2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2019**

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.)*

2331 CityWest Blvd., 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	Trading Symbols(s)	Name of each exchange on which registered
Common Units, Representing Limited Partnership Interests	PSXP	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. ☒ 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 ☒ 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. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

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

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

The aggregate market value of the registrant's common units held by non-affiliates of the registrant on June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of $49.35, was $2,764 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.

The registrant had 228,299,576 common units outstanding as of January 31, 2020.

Documents incorporated by reference:

None

PHILLIPS 66 PARTNERS LP

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Unless the context otherwise indicates, all references to "Phillips 66 Partners LP," "the Partnership," "us," "our," "we," or similar 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," "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions identify 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, 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% interest in our General Partner to its wholly owned subsidiary, Phillips 66 Project Development Inc. (Phillips 66 PDI). On August 1, 2019, all of the outstanding incentive distribution rights (IDRs) held by our General Partner were eliminated and its general partner interest in us was converted to a noneconomic interest in exchange for common units. As of December 31, 2019, Phillips 66, through Phillips 66 PDI, owned 169,760,137 common units, representing a 74% limited partner interest. The public owned 58,539,439 common units, representing a 26% limited partner interest. The public also owned 13,819,791 perpetual convertible preferred units.

We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based midstream assets. 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.

We primarily generate revenue by providing fee-based transportation, terminaling, processing, storage and fractionation services to Phillips 66 and other customers. Our equity affiliates primarily generate revenue from transporting and terminaling crude oil, refined petroleum products and natural gas liquids (NGL). 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 crude oil, refined petroleum products and NGL, 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 entered into long-term, fee-based commercial agreements with Phillips 66 to provide transportation, terminaling, processing, storage, stevedoring, fractionation, and rail terminal services. Under these agreements, Phillips 66 commits to provide us with minimum transportation, throughput or storage volumes, or minimum monthly service fees. If Phillips 66 does not meet its minimum volume commitments, Phillips 66 pays us deficiency payments based on the calculations described in the agreements. 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 16—Related Party Transactions, in the Notes to Consolidated Financial Statements, for a summary of all related party agreements.

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

2019 DEVELOPMENTS

We commenced initial operations on the 900,000 barrels per day (BPD) Gray Oak Pipeline, which is expected to reach full service in the second quarter of 2020. The pipeline will transport crude oil from the Permian and Eagle Ford to Texas Gulf Coast destinations that include Corpus Christi, the Sweeny area, including the Phillips 66 Sweeny Refinery, as well as access to the Houston market. We have a 42.25% effective ownership in the pipeline system.

The Gray Oak Pipeline will connect to multiple terminals in Corpus Christi, including the South Texas Gateway Terminal being constructed by a co-venturer. The marine export terminal will have two deepwater docks, storage capacity of 8.5 million barrels and up to 800,000 BPD of throughput capacity. We own a 25% interest in the terminal, which is expected to start up in the third quarter of 2020.

We are increasing storage capacity at Clemens Caverns from 9 million barrels to 16.5 million barrels in connection with the Phillips 66 project to add NGL fractionation capacity at the Sweeny Hub. The caverns expansion is expected to be completed in the fourth quarter of 2020.

We are constructing the C2G Pipeline, a 16 inch ethane pipeline that will connect Clemens Caverns to petrochemical facilities in Gregory, Texas, near Corpus Christi. The project is backed by long-term commitments and is expected to be completed in mid-2021.

The Sweeny to Pasadena Pipeline expansion project will add 80,000 BPD of pipeline capacity, providing additional naphtha offtake from the Sweeny fractionators. In addition, product storage capacity will increase by 300,000 barrels at the Pasadena Terminal. The project is expected to be completed in the second quarter of 2020.

Construction of the 25,000 BPD isomerization unit at the Phillips 66 Lake Charles Refinery was completed in July 2019 and ramped up to full production during the year. The unit produces higher-octane gasoline blend components. We have a long-term agreement with Phillips 66 for processing services with a minimum volume commitment.

In the second quarter of 2019, we completed construction of the Lake Charles products pipeline that connects storage in Lake Charles to its Clifton Ridge Marine Terminal. This connection increased product export capacity by up to 50,000 BPD from the Phillips 66 Lake Charles Refinery. The pipeline is backed by a long-term agreement that includes a minimum volume commitment.

The Bayou Bridge Pipeline segment from Lake Charles to St. James, Louisiana, was completed on April 1, 2019. The pipeline transports crude oil from Nederland, Texas, to St. James, Louisiana. We own a 40% interest in the pipeline joint venture.

SUMMARY OF ASSETS AND OPERATIONS

Pipeline Assets

The following table presents certain information regarding our pipeline assets as of December 31, 2019. Each system listed below has an associated commercial agreement with Phillips 66.

System Name	State of Origination/Terminus	Commodity Handled	Interest	Length (Miles)	Gross Capacity (MBD)	Associated Phillips 66 Refinery
Billings Crude System						
Glacier	Montana	Crude Oil	79%	623	126	Billings
Billings Products System						
Seminoe	Montana/Wyoming	Refined Petroleum Products	100	342	33	Billings
Borger Crude System						
Line O	Oklahoma/Texas	Crude Oil	100	276	37	Borger
New Mexico Crude	New Mexico/Texas	Crude Oil	100	129	106	Borger
West Texas Crude	Texas	Crude Oil	100	699	156	Borger
Borger Products System						
ATA Line	Texas/New Mexico	Refined Petroleum Products	50	293	34	Borger
Borger to Amarillo	Texas	Refined Petroleum Products	100	93	76	Borger
SAAL	Texas	Refined Petroleum Products	33	102	32	Borger
SAAL	Texas	Refined Petroleum Products	54	19	30	Borger
Clifton Ridge Crude System	Louisiana	Crude Oil	100	10	260	Lake Charles
Cross-Channel Connector Products System	Texas	Refined Petroleum Products	100	5	184	Sweeny
Eagle Ford Gathering System	Texas	Crude Oil	100	28	54	Sweeny
Gold Line Products System						
Gold Line Pipeline	Texas/Illinois	Refined Petroleum Products	100	686	120	Borger/Ponca City
Paola Products Pipeline	Kansas	Refined Petroleum Products	100	106	96	Borger/Ponca City
Hartford Connector Products System						
Hartford, Illinois to Explorer Pipeline	Illinois	Refined Petroleum Products	100	1	430	Wood River
Wood River Refinery to Hartford, Illinois	Illinois	Refined Petroleum Products	100	3	80	Wood River
Lake Charles Products Pipeline	Louisiana	Refined Petroleum Products	100	1	240	Lake Charles
Ponca Crude System						
CushPo	Oklahoma	Crude Oil	100	62	130	Ponca City
North Texas Crude	Texas	Crude Oil	100	224	28	Ponca City
Oklahoma Crude	Texas/Oklahoma	Crude Oil	100	217	100	Ponca City
Ponca Products System						
Brown Line	Oklahoma/Kansas	Natural Gas Liquids	100	76	26	Ponca City
Cherokee East	Oklahoma/Missouri	Refined Petroleum Products	100	287	55	Ponca City
Cherokee North	Oklahoma/Kansas	Refined Petroleum Products	100	29	57	Ponca City
Cherokee South	Oklahoma	Refined Petroleum Products	100	98	46	Ponca City
Medford	Oklahoma	Natural Gas Liquids	100	42	10	Ponca City
River Parish NGL System	Louisiana	Natural Gas Liquids	100	510	133	Alliance
Standish Pipeline	Oklahoma/Kansas	Refined Petroleum Products	100	92	72	Ponca City
Sweeny to Pasadena Products System	Texas	Refined Petroleum Products	100	120	294	Sweeny

The following table presents certain information regarding our equity investment pipeline assets as of December 31, 2019.

System Name	State of Origination/Terminus	Commodity Handled	Interest	Length (Miles)	Gross Capacity (MBD)
Bakken Pipeline	North Dakota/Texas	Crude Oil	25.00%	1,918	570
Bayou Bridge Pipeline	Texas/Louisiana	Crude Oil	40.00	213	480
Explorer Pipeline	Texas/Indiana	Refined Petroleum Products	21.94	1,830	660
Gray Oak Pipeline*	Texas	Crude Oil	42.25	840	235
Sacagawea Pipeline	North Dakota	Crude Oil	49.50	95	175
Sand Hills Pipeline	New Mexico/Texas	Natural Gas Liquids	33.34	1,506	500
Southern Hills Pipeline	Kansas/Texas	Natural Gas Liquids	33.34	981	192
STACK Pipeline	Oklahoma	Crude Oil	50.00	149	250

**Interest reflects our proportionate share of the Gray Oak Pipeline system, held through our 65 percent-owned consolidated subsidiary, Gray Oak Holdings, LLC. Gray Oak Holdings, LLC had a 65% ownership interest in Gray Oak Pipeline, LLC at December 31, 2019. Gross capacity reflects the initial accelerated commissioning service capacity at December 31, 2019. See the "Gray Oak Pipeline, LLC" section of Note 6—Equity Investments and Loans, in the Notes to Consolidated Financial Statements, for a discussion of the ownership structure.*

Terminal, Rail Rack and Storage Assets

The following table presents certain information regarding our wholly owned terminal, rail rack and storage assets as of December 31, 2019. Each asset listed below has an associated commercial agreement with Phillips 66.

Facility Name	Location	Commodity Handled	Gross Storage Capacity (MBbl)	Gross Loading Capacity (MBD)	Associated Phillips 66 Refinery
Bayway Products System					
Linden	New Jersey	Refined Petroleum Products	360	95	Bayway
Tremley Point	New Jersey	Refined Petroleum Products	1,701	25	Bayway
Bayway Rail Rack	New Jersey	Crude Oil	N/A	75	Bayway
Billings Crude System					
Buffalo Crude	Montana	Crude Oil	303	N/A	Billings
Billings Crude	Montana	Crude Oil	236	N/A	Billings
Cut Bank	Montana	Crude Oil	315	N/A	Billings
Billings Products System					
Casper	Wyoming	Refined Petroleum Products	365	7	Billings
Sheridan	Wyoming	Refined Petroleum Products	94	6	Billings
Borger Crude System					
Buxton Crude	Oklahoma	Crude Oil	400	N/A	Borger
Odessa Crude	Texas	Crude Oil	521	N/A	Borger
Borger Products System					
Albuquerque Products	New Mexico	Refined Petroleum Products	274	20	Borger
Amarillo Products	Texas	Refined Petroleum Products	296	23	Borger
Lubbock Products	Texas	Refined Petroleum Products	182	18	Borger
Clemens Caverns	Texas	Natural Gas Liquids	9,000	N/A	N/A
Clifton Ridge Crude System					
Clifton Ridge	Louisiana	Crude Oil	3,800	N/A	Lake Charles
Pecan Grove Storage	Louisiana	Crude Oil	177	N/A	Lake Charles
Ferndale Rail Rack	Washington	Crude Oil	N/A	30	Ferndale
Gold Line Products System					
East St. Louis	Illinois	Refined Petroleum Products	2,031	62	Borger/ Ponca City
Jefferson City	Missouri	Refined Petroleum Products	103	15	Borger/ Ponca City
Kansas City	Kansas	Refined Petroleum Products	1,410	50	Borger/ Ponca City
Paola	Kansas	Refined Petroleum Products	978	N/A	Borger/ Ponca City
Wichita North	Kansas	Refined Petroleum Products	769	20	Borger/ Ponca City
Hartford Connector Products System					
Hartford	Illinois	Refined Petroleum Products	1,468	21	Wood River
Medford Spheres	Oklahoma	Natural Gas Liquids	70	N/A	Ponca City
Ponca Crude System					
Cushing	Oklahoma	Crude Oil	275	N/A	Ponca City
Ponca City	Oklahoma	Crude Oil	1,299	N/A	Ponca City
Wichita Falls	Texas	Crude Oil	225	N/A	Ponca City
Ponca Products System					
Glenpool	Oklahoma	Refined Petroleum Products	571	18	Ponca City
Mount Vernon Products	Missouri	Refined Petroleum Products	365	40	Ponca City
Mount Vernon NGL	Missouri	Natural Gas Liquids	105	16	Ponca City
Oklahoma City Products	Oklahoma	Refined Petroleum Products	345	42	Ponca City
Ponca City Products	Oklahoma	Refined Petroleum Products	71	22	Ponca City
Ponca City NGL	Oklahoma	Natural Gas Liquids	N/A	6	Ponca City
Wichita South	Kansas	Refined Petroleum Products	272	N/A	Ponca City
River Parish NGL System	Louisiana	Natural Gas Liquids	1,500	N/A	Alliance
Sweeny to Pasadena Products System					

Pasadena	Texas	Refined Petroleum Products	3,234	65	Sweeny

The following table presents certain information regarding our equity investment terminal, rail rack and storage assets as of December 31, 2019.

System Name	Location	Commodity Handled	Interest	Gross Storage Capacity (MBbl)	Active Terminaling Capacity* (MBD)
Keene Terminal	North Dakota	Crude Oil	50%	503	N/A
Palermo Terminal	North Dakota	Crude Oil	70	235	100

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

Marine Assets

The following table presents certain information regarding our wholly owned marine assets as of December 31, 2019. Each asset listed below has an associated commercial agreement with Phillips 66.

System Name	Location	Commodity Handled	Gross Loading Capacity (MBbl/h)*	Associated Phillips 66 Refinery
Clifton Ridge Crude System				
Clifton Ridge Ship Dock	Louisiana	Crude Oil, Refined Petroleum Products	50	Lake Charles
Pecan Grove Barge Dock	Louisiana	Crude Oil; Lubricant Base Stocks	6	Lake Charles
Hartford Connector Products System				
Hartford Barge Dock	Illinois	Refined Petroleum Products	3	Wood River
Bayway Products System				
Tremley Point	New Jersey	Refined Petroleum Products	7	Bayway

**Marine capacity is in thousands of barrels per hour.*

Processing Assets

The following table presents certain information regarding our other wholly owned assets as of December 31, 2019. Each asset listed below has an associated commercial agreement with Phillips 66.

