29.9)	—	—	(153.5)
Other contributions from Phillips 66	—	—	—	5.0	—	—	5.0
December 31, 2015	$808.9	233.0	—	(650.3)	(1.5)	—	390.1

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Consolidated Statement of Changes in Equity — Phillips 66 Partners LP

	Common Units Public	Common Units Phillips 66	Subordinated Units Phillips 66	General Partner Units Phillips 66	Total Units
Units issued in July 2013	18,888,750	16,328,362	35,217,112	1,437,433	71,871,657
December 31, 2013	18,888,750	16,328,362	35,217,112	1,437,433	71,871,657
Units issued associated with acquisitions	—	4,610,136	—	94,085	4,704,221
December 31, 2014	18,888,750	20,938,498	35,217,112	1,531,518	76,575,878
Units issued associated with the public equity offering	5,250,000	—	—	—	5,250,000
Units issued associated with acquisitions	—	2,193,432	—	151,907	2,345,339
Subordinated unit conversion	—	35,217,112	(35,217,112)	—	—
December 31, 2015	24,138,750	58,349,042	—	1,683,425	84,171,217

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements Phillips 66 Partners LP

Note 1—Business and Basis of Presentation
Unless otherwise stated or the context otherwise indicates, all references to "Phillips 66 Partners," "the Partnership," "us," "our," "we," or similar expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries. References to Phillips 66 may refer to Phillips 66 and/or its subsidiaries, depending on the context.

Description of the Business
We are a Delaware limited partnership formed in 2013 by Phillips 66 Company and Phillips 66 Partners GP LLC (our General Partner), both wholly owned subsidiaries of Phillips 66. On August 1, 2015, Phillips 66 Company transferred all of its limited partner interest in us and its 100 percent interest in Phillips 66 Partners GP LLC to its wholly owned subsidiary, Phillips 66 Project Development Inc. We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum products and natural gas liquids (NGL) pipelines, terminals and other transportation and midstream assets. On July 26, 2013, we completed our initial public offering (the Offering), and our common units trade on the New York Stock Exchange under the symbol PSXP.

In the first quarter of 2015, we formed two joint ventures with Paradigm Energy Partners LLC (Paradigm) to develop midstream logistics infrastructure in North Dakota and we acquired Phillips 66's one-third equity interests in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), as well as Phillips 66's 19.46 percent equity interest in Explorer Pipeline Company (Explorer). In December 2015, we acquired Phillips 66's 40 percent interest in Bayou Bridge Pipeline, LLC (Bayou Bridge Pipeline).

As of December 31, 2015, our assets consisted of one crude oil pipeline, terminal and storage system; four refined petroleum products pipeline, terminal and storage systems; two crude oil rail racks; two refinery-grade propylene storage spheres; one crude oil gathering system; and six equity investments. The majority of our assets are connected to, and integral to the operation of, seven of Phillips 66's wholly owned or jointly owned refineries.

We generate revenue primarily by charging tariffs and fees for transporting crude oil and refined petroleum products through our pipelines, and for terminaling and storing crude oil and refined petroleum products at our terminals, rail racks and storage facilities. In addition, our equity affiliates generate revenue primarily from transporting NGL and refined petroleum products. Since we do not own any of the crude oil, NGL and refined petroleum products we handle and do not engage in the trading of crude oil, NGL and 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.

Basis of Presentation
Acquisitions from Phillips 66 are considered common control transactions. When businesses are acquired from Phillips 66 that will be consolidated by us, they are accounted for as if the transfer had occurred at the beginning of the period of transfer, with prior periods retrospectively adjusted to furnish comparative information. We refer to the historical results of these businesses prior to the effective date of our acquisition of them as the results of our "Predecessors." Also included in Predecessor results are the historical results of our initial assets prior to our initial public offering on July 26, 2013.

All intercompany transactions and accounts within our Predecessors have been eliminated. The assets and liabilities of our Predecessors in these financial statements have been reflected on a historical cost basis because the transfer of our Predecessors to us took place within the Phillips 66 consolidated group. The consolidated statement of income also includes expense allocations for certain functions performed by Phillips 66 and historically not allocated to the

Partnership, including allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, 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, or number of terminals and pipeline miles. Our management believes the assumptions underlying the allocation of expenses from Phillips 66 were reasonable. Nevertheless, the financial statements of our Predecessors may not include all of the actual expenses that would have been incurred had we been a stand-alone publicly traded

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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.