Asset Name	Location	Commodity Handled	Gross Processing Capacity (MBD)
Lake Charles Isomerization Unit	Louisiana	Refined Petroleum Products	25
Merey Sweeny			
Delayed coker unit	Texas	Crude Oil Residuals	70
Vacuum distillation unit	Texas	Crude Oil Residuals	125
Sweeny Fractionator	Texas	Natural Gas Liquids	100

COMMERCIAL AND OTHER AGREEMENTS WITH PHILLIPS 66

Many of our assets are physically connected to, and integral to the operations of, Phillips 66's wholly owned Alliance, Bayway, Billings, Ferndale, Lake Charles, Ponca City and Sweeny refineries and its jointly owned Borger and Wood River refineries. We have entered into multiple commercial agreements with Phillips 66, which include minimum volume commitments and inflation escalators. These agreements are the source of a significant portion of our revenue. Under these long-term, fee-based agreements, we provide transportation, terminaling, processing, storage, stevedoring and fractionation services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly volumes of crude oil, refined petroleum products and NGL or minimum monthly capacity or service fees.

See Note 16—Related Party Transactions, in the Notes to Consolidated Financial Statements, for summaries of the terms of commercial and other agreements with Phillips 66.

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 we will not face significant competition from other pipelines, terminals, storage facilities, rail racks, fractionators and processing units for Phillips 66's transportation and terminaling 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 make 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. Many of the entities in which we hold equity investments 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 significantly affected by the volume of products produced by refineries in that area, the volume of crude oil and NGL gathered and transported, and the availability of products and the cost of transportation to that area from distant locations.

Additionally, our crude oil pipelines could face competition with other crude oil pipeline companies, major integrated oil companies, and independent crude oil gathering and marketing companies. Competition is based primarily on quality of customer service, competitive pricing and proximity to customers and market hubs.

RATES AND SAFETY REGULATIONS

Pipeline Rates

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 changes 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 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 rates. New rates have been established subsequent to EPAct 1992 for certain of our 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 methodology to adjust non-market-based 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. 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 an indexed ceiling by PPI for finished goods plus 1.23% for the five-year period commencing July 1, 2016, and ending June 30, 2021. A pipeline is not required to increase its rates up to the indexed ceiling but is permitted to do so. 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. On October 20, 2016, FERC issued an Advance Notice of Proposed Rulemaking. FERC is seeking comment on a number of proposals, including: (1) whether FERC should deny any increase in a rate ceiling or an annual index-based rate increase if a pipeline's revenues exceed total costs by 15% for the prior 2 years; (2) a new percentage comparison test that would deny a proposed increase to a pipeline's rate or ceiling level greater than 5% above the barrel-mile cost changes; and (3) a requirement that all pipelines file indexed ceiling levels annually, with the ceiling levels subject to challenge and restricting the pipeline's ability to carry forward the full indexed increase to a future period. FERC has not taken any further action on this matter.

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 primarily use indexed rates and settlement rates for our different pipeline systems.

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, natural gas liquids 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 pipeline 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 (i) the design and construction of new pipeline systems or those that have been relocated, replaced, or otherwise changed; (ii) pressure testing of new pipelines; (iii) operation and maintenance of pipeline systems, establishing programs for public awareness and damage prevention, and managing the operation of pipeline control rooms; (iv) protection of steel pipelines from the adverse effects of internal and external corrosion; and (v) integrity management requirements for pipelines in HCAs.

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-assessed pipelines receive priority for 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 and Processing Unit 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. We have identified which assets are subject to the jurisdiction of OSHA or DOT. Certain of our facilities are under the dual jurisdiction of OSHA and DOT, whereby certain portions of the facility are subject to OSHA regulation and other assets at the facility are subject to DOT regulation due to the type of asset and the configuration of the facility. Our facilities are operated in a manner consistent with industry safety practices and standards. The tanks designed for crude oil and refined petroleum product storage at our facilities are equipped with appropriate emission controls to promote safety. Our facilities have response plans, spill prevention and control plans, and other programs to respond to emergencies.

Rail Safety
Our rail operations involve crude oil loading, receiving and unloading 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 our 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, our 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 largely affected in a similar manner. 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 $4 million in 2019 and are expected to be less than $5 million in 2020 and 2021. The majority of the environmental expenses forecasted for 2020 and 2021 relate to environmental matters attributable to ownership of our assets prior to their acquisition 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” section to follow for additional information on Phillips 66-retained liabilities. Capitalized environmental costs were $6 million in 2019 and are expected to be approximately the same in 2020 and 2021. 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 (FCAA) 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 FCAA 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.

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 2015 through 2020, 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 actions pertaining to these compliance years have been or, with respect to 2020, may soon be, legally challenged.

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 existing requirements to report emissions of GHGs to the EPA, 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. In addition, the United Nations Framework Convention on Climate Change, commonly known as the Paris Agreement, entered into force on November 4, 2016. The Paris Agreement could lead to further GHG emission reduction requirements. 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 2017, however, the President of the United States announced his intention to withdraw the United States from the Paris Agreement. On November 4, 2019, the United States submitted formal notification of its withdrawal to the United Nations, triggering a one-year waiting period to final withdrawal.

In addition, the EPA has proposed and may adopt further regulations under the FCAA 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), which remains the subject of litigation and administrative reconsideration, may indirectly affect such operations. Both types of impacts may affect our business. In October 2017, the EPA commenced rulemaking proceedings to rescind the Clean Power Plan, and in December 2017, the EPA published an Advanced Notice of Proposed Rulemaking, announcing an intent to commence a new rulemaking to replace the Clean Power Plan with an alternative framework for regulating carbon dioxide. In August 2018, the EPA proposed the Affordable Clean Energy (ACE) rule as a replacement for the Clean Power Plan. The ACE rule has been judicially challenged by public health interest groups, environmental organizations and numerous states and municipalities.

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 liquid 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 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, we may be jointly and severally liable under CERCLA for all or part of the costs required to clean up certain sites where we are alleged to have liability.

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 handled or for many years have been handled. Although we 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 transported for disposal. In addition, many of these properties were 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 spill 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.

Workplace 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 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 and its state law equivalents restrict 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 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 and Excluded Liabilities
Under our amended omnibus agreement and pursuant to the terms of various agreements under which we acquired assets from Phillips 66, Phillips 66 will indemnify us, or assume responsibility, for certain environmental liabilities, tax liabilities, litigation and any other liabilities attributable to the ownership or operation of the assets contributed to us and that arose prior to the effective date of each acquisition. These indemnifications and exclusions from liability have, in

some cases, time limits and deductibles. When Phillips 66 performs under any of these indemnifications or exclusions from liability, we recognize non-cash expenses and associated non-cash capital contributions from our General Partner, as these are considered liabilities paid for by a principal unitholder.

GENERAL

Major Customer

Phillips 66 accounted for 97%, 96%, and 95% of our total operating revenues in the years ended December 31, 2019, 2018 and 2017, 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, NGL fractionation, crude oil processing, and rail-unloading services to Phillips 66.

Seasonality

The volumes of crude oil, refined petroleum products and NGL transported in our wholly owned and joint venture pipelines, stored in our terminals, rail racks and storage facilities and processed through our fractionator and processing units 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 cash flows should be substantially mitigated through the use of fee-based commercial agreements 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. 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. As of December 31, 2019, Phillips 66 employed approximately 600 people who provided direct support for our operations.

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, as amended, 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 contact our General Partner's Board of Directors.

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

We may not generate sufficient distributable cash flow to sustain the payment of distributions to our unitholders at their current level.

The amount of cash we can distribute to our unitholders principally depends upon the amount of cash we generate from our operations, as well as distributions from our joint ventures, which will fluctuate from quarter to quarter based on, among other things:

- The volume of NGL, crude oil and refined petroleum products we or our joint ventures transport and terminal, the volume of NGL we fractionate, and the volume of crude oil residuals we process.
- The fees and rates we charge with respect to volumes that we transport, store, terminal, process and fractionate.
- Changes in revenue we realize under the loss allowance provisions of our regulated tariffs resulting from changes in underlying commodity prices.
- Prevailing economic conditions, including 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 but not limited to the following:

- 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.
- Phillips 66’s application of credit amounts under our throughput and deficiency agreements, which may be applied towards deficiency payments in future periods.
- Phillips 66’s application of any remaining credit amounts to any volumes handled by our assets at the expiration or termination of our commercial agreements.
- 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.

Any failure to pay distributions at expected levels could result in loss of investor confidence and a decrease in the market price of our common units.

The volume of NGL, crude oil and refined petroleum products we or our joint ventures transport and terminal, the volume of NGL we fractionate, and the volume of crude oil residuals we process are dependent on several factors that are not within our or our joint ventures’ control. Substantial reductions in these volumes would have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

Our and our joint ventures’ financial results depend on continued demand for petroleum products, crude oil production, and operation of refineries that supply or are supplied by our and our joint ventures’ operations. Disruption or decreases to this demand, production or operation can materially and negatively impact our results of operations, the results of operations of our joint ventures and therefore, their ability to make distributions to us. Factors that could negatively impact the volumes we and our joint ventures handle include, among other factors:

- Global economic conditions that result in the reduced demand for products we and our joint ventures transport, terminal, fractionate or process and consequently for the services we and our joint ventures provide.
- Reduced demand due to an increase in the use of alternative fuel sources.
- An increase or decrease in the market prices of petroleum products, which may reduce supply or demand.
- A decrease in crude oil production in basins served by our or our joint ventures' operations as a result of lower overall crude prices, exhaustion of reserves, weather or other natural causes, adverse legal or regulatory developments, or lower overall demand for crude oil and the products derived from crude oil.
- Changes in quality or quantity of crude oil production, outages at refineries or reduced or interrupted throughput on gathering systems or pipelines due to weather related or other natural causes, competitive forces, testing, line repair, damage, reduced operating pressures or other causes that reduce shipments.

Phillips 66 accounts for a substantial portion of our revenue. If Phillips 66 is unable to satisfy its obligations under our commercial agreements or significantly reduces the volumes transported through our pipelines or terminals, stored at our storage assets or processed in our processing units, 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 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 substantial capital expenditures and operating costs required to comply with existing and future environmental laws and regulations, including climate change regulations, could 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 significantly deteriorate between the project approval date and the project startup date, negatively impacting Phillips 66's project returns.
- Investments in joint ventures decrease Phillips 66's ability to manage risk, which 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.
- Phillips 66's reliance on third-party transportation of crude oil, NGL and refined petroleum products could cause interruptions of supply and increased costs.
- 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.
- A significant interruption, including interruptions related to disruptions in information technology systems, in one or more of Phillips 66’s facilities could adversely affect its 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.
- Indemnification of ConocoPhillips by Phillips 66 for various matters that may arise related to Phillips 66’s separation from ConocoPhillips may have an adverse impact on its results of operations and financial condition.
- The ability of Phillips 66 to obtain credit and financing on acceptable terms in light of 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.

Phillips 66 is not obligated to use our services with respect to volumes of crude oil, NGL or products in excess of the minimum volume commitments under its commercial agreements with us.

Our commercial agreements with Phillips 66 allow Phillips 66 to suspend, reduce or terminate its obligations in certain circumstances. Any such suspension, reduction or termination 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 if certain events occur. Examples of such events include Phillips 66’s determination to suspend refining operations at one of its refineries with which our assets are associated, either permanently or for a period that will continue for at least twelve months. Under our commercial agreements, Phillips 66’s minimum volume commitments cover less than 100% of the operating capacity of our assets. Any reduction, suspension or termination of Phillips 66’s obligations could have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.

Competition could lead to lower levels of profits and reduce the amount of cash we or our joint ventures generate and there is a risk of capacity overbuild in some markets in which we and our joint ventures operate.

We and our joint ventures compete with other pipelines and terminals that provide similar services in the same markets as our assets. In addition, our competitors could construct new assets or redeploy existing assets in a manner that would result in more intense competition in the markets we serve.

We compete on the basis of many factors, including but not limited to rates, service levels and offerings, geographic location, connectivity and reliability. Our customers could utilize the assets and services of our competitors instead of our or our joint ventures’ assets and services, or we could be required to lower our prices or increase our costs to retain our customers.

Additionally, we and our joint ventures have made and continue to make significant investments in new energy infrastructure to meet market demand. Similar investments have been made and additional investments may be made in the future by us, our competitors or by new entrants to the markets we serve. The success of these investments largely depends on the realization of anticipated market demand, and these projects typically require significant development periods, during which time demand for such infrastructure may change, or additional investments by competitors may be made.

Any of these or other competitive forces could materially adversely affect our results of operations, financial position or cash flows, as well as our ability to pay cash distributions.

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 processing, fractionating, transporting, terminaling and storing crude oil, NGL 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, or 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, NGL 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 employees or contractors working at those facilities, 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 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.

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 results of operations, financial condition or our ability to make distributions to our unitholders.

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, fractionation, processing and storage systems. The expansion of an existing pipeline, terminal, fractionation, processing or storage facility, such as by adding horsepower, pump stations or loading/unloading racks, or the construction of a new pipeline, terminal, fractionator, processing 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.

Plans we may have to expand existing assets or construct new assets are subject to risks associated with societal and political pressures and other forms of opposition to the future development, transportation and use of carbon-based fuels. Such risks could adversely impact our ability to realize certain growth strategies.

Certain of our planned expenditures are based upon the assumption that societal sentiment will continue to enable, and existing regulations will remain intact to allow for, the future development, transportation and use of carbon-based fuels. A portion of our growth strategy is dependent on our ability to expand existing assets and to construct additional assets. Policy decisions relating to the production, refining, transportation and marketing of carbon-based fuels are subject to political pressures and the influence and protests of environmental and other special interest groups. For example, our growth plans include the construction or expansion of pipelines, which can involve numerous regulatory, environmental, political, and legal uncertainties, many of which are beyond our control. Our growth projects may not be completed on schedule or at the budgeted cost. In addition, our revenues may not increase immediately upon the expenditure of funds on a particular project. Delays or cost increases related to capital spending programs could negatively impact our results of operations, cash flows and our return on capital employed.

If we are unable to make acquisitions on economically acceptable terms from Phillips 66 or third parties, our future growth beyond organic opportunities could be reduced, and any acquisitions we may make may lower, 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. Unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we consider in any possible future acquisitions before they are consummated.

Failure to successfully combine our business with assets or businesses we acquire in executing our growth strategy or an inaccurate estimate by us of the benefits to be realized from any such acquisition, may adversely affect our future results.