Note 2—Summary of Significant Accounting Policies

- Consolidation Principles and Investments—Our consolidated financial statements include the accounts of majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

- Net Investment—In the consolidated balance sheet, net investment represents Phillips 66's historical investment in our Predecessors, our Predecessors' accumulated net earnings after taxes, and the net effect of transactions with, and allocations from, Phillips 66.

- Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from these estimates.

- Common Control Transactions—Businesses acquired from Phillips 66 and its subsidiaries are accounted for as common control transactions whereby the net assets acquired are combined with ours at their carrying value. Any difference between carrying value and recognized consideration is treated as a capital transaction. To the extent that such transactions require prior periods to be recast, historical net equity amounts prior to the transaction date are reflected in "Net Investment." Cash consideration up to the carrying value of net assets acquired is presented as an investing activity in our consolidated statement of cash flows. Cash consideration in excess of the carrying value of net assets acquired is presented as a financing activity in our consolidated statement of cash flows.

- Revenue Recognition—Revenue is recognized for crude oil and refined petroleum product pipeline transportation based on the delivery of actual volumes transported at contractual tariff rates. Revenue is recognized for crude oil and refined petroleum product terminaling and storage as performed based on contractual rates related to throughput volumes, capacity or cost-plus-margin arrangements. A significant portion of our revenue is derived from Phillips 66 and, for periods presented prior to the acquisition date in common control transactions, the contractual rates with Phillips 66 do not necessarily reflect market rates.

Transportation contracts that are operating leases and include rentals with fixed escalation are recognized on a straight-line basis over the lease term. Any difference between the transportation fee recognized under the straight-line method and the transportation fee received in cash is deferred to the consolidated balance sheet as "Deferred rentals—related parties." If the underlying transportation contract is amended to eliminate fixed escalation, the balance of deferred rentals is amortized over the remaining life of the contract.

Certain transportation services agreements and terminal services agreements with Phillips 66 are considered operating leases under GAAP. 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. See Note 14—Leases for additional information on these operating leases and Note 20—Related Party Transactions for additional information on our agreements with Phillips 66.

Billings to Phillips 66 for shortfall volumes under its quarterly minimum volume commitments are recorded as "Deferred revenues—related parties" in our consolidated balance sheet, as Phillips 66 has the right to make up the shortfall volumes in the following four quarters. The deferred revenue will be recognized at the earlier of when shortfall volumes are made up or when the make-up rights contractually expire.

Cash Equivalents—Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and will mature within 90 days or less from the date of acquisition. We carry these at cost plus accrued interest, which approximates fair value.

- Imbalances—We do not purchase or produce crude oil or refined petroleum product inventories. We experience imbalances as a result of variances in meter readings and in other measurement methods, and volume fluctuations within our crude oil system due to pressure and temperature changes. Certain of our transportation contracts provide for the shipper to pay a contractual loss allowance, which is valued using quoted market prices of the applicable commodity being shipped. These contractual loss allowances, which are received from the shipper irrespective of, and calculated independently from, actual volumetric gains or losses, are recorded as revenue. Any actual volumetric gains or losses are valued using quoted market prices of the applicable commodities and are recorded as decreases or increases to operating and maintenance expenses, respectively.

- Fair Value Measurements—We measure assets and liabilities requiring fair value presentation or disclosure using an exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability) and disclose such amounts according to the quality of valuation inputs under the following hierarchy:

Level 1:	Quoted prices in an active market for identical assets or liabilities.
Level 2:	Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs.
Level 3:	Unobservable inputs that are significant to the fair value of assets or liabilities.

We classify the fair value of an asset or liability based on the lowest level of input significant to its measurement. A fair value initially reported as Level 3 will be subsequently reported as Level 2 if the unobservable inputs become inconsequential to its measurement, or corroborating market data becomes available. Asset and liability fair values initially reported as Level 2 will be subsequently reported as Level 3 if corroborating market data becomes unavailable.

The carrying amounts of our trade receivables and payables approximate fair values.

Nonrecurring Fair Value Measurements—Fair value measurements are applied with respect to our nonfinancial assets and liabilities measured on a nonrecurring basis, which consists primarily of asset retirement obligations. Nonrecurring fair value measurements are also applied, when applicable, to determine the fair value of our long-lived assets.