Any acquisition of assets or businesses involves potential risks, including:

- The failure to realize expected profitability, growth or accretion.
- Environmental or regulatory compliance matters or liabilities.
- Title or permit issues.
- The diversion of management's attention from our existing businesses.

- The incurrence of significant charges, such as impairment of goodwill, or properties, plants and equipment or restructuring charges.
- The incurrence of unanticipated liabilities and costs for which indemnification is unavailable or inadequate.

The expected benefits from an acquisition may not be realized if our estimates of the potential net cash flows associated with the acquisition are materially inaccurate or if we fail to identify operating problems or liabilities associated with the acquisition. The accuracy of our estimates of the potential net cash flows attributable to an acquisition is inherently uncertain. If problems are identified after closing of an acquisition, we may have limited recourse against the seller.

If any of these risks or unanticipated liabilities or costs were to materialize, any desired benefits from an acquisition may not be fully realized, if at all, and our future financial performance, results of operations and cash available for distribution could be negatively impacted.

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.

The amount and timing of distributions to us from our joint ventures is not within our control, and we may be unable to cause our joint ventures to take or refrain from taking certain actions that may be in our best interest. In addition, for those joint ventures where we act as operator, we may be exposed to additional risk and liability in connection with our responsibilities in that capacity.

We conduct some of our operations through joint ventures in which we share control with other entities in accordance with the relevant joint venture agreements. Those agreements provide that the joint ventures, including our representatives along with representatives of the other owners, determine the amount and timing of distributions. Our joint ventures may establish separate financing arrangements that contain restrictive covenants that may limit or restrict the joint venture's ability to make cash distributions to us under certain circumstances. Any inability to generate cash or restrictions on cash distributions we receive from our joint ventures could impair our results of operations, cash flows and our ability to pay cash distributions to our unitholders.

Our joint venture participants may have economic, business or legal interests or goals that are inconsistent with ours, or those of the joint venture. Without the cooperation of the other owners of the joint ventures, we may not be able to cause our joint ventures to take or not take certain actions, even though those actions or inactions may be in the best interest of us or the particular joint venture. With respect to those joint ventures where we are the operator, we can be exposed to additional risk and liability in connection with our responsibilities in that capacity.

Additionally, our joint venture participants may be unable to meet their economic or other obligations, and we may be required to fulfill those obligations alone. If we fail to make a required capital contribution, we could be deemed to be in default under the applicable joint venture agreement. Our joint venture co-owners may be permitted to pursue a variety of remedies, including funding any deficiency resulting from our failure to make such capital contribution, which would result in a dilution of our ownership interest, or, in some cases, our joint venture co-owners may have the option to purchase all of our existing interest in the subject joint venture.

Failure by us, or an entity in which we have a joint venture interest, to adequately manage the risks associated with any 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 operations are located, which could result in disruptions to our operations.

We do not own all of the land on which our operations 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.

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 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 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.
- 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.

In addition, a failure to comply with the provisions of our revolving credit facility could result in an event of default that 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 senior note indentures and other debt instruments, if any, may be triggered. If 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. 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.

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

Transportation of crude oil, NGL 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 and could subject us to the provisions of the OPA 90 and similar state environmental laws should a spill occur from our pipelines. We 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, financial condition, or results of operations. 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 Safety 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. There also could be 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 or extreme weather events 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.

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 presently, is primarily regulated by state agencies. However, Congress has previously considered, and may in the future consider, legislation to empower federal agencies to regulate hydraulic fracturing.

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. 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 producers of product we ship 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. The producers' added costs or delays 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, although these requirements were relaxed somewhat via rulemaking in 2019. 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 the replacement of refined petroleum products with 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, fractionator, processing 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.

Additionally, we rely on the information technology infrastructure of Phillips 66 to conduct our operations. The systems and networks we rely on, as well as those of our vendors and counterparties, may become the target of cyber attacks or information security breaches, which in turn could result in the unauthorized release and misuse of confidential or proprietary information as well as disruption of our operations or damage to our facilities. Additionally, as cyber incidents continue to evolve and escalate, we may be required to reimburse Phillips 66 for additional costs incurred associated with the modification or enhancement of systems or networks that directly serve our operations in order to prevent or remediate such attacks. 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 regulations, 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 these safety regulations, 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.

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 to develop 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 otherwise choose not to do business.

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 Safety Regulations, for additional information.

Risks Inherent in an Investment in Us

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 primarily rely 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 may 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. 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 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 permits our 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.

Our General Partner and its affiliates, including Phillips 66, have conflicts of interest with us, 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.

Phillips 66 owns our General Partner and, through Phillips 66 PDI, approximately 74% of our issued and outstanding common units as of December 31, 2019. 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:

- 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 or disposition 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.

- 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 General Partner will determine the amount and timing of asset acquisitions 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, including 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.

- Our partnership agreement permits us to classify up to $60 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 unitholders, including our General Partner.

- 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 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.

Affiliates of our General Partner, including Phillips 66, DCP Midstream, LLC (DCP Midstream) and Chevron Phillips Chemical Company LLC (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 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 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 the 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.

Our partnership agreement designates the Court of Chancery of the State of Delaware as the exclusive forum for certain types of actions and proceedings that may be initiated by our limited partners, which would limit our limited partners' ability to choose the judicial forum for disputes with us or our General Partner's directors, officers or other employees.

Our partnership agreement provides, that, with certain limited exceptions, any claims, suits, actions or proceedings:

- arising out of or relating in any way to our partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among our partners, or obligations or liabilities of our partners to us, or the rights or powers of, or restrictions on, our partners or us);

- brought in a derivative manner on our behalf;

- asserting a claim of breach of a duty owed by any of our, or our general partner's, directors, officers, or other employees, or owed by our general partner, to us or our partners;
- asserting a claim against us arising pursuant to any provision of the Delaware Act; or
- asserting a claim against us governed by the internal affairs doctrine,

will be exclusively brought in the Court of Chancery of the State of Delaware (or, if such court does not have jurisdiction thereof, any other court in the State of Delaware with jurisdiction). Any person or entity purchasing or otherwise acquiring any interest in our common units or other partnership interests is deemed to have received notice of and consented to the exclusive forum provisions.

To the fullest extent permitted by law, this exclusive forum provision will apply to state and federal law claims, although limited partners will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation or similar governing documents has been challenged in legal proceedings, and it is possible that a court could find the choice of forum provisions contained in our partnership agreement to be inapplicable or unenforceable, including with respect to claims arising under the U.S. federal securities laws.

This exclusive forum provision may limit the ability of a limited partner to commence litigation in a forum that the limited partner prefers, or may require a limited partner to incur additional costs in order to commence litigation in Delaware, each of which may discourage such lawsuits against us or our general partner's directors or officers. Alternatively, if a court were to find this exclusive forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, we may incur additional costs associated with resolving such matters in other jurisdictions, which could negatively affect our business, results of operations and financial condition.

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 and restated 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 and restated 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 that are incurred by Phillips 66 due to 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% of all outstanding common units and Series A preferred units (on an as-converted basis) voting as a single class is required to remove our General Partner. As of December 31, 2019, our General Partner and its affiliates owned approximately 70% of our total outstanding common units and Series A preferred units (on an as-converted basis) in the aggregate.

Unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% 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.

The control of our General Partner may be transferred to a third party without unitholder consent.

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, 2019, Phillips 66, through Phillips 66 PDI, held 169,760,137 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 has a limited call right that may require unitholders to sell their common units at an undesirable time or price.

If at any time our General Partner and its affiliates own more than 80% 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, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. Unitholders may also incur a tax liability upon a sale of their units. Our General Partner and its affiliates owned approximately 74% of our total outstanding common units, and approximately 70% of our total outstanding common units and Series A preferred units (on an as-converted basis) in the aggregate, as of December 31, 2019.

If a unitholder is not both a citizenship eligible holder and a rate eligible holder, its 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 a unitholder does not meet the requirements to be a citizenship eligible holder and a rate eligible holder runs the risk of having its 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, a unitholder who does not meet the requirements to be a citizenship eligible holder will not be entitled to voting rights.

Increases in interest rates could adversely impact the price of our common units, our ability to issue equity, or our ability to make distributions at our intended levels.

Similar to other yield-oriented securities, our common unit price is impacted by our level of distributions and the implied distribution yield of our common units. The distribution yield is often utilized by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on the price of our common units, our ability to issue equity, or our ability to make distributions at our intended levels.

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.

Although 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 21%, and would likely pay state and local income tax at varying rates. Distributions would generally be taxable to the unitholder 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. If a tax is 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. 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 a 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, 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.

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. Treasury Regulations 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.

We may be required to deduct and withhold amounts from distributions to foreign unitholders related to withholding tax obligations arising from the sale or disposition of our units by foreign unitholders.

Upon the sale, exchange or other disposition of a unit by a foreign unitholder, the transferee is generally required to withhold 10% of the amount realized on such sale, exchange or other disposition if any portion of the gain on such sale, exchange or other disposition would be treated as effectively connected with a U.S. trade or business. If the transferee fails to satisfy this withholding requirement, we will be required to deduct and withhold such amount (plus interest) from future distributions to the transferee. Because the “amount realized” would include a unitholder’s share of our nonrecourse liabilities, 10% of the amount realized could exceed the total cash purchase price for such disposed units. Due to this fact, our inability to match transferors and transferees of units, and other uncertainty surrounding the application of these withholding rules, the U.S. Department of the Treasury and the IRS have currently suspended these rules for transfers of certain publicly traded partnership interests, including transfers of our units, until regulations or other guidance have been issued. It is unclear when such regulations or other guidance will be issued.

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, in the Notes to Consolidated Financial Statements, under our amended omnibus agreement, and pursuant to the terms of various agreements under which we acquired assets from Phillips 66, 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.

PART II

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

Our common units trade on the New York Stock Exchange (NYSE) under the symbol PSXP. At January 31, 2020, there were 12 unitholders of record of our common units. 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, future acquisitions 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 $0.2125 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.

Preferred Unit Distribution. The holders of perpetual convertible preferred units (preferred units) are entitled to receive cumulative quarterly distributions equal to $0.678375 per unit for any quarter ending on or before September 30, 2020, and thereafter the quarterly distributions on each preferred unit will equal the greater of $0.678375 per unit or the amount that would have been distributed with respect to such preferred unit if it had been converted into common units at the then applicable conversion rate. The Partnership may not pay any distributions for any quarter on any securities that rank junior to the preferred units, including any common units and incentive distribution rights, unless the distribution payable to the preferred units with respect to such quarter, together with any previously accrued but unpaid distributions to the preferred units, have been paid in full.

Intent to Distribute the Minimum Quarterly Distribution. We intend to make at least a 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. This minimum quarterly distribution is subject to proportionate adjustment in the event of any distribution, combination or subdivision of common units or other partnership securities. However, there is no guarantee that we will pay such minimum quarterly distribution on our units in any quarter. The amount of distributions paid and the decision to make any distribution will be determined by our General Partner, in accordance with 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 covenants included in our revolving credit facility that may restrict our ability to make distributions.

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data as of and for each of the five years in the period ended December 31, 2019. To ensure full understanding, the selected financial data presented below should be read 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.

Acquisitions from Phillips 66 are considered common control transactions. When businesses are acquired from Phillips 66 and consolidated by us, the financial information contained in the table below for periods prior to the acquisition date is retrospectively adjusted to include the historical financial results of the businesses acquired. 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.

See Note 4—Acquisitions and Note 6—Equity Investments and Loans, in the Notes to Consolidated Financial Statements, for information on our acquisitions, including those that were common control transactions, that affect the comparability of the information below.

	Millions of Dollars Except Per Unit Amounts				
	2019	2018	2017	2016	2015
Statement of income data:					
Operating revenues—related parties	$ **1,097**	1,012	894	727	582
Operating revenues—third parties	**29**	33	40	31	30
Equity in earnings of affiliates	**535**	439	223	114	77
Net income	**923**	796	524	408	306
Net income attributable to the Partnership	**923**	796	461	301	194
Limited partners’ interest in net income attributable to the Partnership	**746**	519	292	209	153
Net income attributable to the Partnership per limited partner unit					
Common units—basic	**4.45**	4.22	2.60	2.20	2.02
Common units—diluted	**4.29**	4.00	2.59	2.20	2.02
Subordinated units—Phillips 66—basic and diluted	**—**	—	—	—	1.24
Cash distributions paid per limited partner unit	**3.400**	2.936	2.405	1.975	1.538
Balance sheet data:					
Total assets	**6,961**	5,819	5,334	4,109	3,662
Long-term debt	**3,491**	2,998	2,920	2,396	1,091
Notes payable—related parties	**—**	—	—	—	964

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 of 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," "may," "plan," "potential," "predict," "seek," "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "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% interest in Phillips 66 Partners GP LLC to its wholly owned subsidiary, Phillips 66 Project Development Inc. (Phillips 66 PDI). On August 1, 2019, all of the outstanding incentive distribution rights (IDRs) held by our General Partner were eliminated and its general partner interest in us was converted to a noneconomic interest in exchange for common units. We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based midstream assets. Our common units trade on the New York Stock Exchange under the symbol PSXP.

Basis of Presentation

We have acquired assets from Phillips 66 that were considered transfers of businesses between entities under common control. This required the transactions to be accounted for as if the transfers had occurred at the beginning of the period of transfer, with prior periods retrospectively adjusted to furnish comparative information. We refer to these pre-acquisition operations as those of our "Predecessors."

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

Executive Overview

Net income attributable to the Partnership was $923 million in 2019. We generated cash from operations of $1,016 million and raised net proceeds of $641 million through debt and equity financings. This cash was primarily used to fund our capital expenditures and make quarterly cash distributions to our unitholders and General Partner. Additionally, $423 million of our capital expenditures were funded by certain joint venture partners. As of December 31, 2019, we had cash and cash equivalents of $286 million, total debt of $3,516 million, and unused capacity under our revolving credit facility of $749 million.