- Properties, Plants and Equipment (PP&E)—PP&E is stated at cost. Costs of maintenance and repairs, which are not significant improvements, are expensed when incurred. Depreciation of PP&E is determined by either the individual-unit-straight-line method or the group-straight-line method (for those individual units that are highly integrated with other units).

- Major Maintenance Activities—Costs for planned integrity management projects are expensed in the period incurred. These types of costs include pipe and tank inspection services, contractor repair services, materials and supplies, equipment rentals and our labor costs.

- Impairment of PP&E—PP&E used in operations is assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the future cash flows expected to be generated by an asset group. If, upon review, the sum of the undiscounted pretax cash flows is less than the carrying value of the asset group, including applicable liabilities, the carrying value of the PP&E in the asset group is written down to estimated fair value through additional depreciation provisions and reported as impairments in the periods in which the determination of the impairment is made. Individual assets are grouped for impairment purposes at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets—generally at a pipeline system or terminal level. Because there usually is a lack of quoted market prices for our long-lived assets, the fair value of impaired assets is typically determined based on one or more of the following methods: the present values of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants; a market multiple of earnings for similar assets; or historical market transactions of similar assets, adjusted using principal market participant assumptions when necessary.

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The expected future cash flows used for impairment reviews and related fair value calculations are based on estimated future throughputs, prices, operating costs, tariffs, and capital project decisions, considering all available evidence at the date of review.

- Impairment of Investments in Nonconsolidated Entities—Investments in nonconsolidated entities are assessed for impairment whenever changes in the facts and circumstances indicate a loss in value has occurred. When indicators exist, the fair value is estimated and compared to the investment carrying value. If any impairment is judgmentally determined to be other than temporary, the carrying value of the investment is written down to fair value. The fair value of the impaired investment is based on quoted market prices, if available, or upon the present value of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants and a market analysis of comparable assets, if appropriate.

- Capitalized Interest—Interest from external borrowings is capitalized on major projects with an expected construction period of six months or longer. Capitalized interest is added to the cost of the underlying asset's properties, plants and equipment and is amortized over the useful life of the assets.

- Intangible Assets Other Than Goodwill—Intangible assets with finite useful lives are amortized by the straight-line method over their useful lives. Intangible assets with indefinite useful lives are not amortized but are tested at least annually for impairment. Each reporting period, we evaluate the remaining useful lives of intangible assets not being amortized to determine whether events and circumstances continue to support indefinite useful lives. These indefinite-lived intangibles are considered impaired if the fair value of the intangible asset is lower than net book value. The fair value of intangible assets is determined based on quoted market prices in active markets, if available. If quoted market prices are not available, fair value of intangible assets is determined based upon the present values of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants, or upon estimated replacement cost, if expected future cash flows from the intangible asset are not determinable.

- Goodwill—Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the acquisition of a business. Goodwill is not amortized, but rather is tested for impairment annually and when events or changes in circumstances indicate that the fair value of the reporting unit with goodwill has been reduced below carrying value. The fair value of the reporting unit is compared to the book value of the reporting unit. If the fair value is less than book value, including goodwill, then the recorded goodwill is written down to its implied fair value with a charge to earnings. We have determined we have one reporting unit for testing goodwill for impairment.

- Asset Retirement Obligations and Environmental Costs—Fair values of legal obligations to retire and remove long-lived assets are recorded in the period in which the obligation is incurred. When the liability is initially recorded, we capitalize this cost by increasing the carrying amount of the related PP&E. Over time, the liability is increased for the change in its present value, and the capitalized cost in PP&E is depreciated over the useful life of the related asset or group of assets. Our estimate may change after initial recognition, in which case we record an adjustment to the liability and PP&E.

Environmental expenditures are expensed or capitalized, depending upon their future economic benefit. Expenditures relating to an existing condition caused by past operations, and those having no future economic benefit, are expensed. Liabilities for environmental expenditures are recorded on an undiscounted basis (unless acquired in a purchase business combination) when environmental assessments or cleanups are probable and the costs can be reasonably estimated. Recoveries of environmental remediation costs from other parties, such as state reimbursement funds, are recorded as assets when their receipt is probable and estimable.