How We Evaluate Our Operations

Our management uses a variety of financial and operating metrics to analyze our performance, including: (1) volumes handled; (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, refined petroleum products and natural gas liquids (NGL) that we handle in our pipeline, terminal, rail rack, processing, storage and fractionator systems. In addition, our equity affiliates generate revenue from transporting and terminaling crude oil, refined petroleum products and NGL. These volumes are primarily affected by the supply of, and demand for, crude oil, refined petroleum products and NGL 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. Operating and maintenance 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 the period. Although we seek to manage our maintenance expenditures on our 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 regularly performed.

Our operating and maintenance expenses are also affected by volumetric gains/losses 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, refined petroleum product and NGL volumetric gains and losses are determined by reference to the monthly average reference price for the applicable commodity. Any gains/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 (loss) plus net interest expense, income taxes, depreciation and amortization attributable to both the Partnership and our Predecessors.

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

- The proportional share of equity affiliates’ net interest expense, income taxes and depreciation and amortization.
- Transaction costs associated with acquisitions.
- Certain other noncash items, including expenses indemnified by Phillips 66.

Distributable cash flow is defined as adjusted EBITDA less (i) equity affiliate distributions less than proportional EBITDA, (ii) maintenance capital expenditures, (iii) net interest expense, (iv) income taxes paid and (v) preferred unit distributions, plus adjustments for deferred revenue impacts.

EBITDA, adjusted EBITDA, and distributable cash flow are not presentations made in accordance with generally accepted accounting principles in the United States (GAAP). EBITDA, adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures that management believes 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 and adjusted EBITDA 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

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 crude oil, refined petroleum products and NGL, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

Our throughput volumes primarily depend 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. These volumes are primarily dependent on Phillips 66's refining margins and maintenance schedules. Refining margins depend on the price 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. Throughput volumes of our equity affiliates primarily depend on upstream drilling activities, refinery 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 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 and fractionation.

RESULTS OF OPERATIONS

	Millions of Dollars		
Years Ended December 31	**2019**	2018	2017
Revenues and Other Income			
Operating revenues—related parties	$ **1,097**	1,012	894
Operating revenues—third parties	**29**	33	40
Equity in earnings of affiliates	**535**	439	223
Other income	**6**	2	12
Total revenues and other income	**1,667**	1,486	1,169
Costs and Expenses			
Operating and maintenance expenses	**405**	354	321
Depreciation	**120**	117	116
General and administrative expenses	**67**	64	69
Taxes other than income taxes	**39**	35	33
Interest and debt expense	**108**	115	101
Other expenses	**2**	1	1
Total costs and expenses	**741**	686	641
Income before income taxes	**926**	800	528
Income tax expense	**3**	4	4
Net income	**923**	796	524
Less: Net income attributable to Predecessors	**—**	—	63
Net income attributable to the Partnership	**923**	796	461
Less: Preferred unitholders’ interest in net income attributable to the Partnership	**37**	37	9
Less: General partner’s interest in net income attributable to the Partnership	**140**	240	160
Limited partners’ interest in net income attributable to the Partnership	$ **746**	519	292
Net cash provided by operating activities	$ **1,016**	892	724
Adjusted EBITDA	$ **1,268**	1,137	754
Distributable cash flow	$ **989**	854	572

		Year Ended December 31		
		2019	2018	2017
Wholly Owned Operating Data				
Pipelines				
Pipeline revenues *(millions of dollars)*	$	**473**	454	424
Pipeline volumes(1) *(thousands of barrels daily)*				
Crude oil		**991**	1,016	916
Refined petroleum products and NGL		**947**	929	950
Total		**1,938**	1,945	1,866
Average pipeline revenue per barrel *(dollars)*	$	**0.67**	0.64	0.62
Terminals				
Terminal revenues *(millions of dollars)*	$	**167**	157	152
Terminal throughput *(thousands of barrels daily)*				
Crude oil(2)		**470**	462	421
Refined petroleum products		**804**	780	767
Total		**1,274**	1,242	1,188
Average terminaling revenue per barrel *(dollars)*	$	**0.35**	0.34	0.35
Storage, processing and other revenues *(millions of dollars)*	$	**486**	434	358
Total operating revenues *(millions of dollars)*	$	**1,126**	1,045	934
Joint Venture Operating Data(3)				
Crude oil, refined petroleum products and NGL *(thousands of barrels daily)*		**760**	652	472

(1) Represents the sum of volumes transported through each separately tariffed pipeline segment.
(2) Bayway and Ferndale rail rack volumes included in crude oil terminals.
(3) Proportional share of total pipeline and terminal volumes of joint ventures consistent with recognized equity in earnings of affiliates.

The following tables present reconciliations of EBITDA and adjusted EBITDA 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		
	2019	2018	2017
Reconciliation to Net Income Attributable to the Partnership			
Net income attributable to the Partnership	$ **923**	796	461
Plus:			
Net income attributable to Predecessors	**—**	—	63
Net income	**923**	796	524
Plus:			
Depreciation	**120**	117	116
Net interest expense	**105**	114	99
Income tax expense	**3**	4	4
EBITDA	**1,151**	1,031	743
Plus:			
Proportional share of equity affiliates' net interest, taxes and depreciation and amortization	**116**	101	66
Expenses indemnified or prefunded by Phillips 66	**1**	1	8
Transaction costs associated with acquisitions	**—**	4	4
Less:			
EBITDA attributable to Predecessors	**—**	—	67
Adjusted EBITDA	**1,268**	1,137	754
Plus:			
Deferred revenue impacts* †	**(6)**	(6)	6
Less:			
Equity affiliate distributions less than proportional EBITDA	**56**	64	29
Maintenance capital expenditures†	**74**	62	50
Net interest expense	**105**	114	100
Preferred unit distributions	**37**	37	9
Income taxes paid	**1**	—	—
Distributable cash flow	$ **989**	854	572

**Difference between cash receipts and revenue recognition.*
†Excludes Merey Sweeny capital reimbursements and turnaround impacts.

	Millions of Dollars		
	Year Ended December 31		
	2019	2018	2017
Reconciliation to Net Cash Provided by Operating Activities			
Net cash provided by operating activities	**$ 1,016**	892	724
Plus:			
Net interest expense	**105**	114	99
Income tax expense	**3**	4	4
Changes in working capital	**34**	(20)	(30)
Undistributed equity earnings	**3**	5	1
Deferred revenues and other liabilities	**(5)**	42	(43)
Other	**(5)**	(6)	(12)
EBITDA	**1,151**	1,031	743
Plus:			
Proportional share of equity affiliates' net interest, taxes and depreciation and amortization	**116**	101	66
Expenses indemnified or prefunded by Phillips 66	**1**	1	8
Transaction costs associated with acquisitions	**—**	4	4
Less:			
EBITDA attributable to Predecessors	**—**	—	67
Adjusted EBITDA	**1,268**	1,137	754
Plus:			
Deferred revenue impacts*†	**(6)**	(6)	6
Less:			
Equity affiliate distributions less than proportional EBITDA	**56**	64	29
Maintenance capital expenditures†	**74**	62	50
Net interest expense	**105**	114	100
Preferred unit distributions	**37**	37	9
Income taxes paid	**1**	—	—
Distributable cash flow	**$ 989**	854	572

**Difference between cash receipts and revenue recognition.*
†Excludes Merey Sweeny capital reimbursements and turnaround impacts.

Statement of Income Analysis

2019 vs. 2018

Operating revenues increased $81 million in 2019. The increase was primarily due to the recognition of previously deferred revenues associated with fees charged to Phillips 66 related to turnaround activity at Merey Sweeny LLC (Merey Sweeny) in the first quarter of 2019, and higher volumes and rates.

Equity in earnings of affiliates increased $96 million, or 22%, in 2019, mainly resulting from higher earnings from Dakota Access, LLC (Dakota Access) and Energy Transfer Crude Oil Company, LLC (ETCO), together referred to as the Bakken Pipeline and DCP Sand Hills Pipeline, LLC (Sand Hills), primarily due to improved volumes.

Operating and maintenance expenses increased $51 million, or 14%, in 2019. The increase was primarily due to turnaround activity at Merey Sweeny and integrity and maintenance repairs.

2018 vs. 2017

Operating revenues increased $111 million, or 12%, in 2018. The increase was primarily due to higher processing revenues at Merey Sweeny, and improved pipeline volumes and rates.

Equity in earnings of affiliates increased $216 million, or 97%, in 2018, mainly resulting from a full year of earnings from the Bakken Pipeline, and higher earnings from Sand Hills, Explorer Pipeline Company (Explorer), and Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal), primarily due to improved volumes.

Other income decreased $10 million in 2018. The decrease was primarily due to the receipt of tax-related contractual make-whole payments in 2017 associated with the transfer of a co-venturer's interests in Sand Hills and DCP Southern Hills Pipeline, LLC (Southern Hills) to DCP Midstream, LP.

Operating and maintenance expenses increased $33 million, or 10%, in 2018. The increase was primarily due to higher operating expenses at Merey Sweeny and maintenance expenses for the Ponca Products System.

Interest and debt expense increased $14 million, or 14%, in 2018, due to higher average debt principal balances as a result of the issuance of $650 million of senior notes in October 2017. See Note 12—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, distributions from our equity affiliates, borrowings from related parties and under our revolving credit facility, issuances of additional debt and equity securities, and funding from joint venture partners. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements, long-term capital expenditure requirements and our quarterly cash distributions.

Operating Activities

During 2019, we generated $1,016 million in cash from operations, a 14% improvement over cash from operations of $892 million in 2018. The improvement was primarily driven by distributions from equity affiliates in 2019.

During 2018, cash provided by operating activities was $892 million, a 23% improvement over cash from operations of $724 million in 2017. The improvement was primarily driven by higher operating revenues and distributions from equity affiliates, partially offset by decreased deferred revenue and increased operating and maintenance expenses in 2018.

Equity Affiliate Operating Distributions

Our cash flows are also impacted by distribution decisions made by our equity affiliates. Over the three years ended December 31, 2019, we received aggregate distributions from our equity affiliates of $1,350 million. We cannot control the amount or timing of future dividends from equity affiliates; therefore, future dividend payments by these and other equity affiliates are not assured.

ATM Program

We have authorized an aggregate of $750 million under three $250 million continuous offerings of common units, or at-the-market (ATM) programs. The first two programs concluded in June 2018 and December 2019, respectively, leaving $250 million available under the third program. For the year ended December 31, 2019, on a settlement-date basis, we issued an aggregate of 3,195,521 common units under our ATM programs, generating net proceeds of $173 million. During the year ended December 31, 2018, on a settlement-date basis, we issued an aggregate of 2,532,096 common units under our ATM programs, generating net proceeds of $128 million. During the year ended December 31, 2017, on a settlement-date basis, we issued an aggregate of 3,372,716 common units under our ATM programs, generating net proceeds of $173 million. Since inception in June 2016 and through December 31, 2019, we issued an aggregate of 9,446,485 common units under our ATM programs, and generated net proceeds of $492 million, after broker commissions of $5 million and other costs of $3 million. The net proceeds from sales under the ATM programs are used for general partnership purposes, which may include debt repayment, acquisitions, capital expenditures and additions to working capital.

Common Units
In October 2017, we completed a private placement of 6,304,204 common units representing limited partner interests at a price of $47.59 per common unit, for total proceeds of $295 million, net of underwriting discounts and commissions. The net proceeds were used in part to fund the cash portion of the Bakken Pipeline/Merey Sweeny Acquisition. See Note 4—Acquisitions, in the Notes to Consolidated Financial Statements, for additional information.

Preferred Units
In October 2017, we completed the private placement of 13,819,791 perpetual convertible preferred units (preferred units) representing limited partner interests at a price of $54.27 per preferred unit. We received proceeds of $737 million from the offering, net of offering and transaction expenses. The net proceeds were used in part to fund the cash portion of the Bakken Pipeline/Merey Sweeny Acquisition.

The preferred units rank senior to all common units with respect to distributions and rights upon liquidation. The holders of the preferred units are entitled to receive cumulative quarterly distributions equal to $0.678375 per unit, beginning for the quarter ended December 31, 2017, with a prorated amount from the date of issuance. Following the third anniversary of the issuance of the preferred units, the holders of the preferred units will receive as a quarterly distribution the greater of $0.678375 per unit or the amount of per-unit distributions paid to common unitholders as if such preferred units had converted into common units immediately prior to the record date.

The holders of the preferred units may convert their preferred units into common units, on a one-for-one basis, at any time after the second anniversary of the issuance date, in full or in part, subject to minimum conversion amounts and conditions. After the third anniversary of the issuance date, we may convert the preferred units into common units at any time, in whole or in part, subject to certain minimum conversion amounts and conditions. See Note 15—Equity, in the Notes to Consolidated Financial Statements, for additional information on the preferred unit conversion features.

2019 Senior Notes
On September 6, 2019, we closed on a public offering of $900 million aggregate principal amount of unsecured notes consisting of:

- $300 million aggregate principal amount of 2.450% Senior Notes due December 15, 2024.
- $600 million aggregate principal amount of 3.150% Senior Notes due December 15, 2029.

Interest on each series of senior notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing on June 15, 2020. Total proceeds received from the offering were $892 million, net of underwriting discounts and commissions. Net proceeds from the Senior Notes offering were used for general partnership purposes, including debt repayments. On September 13, 2019, we used a portion of the proceeds to repay the $400 million outstanding principal balance of the senior unsecured term loan facility that was drawn during the first half of 2019. On October 15, 2019, we used a portion of the proceeds to repay the aggregate $300 million outstanding principal balance of our 2.646% Senior Notes due February 2020.

Revolving Credit Facility
On July 30, 2019, we amended and restated our revolving credit agreement. The agreement extended the termination date from October 3, 2021 to July 30, 2024. No other material amendments were made to the agreement, and the overall capacity remains at $750 million with an option to increase the overall capacity to $1 billion, subject to certain conditions. We also have the option to extend the Credit Agreement for two additional one-year terms after its July 30, 2024, maturity date, subject to, among other things, the consent of the lenders holding the majority of the commitments and of each lender extending its commitment.

As of December 31, 2019, no amount had been directly drawn under our $750 million revolving credit facility; however, $1 million in letters of credit had been issued that were supported by this facility. As of December 31, 2018, we had an aggregate of $125 million borrowed and outstanding under the credit facility.