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- Income Taxes—We follow the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of the assets and liabilities. Our taxable income was included in the consolidated U.S. federal income tax returns of Phillips 66 and in a number of consolidated state income tax returns. Our operations are treated as a partnership for federal and state income tax purposes, with each partner being separately taxed on its share of the taxable income. Therefore, we have excluded income taxes from these consolidated financial statements, except for the income tax provision resulting from state laws that apply to entities organized as partnerships. With regard to Texas, our tax provision is computed as if we were a stand-alone tax paying entity. Interest related to unrecognized tax benefits is included in interest and debt expense, and penalties are included in operating and maintenance expenses.

- Unit-Based Compensation—Upon awarding phantom units to non-employee directors of the Partnership, we immediately recognize compensation expense equal to the grant-date fair value of the phantom units, since these phantom units cannot be forfeited.

Note 3—Changes in Accounting Principles

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-06, "Earnings Per Share (Topic 260) - Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions." This ASU specifies that for purposes of calculating historical earnings per unit under the two-class method, the earnings of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner and, therefore, the previously reported earnings per unit of the limited partners would not change as a result of the dropdown transaction. ASU 2015-06 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and shall be applied retrospectively to each period presented. We have historically calculated earnings per unit after a dropdown transaction consistent with the approach required by ASU 2015-06. We adopted ASU 2015-06 effective in the third quarter of 2015. The adoption did not impact our consolidated financial statements.

Effective December 1, 2015, we early adopted the FASB ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs" and ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-15 states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing these costs when they relate to a line-of-credit arrangement. Upon adoption, we reclassified $9.2 million as a reduction of debt on our 2015 consolidated balance sheet.

Note 4—Acquisitions

2015 Acquisitions

During 2015, we entered into agreements to acquire Phillips 66's equity interests in Sand Hills, Southern Hills, Explorer and Bayou Bridge Pipeline. See Note 5—Equity Investments for information regarding our equity investments.

2014 Acquisitions

Gold Line/Medford Acquisition

In February 2014, we entered into a Contribution, Conveyance and Assumption Agreement (CCAA) with subsidiaries of Phillips 66 to acquire the Gold Line/Medford Assets, which were operating as a business at the time of their acquisition, for total consideration of $700.0 million, consisting of $400.0 million in cash; the issuance of 3,530,595 common units of the Partnership to Phillips 66 Company and the issuance of 72,053 general partner units of the Partnership to our General Partner to maintain its 2 percent general partner interest, with an aggregate fair value of the common and general partner units of $140.0 million; and the assumption by the Partnership of a 5-year, $160.0 million note payable to a subsidiary of Phillips 66. The Gold Line/Medford Acquisition closed on February 28, 2014, with an effective date of March 1, 2014. Total transaction costs of $1.8 million associated with the Gold Line/Medford Acquisition were expensed as incurred.

Bayway/Ferndale/Cross-Channel Acquisition
In October 2014, we entered into a CCAA and a separate Purchase and Sale Agreement (PSA) with subsidiaries of Phillips 66 to acquire the Bayway and Ferndale rail racks, which were operating as businesses at the time of their acquisition, and the Cross-Channel Connector project, an organic growth project to substantially expand and redevelop a pipeline system at the Houston Ship Channel. Consideration under the CCAA was $340.0 million, consisting of $28.0 million in cash; the issuance of 1,066,412 common units of the Partnership to Phillips 66 Company and the issuance of 21,764 general partner units of the Partnership to our General Partner to maintain its 2 percent general partner interest, with an aggregate fair value of the common and general partner units of $68.0 million; and the assumption by the Partnership of a 5-year, $244.0 million note payable to a subsidiary of Phillips 66. Consideration under the PSA was $7.0 million, payable in cash and reflected as a payable to Phillips 66 at December 31, 2014. Both transactions comprising the Bayway/Ferndale/Cross-Channel Acquisition closed on December 1, 2014, with total estimated transaction costs of $0.7 million expensed as incurred.

Palermo Rail Terminal Project Acquisition
In December 2014, we entered into a PSA with a subsidiary of Phillips 66 to purchase real property, assets under construction and lease agreements associated with the rail terminal project for $28.0 million in cash. In addition, we entered into a Contribution Agreement with certain subsidiaries of Phillips 66 to acquire Phillips 66's ownership interest in the rail terminal project, including permits, for total consideration of $8.4 million, consisting of the issuance of 13,129 common units of the Partnership to Phillips 66 Company and the issuance of 268 general partner units of the Partnership to our General Partner to maintain its 2 percent general partner interest, and the assumption by the Partnership of a 5-year, $7.6 million note payable to a subsidiary of Phillips 66. The acquisitions closed on December 5, 2014, and December 10, 2014.

Eagle Ford Gathering System Project Acquisition
In December 2014, we entered into a PSA with a subsidiary of Phillips 66 to acquire real property and assets under construction associated with the gathering system project for total consideration of $11.8 million. $5.5 million of the consideration was cash paid in December 2014, and $6.3 million was reflected as a payable to Phillips 66 at December 31, 2014. The acquisition closed on December 31, 2014.

In connection with the 2014 acquisitions, we entered into various commercial agreements with Phillips 66 and amended the omnibus agreement and the operational services agreement with Phillips 66. See Note 20—Related Party Transactions, for a summary of the terms of these agreements.

Because the Gold Line, Medford, Bayway and Ferndale acquisitions were considered transfers of businesses between entities under common control, these acquired businesses were transferred at historical carrying value under GAAP. The carrying value of the Gold Line/Medford Assets was $138.0 million as of February 28, 2014. The carrying value of the Bayway and Ferndale rail racks was $142.8 million as of November 30, 2014. Our historical financial statements have been retrospectively adjusted to reflect the results of operations, financial position, and cash flows of these acquired businesses prior to the effective date of each acquisition, as if we owned these acquired businesses for all periods presented. The acquisitions of the Cross-Channel, Palermo and Eagle Ford organic growth projects represented transfers of assets between entities under common control. Accordingly, these assets were also transferred at historical carrying value, but are included in the financial statements prospectively from the effective date of each acquisition.

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Note 5—Equity Investments

Bakken Joint Ventures
In January 2015, we closed on agreements with Paradigm to form two joint ventures to develop midstream logistics infrastructure in North Dakota. At closing, we contributed our Palermo Rail Terminal project for a 70 percent ownership interest in Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal), and $4.9 million in cash for a 50 percent ownership interest in Paradigm Pipeline LLC (Paradigm Pipeline). We account for both joint ventures under the equity method of accounting due to governance provisions that require supermajority voting on all decisions that significantly impact the governance, management and economic performance of the joint ventures.

Sand Hills/Southern Hills/Explorer Pipeline Joint Ventures
In February 2015, we entered into a CCAA with subsidiaries of Phillips 66 to acquire 100 percent of Phillips 66's one-third equity interests in Sand Hills and Southern Hills and its 19.46 percent equity interest in Explorer. The Sand Hills Pipeline is a 1,190-mile (including laterals), fee-based pipeline that transports NGL from plants in the Permian and Eagle Ford basins to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu, Texas, market hub. The Southern Hills Pipeline is a 940-mile (including laterals), fee-based pipeline that transports NGL from the Midcontinent to fractionation facilities along the Texas Gulf Coast and the Mont Belvieu market hub. The Explorer Pipeline is an approximately 1,830-mile, refined petroleum product pipeline extending from the Texas Gulf Coast to Indiana, transporting refined petroleum products to more than 70 major cities in 16 U.S. states. The transaction closed on March 2, 2015. Total consideration for the transaction was $1.01 billion consisting of $880 million in cash, funded by a portion of the proceeds from a public offering of unsecured senior notes (Notes Offering) and a public offering of common units (Units Offering); in addition, we issued 1,587,376 common units to Phillips 66 and 139,538 general partner units to our General Partner to maintain its 2 percent general partner interest. Total transaction costs of $0.9 million were expensed as incurred in general and administrative expenses.

Bayou Bridge Joint Venture Acquisition
On October 29, 2015, we entered into a CCAA with Phillips 66 to acquire its 40 percent interest in Bayou Bridge Pipeline, a joint venture in which Energy Transfer Partners and Sunoco Logistics Partners each hold a 30 percent interest, with Sunoco Logistics serving as the operator.