Outstanding borrowings under the 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 base rate (as described in the Credit Agreement) plus the applicable margin. The pricing levels for the commitment fee and interest-rate margins are determined based on our credit ratings in effect from time to time. Outstanding borrowings bearing interest at the Eurodollar rate become due and payable on the revolving credit facility's termination date. Outstanding borrowings bearing interest at the base rate plus the applicable margin become due and payable on the earlier of the revolving credit facility's termination date or the fourteenth business day after such borrowings were made. We may at any time and from time to time prepay outstanding borrowings under the Credit Agreement, in whole or in part, without premium or penalty. The Credit Agreement requires that the Partnership's ratio of total debt to EBITDA for the prior four fiscal quarters must be no greater than 5.0:1.0 as of the last day of each fiscal quarter (and 5.5:1.0 during the period following certain specified acquisitions).

Our revolving credit facility is subject to customary financial covenants and limitations. We are in compliance with all such financial covenants and limitations.

Term Loan Facility
On March 22, 2019, we entered into a senior unsecured term loan facility with a borrowing capacity of $400 million due March 20, 2020. We borrowed an aggregate amount of $400 million under the facility during the first half of 2019. The proceeds were used for general partnership purposes, including repayment of amounts borrowed under our $750 million revolving credit facility. The outstanding principal balance of the senior unsecured term loan facility was repaid in full in September 2019.

2017 Senior Notes
In October 2017, we closed on a notes offering (2017 Notes Offering) of $650 million aggregate principal amount of unsecured senior notes consisting of:

- $500 million of 3.750% Senior Notes due March 1, 2028.
- An additional $150 million of our 4.680% Senior Notes due February 15, 2045.

Interest on the Senior Notes due 2028 is payable semiannually in arrears on March 1 and September 1 of each year, commencing on March 1, 2018. The Senior Notes due 2045 are an additional issuance of our Senior Notes due 2045, and interest is payable semiannually in arrears on February 15 and August 15 of each year. Total proceeds received from the 2017 Notes Offering were $643 million, net of underwriting discounts. We utilized the net proceeds to repay the remaining balances on the promissory notes and term loan assumed in the Bakken Pipeline/Merey Sweeny Acquisition and for general partnership purposes.

Tax-Exempt Bonds
In connection with the Bakken Pipeline/Merey Sweeny Acquisition, we assumed four $25 million tranches of tax-exempt bonds issued by the Brazos River Harbor Navigation District. We repaid one tranche in 2018, with another maturing in 2020 and two in 2021.

The tranches accrue interest monthly based on a daily rate derived by the remarketing agent for the bonds. The interest rates are designed to represent the lowest rate acceptable by the tax-exempt, variable-rate bond market and approximate the tax-exempt bonds trading at par.

Senior Bonds
In May 2017 and prior to their maturity, we repaid Merey Sweeny senior bonds assumed in the Bakken Pipeline/Merey Sweeny Acquisition with a carrying value of $136 million on the repayment date, which resulted in an immaterial gain.

Because the Merey Sweeny tax-exempt bonds and senior bonds were held by entities we acquired in common control transactions, prior period debt balances were retrospectively presented as if we had held the bonds since their inception in February 2017.

Transfers of Equity Interests
In December 2018, a third party exercised its option to acquire a 35% interest in Gray Oak Holdings LLC (Holdings LLC), a consolidated subsidiary. This transfer did not qualify as a sale under GAAP because of certain restrictions placed on the acquirer. The contributions received by Holdings LLC from the third party to cover capital calls from Gray Oak Pipeline, LLC are presented as a long-term obligation on our consolidated balance sheet and as financing cash inflows on our consolidated statement of cash flows. After construction of the Gray Oak Pipeline is fully completed,

these restrictions expire, and the sale will be recognized under GAAP. We will continue to control and consolidate Holdings LLC after sale recognition, and therefore the third party's 35% interest will be recharacterized from a long-term obligation to a noncontrolling interest on our consolidated balance sheet at that time. Also at that time, the premium paid will be recharacterized from a long-term obligation to a gain in our consolidated statement of income. During 2019, the third party contributed an aggregate of $342 million into Holdings LLC, and Holdings LLC used these contributions to fund its portion of Gray Oak Pipeline LLC's cash calls.

In February 2019, Holdings LLC transferred a 10% interest in Gray Oak Pipeline, LLC, to a third party that exercised a purchase option, for proceeds of $81 million. The proceeds received from this sale are reflected as an investing cash inflow in the "Proceeds from sale of equity interest" line item on our consolidated statement of cash flows.

See Note 6—Equity Investments and Loans, in the Notes to Consolidated Financial Statements, for additional information regarding these transactions.

Shelf Registration
We have a universal shelf registration statement on file with the U.S. Securities and Exchange Commission (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, preferred units representing limited partner interests, and debt securities.

Off-Balance Sheet Arrangements
In March 2019, a wholly owned subsidiary of Dakota Access closed on an offering of $2,500 million aggregate principal amount of unsecured senior notes. The net proceeds from the issuance of these notes were used to repay amounts outstanding under existing credit facilities of Dakota Access and ETCO. Dakota Access and ETCO have guaranteed repayment of the notes. In addition, we and our co-venturers provided a Contingent Equity Contribution Undertaking (CECU) in conjunction with the notes offering. Under the CECU, if Dakota Access receives an unfavorable court ruling related to certain disputed construction permits and Dakota Access determines that an equity contribution trigger event has occurred, the venturers may be severally required to make proportionate equity contributions to Dakota Access and ETCO up to an aggregate maximum of approximately $2,525 million. Our share of the maximum potential equity contributions under the CECU is approximately $631 million.

In June 2019, Gray Oak Pipeline, LLC entered into a third-party term loan facility with an initial borrowing capacity of $1,230 million to cover a portion of the project cost for the Gray Oak Pipeline, inclusive of accrued interest. Subsequently, the facility was increased in July 2019 to $1,317 million and further increased in January 2020 to $1,379 million, inclusive of accrued interest. Borrowings under the facility are due on June 3, 2022. We and our co-venturers provided a guarantee through an equity contribution agreement requiring proportionate equity contributions to Gray Oak Pipeline, LLC up to the total outstanding loan amount. Under the agreement, our maximum potential amount of future obligations is $583 million, plus any additional accrued interest and associated fees, which would be required if the term loan facility is fully utilized and Gray Oak Pipeline, LLC defaults on certain of its obligations thereunder. At December 31, 2019, Gray Oak Pipeline, LLC had borrowings of $1,170 million outstanding, and our 42.25% proportionate exposure was $494 million. The net proceeds from the term loan were used by Gray Oak Pipeline, LLC for construction of the Gray Oak Pipeline and repayment of amounts borrowed under a related party loan agreement that we and our co-venturers executed in March 2019 and terminated upon the repayment by Gray Oak Pipeline, LLC in June 2019. Our total related party loan to and repayment received from Gray Oak Pipeline, LLC was $95 million.

Capital Requirements

Acquisitions
During 2018 and 2017, we completed several major acquisitions, including:

- The April 2018 Gray Oak Pipeline Project Acquisition, where we entered into a Purchase and Sale Agreement with Phillips 66 PDI to acquire its 100% interest in Holdings LLC, which, at that time, owned a 100% interest in Gray Oak Pipeline, LLC. Gray Oak Pipeline, LLC is developing and constructing the Gray Oak Pipeline which, upon completion, will transport crude oil from the Permian and Eagle Ford to destinations in Corpus Christi, Texas, and the Sweeny, Texas, area, including the Phillips 66 Sweeny Refinery.

- The October 2017 Bakken Pipeline/Merey Sweeny Acquisition, consisting of a 25% interest in the Bakken Pipeline and a 100% interest in Merey Sweeny.

See Note 4—Acquisitions, Note 6—Equity Investments and Loans and Note 20—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.

Subsequent Acquisition
In February 2020, we entered into a Purchase and Sale Agreement with Phillips 66 PDI to acquire its 50% interest in the Liberty Pipeline joint venture for approximately $75 million. The purchase price reflects the reimbursement of project costs incurred by Phillips 66 prior to the effective date of the transaction. We plan to fund the transaction through a combination of cash on hand and our revolving credit facility. The transaction is expected to close on March 2, 2020.

Liberty Pipeline LLC is developing and constructing the Liberty Pipeline system which, upon completion, will transport crude oil from the Rockies and Bakken production areas to Cushing, Oklahoma. The throughput capacity on the 24 inch pipeline is expected to be 400,000 BPD. The pipeline is supported by long-term shipper commitments, and service is expected in the first half of 2021. The total cost of the pipeline is expected to be approximately $1.6 billion, on a gross basis, or $800 million net to the Partnership.

Capital Expenditures and Investments
Our operations are capital intensive and require investments to expand, upgrade, maintain or enhance existing operations and to meet environmental and operational requirements of our wholly owned and joint venture entities. Our capital requirements consist of maintenance and expansion capital expenditures, as well as contributions to our joint ventures. 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 to maintain 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 represent the total spending for our capital requirements. Our adjusted capital spending is a non-GAAP financial measure that demonstrates our net share of capital spending, and reflects an adjustment for the portion of consolidated capital spending funded by certain joint venture partners. Additionally, the disaggregation of adjusted capital spending between expansion and maintenance is not a distinction recognized under GAAP. We disaggregate adjusted capital spending because our partnership agreement requires that we treat expansion and maintenance capital differently for certain surplus determinations. Further, we generally fund expansion capital spending with both operating and financing cash flows and fund maintenance capital spending with operating cash flows.

Our capital expenditures and investments for the years ended December 31, 2019, 2018 and 2017 were:

		Millions of Dollars	
	2019	2018	2017
Capital expenditures and investments			
Capital expenditures and investments	$ **1,082**	776	434
Capital expenditures attributable to Predecessors	**—**	—	(82)
Capital expenditures and investments funded by joint venture partners*	**(423)**	—	—
Adjusted capital spending	**659**	776	352
Expansion	$ **579**	710	382
Maintenance	**80**	66	52

**See Note 6—Equity Investments and Loans, in the Notes to Consolidated Financial Statements, for additional information.*

Capital expenditures attributable to Predecessors for the three-year period ended December 31, 2019, reflect contributions to Dakota Access and ETCO to fund construction, completion and startup of the Bakken Pipeline.

Our capital expenditures and investments attributable to the Partnership for the three-year period ended December 31, 2019, included:

- Contributions to Gray Oak Pipeline, LLC to progress construction of the pipeline system, which will transport crude oil from the Permian and Eagle Ford to Texas Gulf Coast destinations that include Corpus Christi, the Sweeny area, including the Phillips 66 Sweeny Refinery, as well as access to the Houston market.
- Contributions to Bayou Bridge Pipeline, LLC (Bayou Bridge) for the construction of a pipeline from Nederland, Texas, to Lake Charles, Louisiana, and a pipeline segment from Lake Charles to St. James, Louisiana.
- Completion of the construction of our new isomerization unit at the Phillips 66 Lake Charles Refinery.
- Contributions to Sand Hills to increase capacity on its NGL system.
- Construction activities related to increasing storage capacity at Clemens Caverns.
- Contributions to Dakota Access and ETCO for post-construction spending related to Bakken Pipeline.
- Construction activities related to a new ethane pipeline from the Clemens Caverns to petrochemical facilities in Gregory, Texas, near Corpus Christi (C2G Pipeline).
- Contributions to South Texas Gateway Terminal for construction activities related to the marine export terminal that will connect to the Gray Oak Pipeline in Corpus Christi, Texas.
- Construction activities related to increasing capacity on the Sweeny to Pasadena refined petroleum products pipeline.
- Spending associated with other return, reliability and maintenance projects.

2020 Budget
Our 2020 capital program is $962 million, and $95 million of that amount will be funded by certain joint venture partners. Of the remaining $867 million budgeted, $734 million will be invested in expansion projects, including the C2G Pipeline, Gray Oak Pipeline, the South Texas Gateway Terminal and the Bakken Pipeline. Our estimated maintenance capital spending of $133 million will be funded primarily with cash from operations, while expansion capital spending will be funded with a combination of cash from operations, borrowings under our revolving credit facility or other issuances of debt, and selective use of our ATM program.

Restructuring Transaction
On August 1, 2019, we closed on the transactions contemplated by the Partnership Interests Restructuring Agreement, dated July 24, 2019, entered into with our General Partner. Pursuant to this agreement, all of the outstanding IDRs held by our General Partner were eliminated and its approximately 2% general partner interest in us was converted into a non-economic general partner interest; both in exchange for an aggregate of 101 million common units issued to Phillips 66 PDI. Because these transactions were between entities under common control, the common units issued to Phillips 66 PDI were assigned no value; rather, our General Partner's negative equity balance of $1.4 billion at August 1, 2019, was transferred to Phillips 66's limited partner equity account.

Cash Distributions
On January 21, 2020, the Board of Directors of our General Partner declared a quarterly cash distribution of $0.875 per common unit which, excluding distributions to holders of our preferred units, resulted in a total distribution of $200 million attributable to the fourth quarter of 2019. This distribution was paid February 13, 2020, to unitholders of record as of January 31, 2020.

The following table summarizes our quarterly cash distributions for 2019 and 2018 to our common unitholders and our General Partner:

Quarter Ended	Quarterly Cash Distribution Per Common Unit* (Dollars)	Total Quarterly Cash Distribution (Millions of Dollars)	Date of Distribution
December 31, 2019	$ 0.875	$ 200	February 13, 2020
September 30, 2019	0.865	197	November 13, 2019
June 30, 2019	0.855	177	August 13, 2019
March 31, 2019	0.845	174	May 14, 2019
December 31, 2018	0.835	171	February 13, 2019
September 30, 2018	0.792	160	November 13, 2018
June 30, 2018	0.752	148	August 13, 2018
March 31, 2018	0.714	139	April 30, 2018

**Cash distributions declared attributable to the indicated periods.*

The holders of the preferred units are entitled to receive cumulative quarterly distributions equal to $0.678375 per preferred unit commencing for the quarter ended December 31, 2017, with a prorated amount from the date of issuance. Preferred unitholders received $9 million of distributions attributable to the fourth quarter of 2019.

Contractual Obligations
The following table summarizes our aggregate contractual obligations as of December 31, 2019:

		Millions of Dollars			
	Payments Due by Period				
	Total	Up to 1 Year	Years 2-3	Years 4-5	After 5 Years
Debt obligations (a)	$ 3,550	25	50	300	3,175
Interest on debt	1,974	134	265	265	1,310
Operating lease obligations	105	3	6	6	90
Purchase obligations (b)	172	154	9	5	4
Other long-term liabilities:					
Asset retirement obligations	11	—	—	—	11
Accrued environmental costs	3	1	—	—	2
Total	$ 5,815	317	330	576	4,592

(a) See Note 12—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 contractual 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 monthly operational and administrative support fee in the amount of $8 million to Phillips 66 for certain administrative and operational support services 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.

Our preferred units are contractually entitled to receive cumulative quarterly distributions. As of December 31, 2019, distributions to our preferred unitholders are $37 million on an annual basis. However, subject to certain conditions, we or the holders of the preferred units may convert the preferred units into common units at certain anniversary dates after the issuance date. Due to the uncertain timing of any potential conversion, distributions related to the preferred units were 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 are 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.

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 recommends if adjustment of existing accruals, or establishment of new accruals, is required. As of December 31, 2019 and 2018, we did not have any material accrued contingent liabilities associated with litigation matters.

Environmental
We are subject to extensive federal, state and local environmental laws and regulations. These requirements, which frequently change, 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 Federal 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 recovered 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 obligations regarding the environment and have established the environmental accruals that are currently required; 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.

Indemnification and Excluded Liabilities
Under our amended omnibus agreement and pursuant to the terms of various agreements under which we acquired assets from Phillips 66, Phillips 66 will indemnify us, or assume responsibility, for certain environmental liabilities, tax liabilities, litigation and any other liabilities attributable to the ownership or operation of the assets contributed to us and that arose prior to the effective date of each acquisition. These indemnifications and exclusions from liability have, in some cases, time limits and deductibles. When Phillips 66 performs under any of these indemnifications or exclusions from liability, we recognize non-cash expenses and associated non-cash capital contributions from our General Partner, as these are considered liabilities paid for by a principal unitholder.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to select appropriate accounting policies and to make estimates and assumptions about future events 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 significant 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 the carrying value of an asset group may not be recoverable. If the sum of the undiscounted expected future pretax cash flows of an asset group is less than the carrying value, including applicable liabilities, the carrying value 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 assets, generally at a pipeline system, terminal, processing or fractionation system 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 or more of the following methods: present value of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants; estimated replacement cost; a market multiple of earnings for similar assets; or historical market transactions of similar assets, adjusted using 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 volumes, commodity prices, operating costs, margins, discount rates 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. Different 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 pipelines. Fair values of legal obligations to abandon or remove long-lived assets are recorded in the period in which the obligation arises. Estimating the timing and cost of future asset removals is difficult and involves judgment in determining the estimated asset removal obligation. 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.

Goodwill
At December 31, 2019, we had $185 million of goodwill recorded in conjunction with past business combinations. The majority of our goodwill is related to acquisitions from Phillips 66. In these common control transactions, the net assets acquired are recorded at Phillips 66's historical carrying value, including any associated goodwill. Goodwill is not amortized. Instead, goodwill is subject to at least annual tests for impairment at a reporting unit level. A reporting unit is an operating segment or a component that is one level below an operating segment and they are determined primarily based on the manner in which the business is managed. We have one reporting unit with a goodwill balance.

We perform our annual goodwill impairment test using a qualitative assessment and a quantitative assessment, if one is deemed necessary. As part of our qualitative assessment, we evaluate relevant events and circumstances that could affect the fair value of our reporting unit, including macroeconomic conditions, overall industry and market considerations and regulatory changes, as well as partnership-specific market metrics, performance and events. The evaluation of partnership-specific events and circumstances includes evaluating changes in our unit price and cost of capital, actual and forecasted financial performance, as well as the effect of significant asset dispositions.

If our qualitative assessment indicates it is likely the fair value of our reporting unit has declined below its carrying value (including goodwill), or if we elect not to perform a qualitative assessment, a quantitative assessment is performed. When a quantitative assessment is performed, management applies judgment in determining the estimated fair value of our reporting unit because a quoted market price for this reporting unit is not available. Management uses available information to make this fair value determination, including estimated cash flows, cost of capital, observed market earnings multiples of comparable companies and partnerships, our common unit price and associated total partnership market capitalization.

We completed our annual qualitative impairment test as of October 1, 2019, and concluded that the fair value of our reporting unit continued to exceed its respective carrying value (including goodwill) by a significant percentage. A decline in the estimated fair value of our reporting unit in the future could result in an impairment. As such, we continue to monitor for indicators of impairment until our next annual impairment test is performed.

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 conduct our business in U.S. dollars, we are not exposed to foreign currency exchange-rate risk.

Commodity Price Risk
Since 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 shipped. This loss allowance, which represented 3% of our total operating revenues in 2019, 2018 and 2017, is more volatile than tariffs and terminaling fees, as it depends on and fluctuates with commodity prices of the products we transport and store; however, we do not intend to mitigate this risk to our revenues by hedging this commodity price exposure.

Interest Rate Risk
Our use of fixed- or variable-rate debt directly exposes us to interest rate risk. Fixed-rate debt, such as our senior notes, exposes us to changes in the fair value of our debt due to changes in market interest rates. Fixed-rate debt also exposes us to the risk that we may need to refinance maturing debt with new debt at higher rates, or that we may be obligated to pay rates higher than the current market. Variable-rate debt, such as borrowings under our revolving credit facility and tax-exempt bonds, exposes us to short-term changes in market rates that impact our interest expense.

The following tables provide information about our debt instruments that are sensitive to changes in U.S. interest rates. These tables present principal cash flows and related weighted-average interest rates by expected maturity dates. Weighted-average variable rates are based on effective rates at the reporting date. The carrying amount of our floating-rate debt approximates its fair value. The fair value of the fixed-rate financial instruments is estimated based on observable market prices.

	Millions of Dollars, Except as Indicated			
Expected Maturity Date	Fixed-Rate Maturity	Weighted-Average Interest Rate	Floating Rate Maturity	Weighted-Average Interest Rate
At December 31, 2019				
2020	$ —		$ 25	1.9%
2021	—		50	1.9%
2022	—		—	
2023	—		—	
2024	300	2.5%	—	
Thereafter	3,175	3.9%	—	
Total	$ 3,475		$ 75	
Fair value	$ 3,650		$ 75	

Expected Maturity Date	Millions of Dollars, Except as Indicated			
	Fixed-Rate Maturity	Weighted-Average Interest Rate	Floating Rate Maturity	Weighted-Average Interest Rate
At December 31, 2018				
2019	$ —		$ 50	3.7%
2020	300	2.6%	25	1.9%
2021	—		125	3.0%
2022	—		—	
2023	—		—	
Thereafter	2,575	4.1%	—	
Total	$ 2,875		$ 200	
Fair value	$ 2,660		$ 200	

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," "should," "will," "would," "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.
- Reductions in the volume of crude oil, refined petroleum products and NGL we transport, fractionate, process, terminal and store.
- Changes to 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 and demand for crude oil, refined petroleum products and NGL.
- 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.
- Potential liabilities associated with the risks and operational hazards inherent in transporting, fractionating, processing, terminaling and storing crude oil, refined petroleum products and NGL.
- Curtailment of operations due to severe weather disruption or natural disasters; riots, strikes, lockouts or other industrial disturbances; or failure of information technology systems due to various causes, including unauthorized access or attack.
- Accidents or other unscheduled shutdowns affecting our pipelines, processing, fractionating, terminaling, and storage facilities or equipment, or those of our suppliers or customers.
- Our inability to obtain or maintain permits in a timely manner, if at all, including those necessary for capital projects, or the revocation or modification of existing permits.
- Our inability to comply with government regulations or make capital expenditures required to maintain compliance.
- The failure to complete construction of announced and future capital projects in a timely manner and any cost overruns associated with such projects.
- Our ability to successfully execute growth strategies, whether through organic growth or acquisitions.
- 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, railcars and other means of delivering and transporting crude oil, refined petroleum products and NGL.
- Direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war.
- Our ability to comply with the terms of our credit facility, indebtedness and other financing arrangements, which, if accelerated, we may not be able to repay.
- Our ability to incur additional indebtedness or our ability to obtain financing on terms that we deem acceptable, including the refinancing of our current obligations; higher interest rates and costs of financing would increase our expenses.
- Changes in tax, environmental and other laws and regulations.
- The factors generally described in "Item 1A. Risk Factors" in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PHILLIPS 66 PARTNERS LP

INDEX TO FINANCIAL STATEMENTS

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 generally accepted accounting principles 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, 2019. 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, 2019.

Ernst & Young LLP has issued an audit report on the Partnership's internal control over financial reporting as of December 31, 2019, 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)

Date: February 21, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors of Phillips 66 Partners GP LLC and
Unitholders of Phillips 66 Partners LP

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Phillips 66 Partners LP (the “Partnership”) as of December 31, 2019 and 2018, 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, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, based on our audits and the reports of other auditors, the financial statements present fairly, in all material respects, the consolidated financial position of the Partnership at December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We did not audit the consolidated financial statements of DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC (the “Pipelines”) and Dakota Access, LLC (“Dakota”). The Partnership accounts for its 33.34% interest in each of the Pipelines and its 25% interest in Dakota using the equity method of accounting. In the financial statements, the Partnership’s total investment in the Pipelines is stated at $810 million and $807 million as of December 31, 2019 and 2018, respectively, and the Partnership’s total equity in net income of the Pipelines is stated at $193 million, $156 million and $108 million for the years ended December 31, 2019, 2018, and 2017, respectively. In the financial statements, the Partnership’s total investment in Dakota is stated at $461 million and $473 million as of December 31, 2019 and 2018, respectively, and the Partnership’s total equity in net income of Dakota is stated at $177 million, $139 million, and $52 million for the years ended December 31, 2019, 2018, and 2017, respectively. The Pipelines’ and Dakota’s consolidated financial 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 and Dakota for 2019, 2018 and 2017, are based on the reports of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2019, 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 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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 the Partnership’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Classification of new or modified leases
Description of the Matter	As discussed in Note 5 to the consolidated financial statements, the Partnership has certain contractual arrangements with Phillips 66 that contain leases, where the Partnership is the lessor and Phillips 66 is the lessee. The Partnership's determination of the classification of new or modified lease agreements requires judgment due to the inherent complexity of determining whether the present value of the lease payments equals or exceeds substantially all of the fair value of the underlying asset. Specifically, these judgments and estimates relate to the determination of the fair value of the leased asset, and the allocation of consideration in the contract between lease and non-lease components. Auditing the Partnership's classification of a new or modified lease required us to make subjective auditor judgments due to the uncertainty and subjectivity involved in determining the fair value of the underlying asset and determining both the amount of consideration in a contract to be allocated and the method of allocation. The subjective assumptions used in determining the fair value of the underlying assets included determination of the replacement costs for similar assets and adjustments for the age of such assets. Additionally, the allocation of consideration in the contract involved subjective assumptions in determining the relative standalone selling price of the lease and non-lease components.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Partnership's lease accounting process to identify and classify new lease contracts or modifications to existing lease contracts, including the Partnership's review of the underlying key assumptions utilized in determining lease classification. In order to test the lease classification for new or modified leases we performed audit procedures that included, among others, assessing the methodologies used by management to determine fair value, and testing the significant assumptions discussed above and the related underlying data used by the Partnership in its analysis. For example, we tested the relative standalone selling prices used in the allocation of consideration to the lease and non-lease components in a contract, the calculation of the discount rate implicit in the lease, and the estimated fair value of the underlying asset. Additionally, we involved our valuation specialists to assist us in analyzing management's estimation of leased assets' fair values. We also performed sensitivity analyses of certain significant assumptions to evaluate the effect of changes to management's estimates and recalculated management's model.

/s/ Ernst & Young LLP

Houston, Texas
February 21, 2020

We have served as the Partnership's auditor since 2012.

Report of Independent Registered Public Accounting Firm

To the Board of Directors of Phillips 66 Partners GP LLC and
Unitholders of Phillips 66 Partners LP

Opinion on Internal Control over Financial Reporting

We have audited Phillips 66 Partners LP's internal control over financial reporting as of December 31, 2019, 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). In our opinion, Phillips 66 Partners LP (the Partnership) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Partnership as of December 31, 2019 and 2018, 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, 2019, and the related notes and our report dated February 21, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Houston, Texas
February 21, 2020

Report of Independent Registered Public Accounting Firm

To the Management Committee and Members of
DCP Sand Hills Pipeline, LLC

Opinion on the Financial Statements

We have audited the consolidated balance sheets of DCP Sand Hills Pipeline, LLC and subsidiary (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in members' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 5 and Note 6 to the financial statements, the Company has significant transactions with related parties.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, the Company changed its method of accounting for revenue from contracts with customers in 2018 due to adoption of Accounting Standards Codification Topic 606 - *Revenue from Contracts with Customers.*

/s/ Deloitte & Touche LLP

Denver, Colorado
February 7, 2020

We have served as the Company's auditor since 2013.

Report of Independent Registered Public Accounting Firm

To the Management Committee and Members of
DCP Southern Hills Pipeline, LLC

Opinion on the Financial Statements

We have audited the consolidated balance sheets of DCP Southern Hills Pipeline, LLC and subsidiary (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in members' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 5 and Note 6 to the financial statements, the Company has significant transactions with related parties.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, the Company changed its method of accounting for revenue from contracts with customers in 2018 due to adoption of Accounting Standards Codification Topic 606 - *Revenue from Contracts with Customers.*

/s/ Deloitte & Touche LLP

Denver, Colorado
February 7, 2020

We have served as the Company's auditor since 2013.