Bayou Bridge Pipeline is developing the Bayou Bridge pipeline, which will deliver crude oil from the Phillips 66 and Sunoco Logistics Partners terminals in Nederland, Texas, to Lake Charles, Louisiana, and onward to St. James, Louisiana. Construction is underway on the 30-inch Nederland to Lake Charles segment of the pipeline. The joint venture launched a binding expansion open season on October 1, 2015, to assess additional interest in transportation to refining markets in, and around, the St. James area. The results were used to determine the need for a 24-inch diameter pipeline segment extending to St. James.

The transaction closed on December 1, 2015. Total consideration for the transaction was approximately $69.6 million, consisting of the assumption of a $34.8 million note payable to Phillips 66 that was immediately paid in full; the issuance of 606,056 common units to Phillips 66; and the issuance of 12,369 general partner units of the Partnership to the General Partner to maintain its 2 percent general partner interest in the Partnership.

The acquisitions of interests in the Sand Hills, Southern Hills, Explorer and Bayou Bridge Pipeline joint ventures represented transfers of investments between entities under common control. Accordingly, these equity investments were transferred at historical carrying value, but are included in the financial statements prospectively from the effective date of each acquisition.

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The following table summarizes our equity investments at December 31, 2015 and 2014:

	Percentage Ownership		Millions of Dollars Carrying Value 2015	2014
Sand Hills	33.34	%	$430.5	—
Southern Hills	33.34		212.9	—
Explorer	19.46		102.4	—
Phillips 66 Partners Terminal	70.00		77.0	—
Paradigm Pipeline LLC	50.00		52.5	—
Bayou Bridge Pipeline	40.00		69.6	—
Total equity investments			$944.9	—

Southern Hills has a negative basis difference of $98.4 million, which originated when the pipeline, formerly known as Seaway Products, was sold to a related party. The negative basis difference represents a deferred gain and will be amortized over 46 years. Explorer has a positive basis difference of $82.3 million, which represents fair value adjustments attributable to ownership increases in the pipeline. The positive basis difference will be amortized over periods of 12 and 18 years.

We use the equity method of accounting for our 70 percent interest in Phillips 66 Partners Terminal due to the requirement for supermajority (80 percent) or unanimous consent of the owners in key governance issues pertaining to the joint venture. We use the equity method of accounting for our 19.46 percent interest in Explorer due to our ability to exert significant influence through our representation on Explorer’s board of directors.

Earnings from our equity investments for the years ended December 31, 2015 and 2014 were as follows:

	Millions of Dollars 2015		2014
Sand Hills	$48.3		—
Southern Hills	14.0		—
Explorer	15.1		—
Phillips 66 Partners Terminal	(0.2	)	—
Paradigm Pipeline	(0.1	)	—
Bayou Bridge Pipeline	—		—
Total equity in earnings of affiliates	$77.1		—

Summarized 100 percent financial information for all equity investments, combined, was as follows. Although the acquisition of Sand Hills, Southern Hills and Explorer closed on March 2, 2015, and the acquisition of Bayou Bridge Pipeline closed on December 1, 2015, the entire twelve-month periods ended December 31, 2015 and 2014, are presented in the table below for enhanced comparability.

	Millions of Dollars	
	2015	2014
Revenues	$713.7	564.3
Income before income taxes	385.7	257.0
Net income	383.9	210.0
Current assets	268.9	205.3
Noncurrent assets	3,106.1	2,688.1
Current liabilities	179.6	180.0
Noncurrent liabilities	446.1	400.9

Our share of income taxes incurred directly by equity investment companies is included in equity earnings of affiliates, and as such is not included in the provision for income taxes in our consolidated financial statements.

Distributions received from these affiliates were $89.1 million in 2015.

Note 6—Major Customer and Concentration of Credit Risk

Phillips 66 accounted for 96 percent, 95 percent and 94 percent of our total transportation and terminaling services revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Through our wholly owned and joint venture operations, we provide crude oil, refined petroleum products and NGL pipeline transportation, terminaling and storage and crude oil gathering and rail-unloading services to Phillips 66 and other related and third parties.

We are potentially exposed to concentration of credit risk primarily through our accounts receivable with Phillips 66. These receivables have payment terms of 30 days or less. We monitor the creditworthiness of Phillips 66, which has an investment grade credit rating, and we have no history of collectability issues with Phillips 66.

Note 7—Properties, Plants and Equipment

Our investment in PP&E, with the associated accumulated depreciation, at December 31 was:

	Estimated Useful Lives