Report of Independent Registered Public Accounting Firm

Board of Managers and Members
Dakota Access, LLC

Opinion on the financial statements

We have audited the consolidated balance sheets of Dakota Access, LLC (a Delaware limited liability company) and subsidiaries (the "Company") as of December 31, 2019, and 2018, the related consolidated statements of operations, members' equity, and cash flows for each of the three years in the period ended December 31, 2019 and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2015

Dallas, Texas
February 13, 2020

Consolidated Statement of Income **Phillips 66 Partners LP**

	Millions of Dollars		
Years Ended December 31	**2019**	2018	2017
Revenues and Other Income			
Operating revenues—related parties	$ **1,097**	1,012	894
Operating revenues—third parties	**29**	33	40
Equity in earnings of affiliates	**535**	439	223
Other income	**6**	2	12
Total revenues and other income	**1,667**	1,486	1,169
Costs and Expenses			
Operating and maintenance expenses	**405**	354	321
Depreciation	**120**	117	116
General and administrative expenses	**67**	64	69
Taxes other than income taxes	**39**	35	33
Interest and debt expense	**108**	115	101
Other expenses	**2**	1	1
Total costs and expenses	**741**	686	641
Income before income taxes	**926**	800	528
Income tax expense	**3**	4	4
Net income	**923**	796	524
Less: Net income attributable to Predecessors	**—**	—	63
Net income attributable to the Partnership	**923**	796	461
Less: Preferred unitholders' interest in net income attributable to the Partnership	**37**	37	9
Less: General partner's interest in net income attributable to the Partnership	**140**	240	160
Limited partners' interest in net income attributable to the Partnership	$ **746**	519	292
Net Income Attributable to the Partnership Per Limited Partner Unit *(dollars)*			
Common units—basic	$ **4.45**	4.22	2.60
Common units—diluted	**4.29**	4.00	2.59
Weighted-Average Limited Partner Units Outstanding (*thousands*)			
Common units—basic	**167,655**	122,769	112,045
Common units—diluted	**181,475**	136,588	115,339

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income **Phillips 66 Partners LP**

		Millions of Dollars	
	2019	2018	2017
Years Ended December 31			
Net Income	**$ 923**	796	524
Defined benefit plans			
Plan sponsored by equity affiliates, net of income taxes	**—**	—	—
Other comprehensive income	**—**	—	—
Comprehensive Income	**$ 923**	796	524

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet **Phillips 66 Partners LP**

		Millions of Dollars	
At December 31		**2019**	2018
Assets			
Cash and cash equivalents	$	**286**	1
Accounts receivable—related parties		**101**	90
Accounts receivable—third parties		**4**	5
Materials and supplies		**13**	13
Prepaid expenses and other current assets		**10**	20
Total current assets		**414**	129
Equity investments		**2,961**	2,448
Net properties, plants and equipment		**3,349**	3,052
Goodwill		**185**	185
Other assets		**52**	5
Total Assets	$	**6,961**	5,819
Liabilities			
Accounts payable—related parties	$	**19**	22
Accounts payable—third parties		**84**	88
Accrued interest		**42**	36
Deferred revenues		**16**	60
Short-term debt		**25**	50
Accrued property and other taxes		**10**	9
Other current liabilities		**3**	5
Total current liabilities		**199**	270
Long-term debt		**3,491**	2,998
Obligation from equity interest transfer		**343**	—
Other liabilities		**94**	42
Total Liabilities		**4,127**	3,310
Equity			
Preferred unitholders (2019 and 2018—13,819,791 units issued and outstanding)		**746**	746
Common unitholders—public (2019—58,539,439 units issued and outstanding; 2018—55,343,918 units issued and outstanding)		**2,717**	2,485
Common unitholder—Phillips 66 (2019—169,760,137 units issued and outstanding; 2018—68,760,137 units issued and outstanding)		**(628)**	592
General partner—Phillips 66 (2019—0 units issued and outstanding; 2018—2,480,051 units issued and outstanding)		**—**	(1,313)
Accumulated other comprehensive loss		**(1)**	(1)
Total Equity		**2,834**	2,509
Total Liabilities and Equity	$	**6,961**	5,819

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows **Phillips 66 Partners LP**

	Millions of Dollars		
Years Ended December 31	**2019**	2018	2017
Cash Flows From Operating Activities			
Net income	$ **923**	796	524
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**120**	117	116
Undistributed equity earnings	**(3)**	(5)	(1)
Other	**10**	(36)	55
Working capital adjustments			
Accounts receivable	**(11)**	(8)	(4)
Materials and supplies	**—**	—	(1)
Prepaid expenses and other current assets	**10**	(11)	(5)
Accounts payable	**7**	11	14
Accrued interest	**5**	2	7
Deferred revenues	**(45)**	30	21
Other accruals	**—**	(4)	(2)
Net Cash Provided by Operating Activities	**1,016**	892	724
Cash Flows From Investing Activities			
Bakken Pipeline/Merey Sweeny acquisition	**—**	—	(729)
Restricted cash received from combination of business	**—**	—	318
Advances/loans—related party	**(95)**	—	—
Collection of advances/loans—related party	**95**	—	—
Collection of loan receivable	**—**	—	8
Cash capital expenditures and investments	**(1,095)**	(738)	(431)
Return of investment from equity affiliates	**67**	43	52
Proceeds from sale of equity interest	**81**	—	—
Net Cash Used in Investing Activities	**(947)**	(695)	(782)
Cash Flows From Financing Activities			
Proceeds from equity interest transfer	**342**	—	—
Net contributions to Phillips 66 from Predecessors	**—**	—	(179)
Issuance of debt	**1,758**	675	2,008
Repayment of debt	**(1,286)**	(575)	(2,152)
Issuance of common units	**169**	128	468
Issuance of preferred units	**—**	—	737
Debt issuance costs	**(8)**	—	(6)
Distributions to General Partner associated with acquisitions	**—**	—	(234)
Quarterly distributions to preferred unitholders	**(37)**	(37)	—
Quarterly distributions to common unitholders—public	**(192)**	(158)	(112)
Quarterly distributions to common unitholder—Phillips 66	**(321)**	(202)	(157)
Quarterly distributions to General Partner—Phillips 66	**(206)**	(216)	(139)
Other distributions from (to) Phillips 66	**(3)**	4	7
Net Cash Provided by (Used in) Financing Activities	**216**	(381)	241
Net Change in Cash, Cash Equivalents and Restricted Cash	**285**	(184)	183
Cash, cash equivalents and restricted cash at beginning of period	**1**	185	2
Cash, Cash Equivalents and Restricted Cash at End of Period	$ **286**	1	185

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity **Phillips 66 Partners LP**

	Millions of Dollars							
	Partnership							
		Preferred Unitholders Public	Common Unitholders Public	Common Unitholder Phillips 66	General Partner Phillips 66	Accum. Other Comprehensive Loss	Net Investment — Predecessors	Total
December 31, 2016	$	—	1,795	476	(704)	(1)	—	1,566
Net income attributable to Predecessors		—	—	—	—	—	63	63
Net contributions to Phillips 66—Predecessors		—	—	—	—	—	666	666
Issuance of units		737	467	—	—	—	—	1,204
Allocation of net investment—Predecessors and deemed net distributions to General Partner		—	—	—	(681)	—	(729)	(1,410)
Net income attributable to the Partnership		9	124	168	160	—	—	461
Quarterly cash distributions to unitholders and General Partner ($2.405 per common unit)		—	(112)	(157)	(139)	—	—	(408)
Other contributions from Phillips 66		—	—	—	19	—	—	19
December 31, 2017		746	2,274	487	(1,345)	(1)	—	2,161
Cumulative effect of accounting change		—	13	16	1	—	—	30
Issuance of common units		—	128	—	—	—	—	128
Net income attributable to the Partnership		37	228	291	240	—	—	796
Quarterly cash distributions to unitholders and General Partner ($2.936 per common unit)		(37)	(158)	(202)	(216)	—	—	(613)
Other contributions from Phillips 66		—	—	—	7	—	—	7
December 31, 2018		746	2,485	592	(1,313)	(1)	—	2,509
Cumulative effect of accounting change		**—**	**(1)**	**—**	**—**	**—**	**—**	**(1)**
Issuance of common units		**—**	**173**	**—**	**—**	**—**	**—**	**173**
Net income attributable to the Partnership		**37**	**252**	**494**	**140**	**—**	**—**	**923**
Quarterly cash distributions to unitholders and General Partner ($3.400 per common unit)		**(37)**	**(192)**	**(321)**	**(206)**	**—**	**—**	**(756)**
Conversion of GP economic interest		**—**	**—**	**(1,385)**	**1,381**	**—**	**—**	**(4)**
Other distributions to Phillips 66		**—**	**—**	**(8)**	**(2)**	**—**	**—**	**(10)**
December 31, 2019	**$**	**746**	**2,717**	**(628)**	**—**	**(1)**	**—**	**2,834**

See Notes to Consolidated Financial Statements.

	Units				
	Preferred Units Public	Common Units Public	Common Units Phillips 66	General Partner Units Phillips 66	Total Units
December 31, 2016	—	43,134,902	64,047,024	2,187,386	109,369,312
Units issued in a public equity offering	—	3,372,716	—	—	3,372,716
Units issued in private placement	13,819,791	6,304,204	—	—	20,123,995
Units issued associated with acquisitions	—	—	4,713,113	292,665	5,005,778
December 31, 2017	13,819,791	52,811,822	68,760,137	2,480,051	137,871,801
Units issued in public equity offerings	—	2,532,096	—	—	2,532,096
December 31, 2018	13,819,791	55,343,918	68,760,137	2,480,051	140,403,897
Units issued in public equity offerings	—	**3,195,521**	**—**	**—**	**3,195,521**
Units issued in conversion of GP economic interest	—	—	**101,000,000**	**(2,480,051)**	**98,519,949**
December 31, 2019	**13,819,791**	**58,539,439**	**169,760,137**	**—**	**242,119,367**

See Notes to Consolidated Financial Statements.

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. References to our “General Partner” refer to Phillips 66 Partners GP LLC, and references to “Phillips 66 PDI” refer to Phillips 66 Project Development Inc., the Phillips 66 subsidiary that holds a limited partner interest in us and wholly owns our General Partner.

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 interests in us and its 100% interest in our General Partner to its wholly owned subsidiary, Phillips 66 Project Development Inc. (Phillips 66 PDI). On August 1, 2019, all of the outstanding incentive distribution rights (IDRs) held by our General Partner were eliminated and its general partner interest in us was converted to a noneconomic interest in exchange for common units. We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based midstream assets.

Our operations consist of crude oil, refined petroleum products and natural gas liquids (NGL) transportation, terminaling, processing and storage assets. We conduct our operations through both wholly owned and joint venture operations. The majority of our wholly owned assets are associated with, and are integral to the operation of, nine of Phillips 66’s owned or joint venture refineries. Our operations consist of one reportable segment.

We primarily generate revenue by providing fee-based transportation, terminaling, processing, storage and fractionation services to Phillips 66 and other customers. Our equity affiliates primarily generate revenue from transporting and terminaling crude oil, refined petroleum products and NGL. 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 crude oil, refined petroleum products and NGL, 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

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). Certain prior period financial information has been recast to reflect the current year’s presentation.

We have acquired assets from Phillips 66 through transactions that were considered transfers of businesses between entities under common control. This required the transactions to be accounted for as if the transfers had occurred at the beginning of the period of transfer, with prior periods retrospectively adjusted to furnish comparative information. We refer to these pre-acquisition operations as those of our “Predecessors.”

The combined financial statements of our Predecessors were derived from the accounting records of Phillips 66 and reflect the combined historical results of operations, financial position and cash flows of our Predecessors as if such businesses had been combined for all periods presented. 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 the Predecessors to us occurred within the Phillips 66 consolidated group. The consolidated statement of income also includes expense allocations for certain functions performed by Phillips 66, including operational support services such as engineering and logistics and allocations of general corporate expenses related to executive oversight, accounting, treasury, tax, legal, information technology and procurement. These allocations were based primarily on the number of terminals and pipeline miles, and secondarily on activity-based costs. Our management believes the assumptions underlying the allocation of expenses from Phillips 66 are reasonable. Nevertheless, the financial results of our Predecessors may not include all of the actual expenses that would have been incurred had our Predecessors been a stand-alone publicly traded partnership during the periods presented.

Note 2—Summary of Significant Accounting Policies

Consolidation Principles and Investments in Affiliates

Our consolidated financial statements include the accounts of majority-owned, controlled subsidiaries. The equity method is used to account for investments in affiliates in which we have the ability to exert significant influence over the affiliates' operating and financial policies, including any variable interest entities of which we are not the primary beneficiary. Undivided interests in pipelines are consolidated on a proportionate basis.

Net Investment—Predecessors

"Net Investment—Predecessors" represents Phillips 66's historical investment in the contributed businesses, our Predecessors' accumulated net earnings after taxes, and the net effect of transactions with, and allocations from, Phillips 66 prior to the acquisition of the businesses from Phillips 66.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure 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-period financial information to be retrospectively adjusted to furnish comparative information, historical net equity amounts prior to the transaction date are reflected in "Net Investment—Predecessors." 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

Revenues are primarily recognized for pipeline transportation, terminaling, storage, processing and fractionation services generated under long-term agreements. A significant portion of our revenues are derived from Phillips 66. The majority of these agreements with Phillips 66 are considered operating leases under GAAP.

Effective for periods after January 1, 2019, we elected to account for lease and service elements of contracts classified as leases on a combined basis under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, "Leases (Topic 842)", except for leases of processing-type assets, which contain non-ratable fees related to turnaround activity. For these types of leases, we continued to separate the lease and service elements based on relative standalone prices and applied the new lease standard to the lease element and the revenue standard to the service element.

For new or modified leases, our determination of lease classification involves estimates, primarily related to the fair value of the leased asset based on comparable replacement cost and obsolescence estimates, and the allocation of contract consideration between the lease and non-lease components based on the relative stand-alone selling price.

Revenues from fixed minimum volume commitments are recognized over the performance obligation period for stand-ready service contracts. Revenues from the variable element of these stand-ready contracts and other contracts without fixed elements are recognized based on the actual volumes transported, stored, processed and fractionated at contractual rates because the actual volumes specifically relate to our efforts to transfer the distinct services. Generally, our services are billed and payments are received on a monthly basis.

Billings to Phillips 66 for shortfall volumes under its quarterly minimum volume commitments are recorded as "Deferred revenues" in our consolidated balance sheet, as Phillips 66 generally has the right to make up the shortfall volumes in the following four quarters. For the lease element of the contracts, the deferred revenue will be recognized at the earlier of when shortfall volumes are made up, when the make-up rights contractually expire or when we determine the system will not have the necessary capacity to enable a customer to make up the shortfall volumes. For the service element of the contracts, the deferred revenue will be recognized when the performance obligation is complete or it is probable that the shortfall volumes will not be made up.

Billings for tolling services relating to maintenance turnaround activities are billed in advance of such activities. These billings are initially recorded as "Deferred revenues" in our consolidated balance sheet and are recognized when the maintenance turnaround activity commences. Deferred revenue relating to maintenance turnaround operating expenses is recognized in the period the work is performed. Deferred revenue relating to capital projects performed concurrently with a maintenance turnaround is recognized ratably over the remaining tolling services agreement once the equipment is placed into service.

At the time the Clemens Caverns commenced operations, the caverns had not reached total planned working capacity contracted under the storage agreement. During the build-out of the remaining capacity, a portion of the monthly storage fees was deferred. The deferred revenue is being recognized over the remaining term of the agreement as additional storage capacity was placed into service.

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, refined petroleum or NGL 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, refined petroleum products and NGL systems 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 independently calculated 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 the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price), 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 value.

Nonrecurring Fair Value Measurements
We apply the fair value measurements criteria to determine the fair value of nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis, primarily asset retirement obligations and, when impaired, long-lived assets.

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

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 PP&E or the applicable equity investment and is amortized over the useful life of the asset.

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

Impairment of PP&E
PP&E used in operations are 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 expected future pretax cash flows of an asset group is less than the carrying value of the asset group, including applicable liabilities, then the carrying value is written down to estimated fair value and the write down is reported as an impairment in the period in which the determination 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 assets—generally at the pipeline system, terminal, or processing or fractionation system level. Since there usually is a lack of quoted market prices for our long-lived assets, the fair value of potentially impaired assets is typically determined 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, based on estimated replacement cost, or based on a multiple of operating cash flow validated with historical market transactions of similar assets where possible.

The expected future cash flows used for impairment reviews and related fair value calculations are based on estimated future throughputs, tariffs and fees, operating costs 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 determined 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.

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 majority of our goodwill is related to acquisitions from Phillips 66. In these common control transactions, the net assets acquired are recorded at Phillips 66's historical carrying value, including any associated goodwill. We have one reporting unit for goodwill impairment testing.

Asset Retirement Obligations and Environmental Costs
Fair values of legal obligations to abandon or remove long-lived assets are recorded in the period in which the obligation arises. 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. Our estimate may change after initial recognition of the obligation, 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 business combination) when environmental assessments or cleanups are probable and the costs can be reasonably estimated.

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 our assets and liabilities. Our operations are treated as a partnership for federal and state income tax purposes, with each partner being separately taxed on its share of 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. Our tax provision is computed as if we were a stand-alone tax paying entity. Any interest and penalties related to income taxes would be reported in interest and debt expense and operating and maintenance expenses, respectively, in our consolidated statement of income.

Note 3—Changes in Accounting Principles

Effective January 1, 2019, we early adopted ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which amends the impairment model to utilize an expected loss methodology in place of the incurred loss methodology for financial instruments and off-balance sheet credit exposures. The amendment requires entities to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of losses. The adoption of the ASU did not have a material impact on our consolidated financial statements.

Effective January 1, 2019, we adopted ASU 2016-02, "Leases (Topic 842)" using the modified retrospective transition method. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and corresponding lease liability on the consolidated balance sheet for all operating leases with terms longer than 12 months. Leases will continue to be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated income statement.

We elected the package of practical expedients that allowed us to carry forward the determination of whether an arrangement contains a lease and lease classification, as well as our accounting for initial direct costs for existing contracts. We recorded a noncash cumulative effect adjustment, reflecting an aggregate operating lease ROU asset and corresponding lease liability of $45 million, on our opening consolidated balance sheet as of January 1, 2019. See Note 11—Lease Assets and Liabilities, for the new lease disclosures required by this ASU for lessees.

For arrangements where we are the lessor, effective for periods after January 1, 2019, we elected to account for lease and service elements of contracts classified as leases on a combined basis under the provisions of ASU No. 2016-02, except for leases of processing-type assets, which contain non-ratable fees related to turnaround activity. For these types of leases, we continued to separate the lease and service elements based on relative standalone prices and applied the new lease standard to the lease element and the revenue standard to the service element. We recorded a noncash cumulative effect adjustment of $1 million to decrease our opening equity balance as of January 1, 2019. See Note 5—Operating Revenues, for additional impacts of adopting this ASU, including new lease disclosures required for lessors.

Note 4—Acquisitions

2018 Acquisitions

Gray Oak Pipeline Project Acquisition
See the "Gray Oak Pipeline, LLC" section of Note 6—Equity Investments and Loans, for a discussion of our acquisition of this project and its ownership structure.

2017 Acquisitions

Bakken Pipeline/Merey Sweeny Acquisition
In September 2017, we entered into a Contribution, Conveyance and Assumption Agreement (CCAA) with subsidiaries of Phillips 66 to acquire a 25% interest in each of Dakota Access, LLC (Dakota Access) and Energy Transfer Crude Oil Company, LLC (ETCO), together referred to as the Bakken Pipeline, and a 100% interest in Merey Sweeny, L.P., predecessor to Merey Sweeny LLC (both referred to herein as Merey Sweeny). Collectively, the assets acquired in the acquisition are referred to as the Bakken Pipeline/Merey Sweeny Acquisition. We paid Phillips 66 total consideration of $1.65 billion, consisting of $372 million in cash, the assumption of $588 million of promissory notes payable to Phillips 66 and a $450 million term loan under which Phillips 66 was the obligor, and the issuance of 4,713,113 common units to Phillips 66 PDI and 292,665 general partner units to our General Partner to maintain its 2% general partner interest. The Bakken Pipeline/Merey Sweeny Acquisition closed in October 2017.

Pursuant to the tolling services agreement entered into with Phillips 66 and related to Merey Sweeny operations, we received $53 million from Phillips 66 for the prepayment of services related to Merey Sweeny's next scheduled maintenance turnaround, which was recorded as deferred revenue in our consolidated balance sheet as of the acquisition date.

The Bakken Pipeline/Merey Sweeny Acquisition was considered a common control transaction.

Subsequent Acquisition
In February 2020, we entered into a Purchase and Sale Agreement with Phillips 66 PDI to acquire its 50% interest in the Liberty Pipeline joint venture for approximately $75 million. The purchase price reflects the reimbursement of project costs incurred by Phillips 66 prior to the effective date of the transaction. We plan to fund the transaction through a combination of cash on hand and our revolving credit facility. The transaction is expected to close on March 2, 2020.

Liberty Pipeline LLC is developing and constructing the Liberty Pipeline system which, upon completion, will transport crude oil from the Rockies and Bakken production areas to Cushing, Oklahoma. The throughput capacity on the 24 inch pipeline is expected to be 400,000 BPD. The pipeline is supported by long-term shipper commitments, and service is expected in the first half of 2021.

Note 5—Operating Revenues

Operating revenues are primarily generated from long-term pipeline transportation, terminaling, storage, processing and fractionation lease and service agreements, mainly with Phillips 66. These agreements typically include escalation clauses to adjust transportation tariffs and terminaling and storage fees to reflect changes in price indices. In addition, most of these agreements contain renewal options, which typically require the mutual consent of both our customers and us.

Total operating revenues disaggregated by asset type were as follows:

		Millions of Dollars		
		2019	2018	2017*
Pipelines	$	**473**	454	424
Terminals		**167**	157	152
Storage, processing and other revenues		**486**	434	358
Total operating revenues	$	**1,126**	1,045	934

** Sales and other operating revenues for the year ended December 31, 2017, are presented in accordance with accounting standards in effect prior to our adoption of ASU No. 2014-09 on January 1, 2018.*

The majority of our agreements with Phillips 66 are considered operating leases under GAAP. The lease's classification as either an operating or financing lease requires judgment in assessing the contract's lease and service components and in determining the asset's fair value. For reporting periods prior to our adoption of the new lease accounting standard, ASU No. 2016-02, as of January 1, 2019, the lease and service elements included in these contracts were separated with the lease element recognized in accordance with the existing lease accounting standard and the service element recognized in accordance with the revenue accounting standard. Effective for periods after January 1, 2019, we elected to account for lease and service elements of contracts classified as leases on a combined basis under the provisions of ASU No. 2016-02, except for leases of processing-type assets, which contain non-ratable fees related to turnaround activity. For these types of leases, we continued to separate the lease and service elements based on relative standalone prices and applied the new lease standard to the lease element and the revenue standard to the service element.

As a result of our change in accounting policy, our lease and service revenues, lease and service accounts receivable and lease and service deferred revenues reported for the year ended December 31, 2019, are not prepared on the same basis as the amounts reported for the year ended December 31, 2018. For the year ended December 31, 2019, lease revenues were $930 million and service revenues were $196 million. For the year ended December 31, 2018, lease revenues were $599 million and service revenues were $446 million.

Accounts Receivable
We bill our customers, mainly Phillips 66, under our lease and service contracts generally on a monthly basis.

Total accounts receivable by revenue type was as follows:

		Millions of Dollars	
		2019	2018
Lease receivables	$	**87**	53
Service receivables		**18**	41
Other receivables		**—**	1
Total accounts receivable	$	**105**	95

Deferred Revenues
Our deferred revenues represent payments received from our customers, mainly Phillips 66, in advance of the period in which lease and service contract performance obligations have been fulfilled. The majority of our deferred revenues relate to a tolling agreement and a storage agreement that are classified as leases. The remainder of our deferred revenues relate to lease and service agreements that contain minimum volume commitments with recovery provisions. Our deferred revenues are recorded in the "Deferred revenues" and "Other liabilities" line items on our consolidated balance sheet.

Total deferred revenues under our lease and service agreements were as follows:

	Millions of Dollars	
	2019	2018
Deferred lease revenues	**$ 41**	73
Deferred service revenues	**1**	6
Total deferred revenues	**$ 42**	79

Future Minimum Lease Payments from Customers
At December 31, 2019, future minimum payments to be received under our lease agreements with customers were estimated to be:

	Millions of Dollars
2020	$ 697
2021	692
2022	680
2023	636
2024	516
Remaining years	1,353
Total future minimum lease payments from customers	$ 4,574

Remaining Performance Obligations
We typically have long-term service contracts with our customers, of which the original durations range from 5 to 15 years. The weighted-average remaining duration of these contracts is 11 years. These contracts include both fixed and variable transaction price components. At December 31, 2019, future service revenues expected to be recognized for the fixed component of the transaction price of our remaining performance obligations from service contracts with our customers that have an original expected duration of greater than one year were:

	Millions of Dollars
2020	$ 146
2021	137
2022	136
2023	136
2024	116
Remaining years	671
Total future service revenues	$ 1,342

For the remaining service performance obligations, we applied the exemption for variable prices allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer distinct services as part of a performance obligation.

Note 6—Equity Investments and Loans

The following table summarizes our equity investments at December 31:

		Millions of Dollars	
		Carrying Value	
	Percentage Ownership	**2019**	2018
Dakota Access, LLC and Energy Transfer Crude Oil Company, LLC (Bakken Pipeline)	25.00%	$ **592**	608
Bayou Bridge Pipeline, LLC (Bayou Bridge)	40.00	**294**	277
DCP Sand Hills Pipeline, LLC (Sand Hills)	33.34	**595**	601
DCP Southern Hills Pipeline, LLC (Southern Hills)	33.34	**215**	206
Explorer Pipeline Company (Explorer)	21.94	**105**	115
Gray Oak Pipeline, LLC	65.00	**759**	288
Paradigm Pipeline LLC (Paradigm)	50.00	**143**	145
Phillips 66 Partners Terminal LLC (Phillips 66 Partners Terminal)	70.00	**70**	71
South Texas Gateway Terminal LLC (South Texas Gateway Terminal)	25.00	**74**	20
STACK Pipeline LLC (STACK)	50.00	**114**	117
Total equity investments		$ **2,961**	2,448

Earnings (losses) from our equity investments were as follows:

	Millions of Dollars		
	2019	2018	2017
Bakken Pipeline	$ **226**	177	69
Bayou Bridge	**31**	14	12
Sand Hills	**150**	119	81
Southern Hills	**43**	37	27
Explorer	**33**	43	21
Gray Oak Pipeline, LLC	**3**	1	—
Paradigm	**14**	10	(1)
Phillips 66 Partners Terminal	**25**	28	8
South Texas Gateway Terminal	**—**	—	—
STACK	**10**	10	6
Total equity in earnings of affiliates	$ **535**	439	223

Distributions received from our equity affiliates were $599 million, $477 million, and $274 million in 2019, 2018 and 2017, respectively.

Gray Oak Pipeline, LLC
In April 2018, we entered into a Purchase and Sale Agreement with Phillips 66 PDI to acquire its 100% interest in Gray Oak Holdings LLC (Holdings LLC), a limited liability company that, at that time, owned a 100% interest in Gray Oak Pipeline, LLC. Gray Oak Pipeline, LLC is developing and constructing the Gray Oak Pipeline which, upon completion, will transport crude oil from the Permian and Eagle Ford to Texas Gulf Coast destinations that include Corpus Christi, the Sweeny area, including the Phillips 66 Sweeny Refinery, as well as access to the Houston market. The pipeline system is

expected to reach full service in the second quarter of 2020. We accounted for the acquisition of Holdings LLC as an acquisition of assets under common control. Also in April 2018, a co-venturer acquired a 25% interest in Gray Oak Pipeline, LLC, along with sufficient voting rights over key governance provisions such that we no longer could assert control over Gray Oak Pipeline, LLC. As a result, we (through our consolidated subsidiary Holdings LLC) began using the equity method of accounting for our investment in Gray Oak Pipeline, LLC at that time.

In December 2018, a third party exercised its option to acquire a 35% interest in Holdings LLC. Because Holdings LLC's sole asset was its 75% ownership interest in Gray Oak Pipeline, LLC, which is considered a financial asset, and because certain restrictions were placed on the third party's ability to transfer or sell its interest in Holdings LLC during the construction of the Gray Oak Pipeline, the legal sale of the 35% interest did not qualify as a sale under GAAP. Rather, the third party's cash contributions to Holdings LLC in 2019 to fund its share of previously incurred and future construction costs plus a premium to us are reflected as a long-term obligation in the "Obligation from equity interest transfer" line item on our consolidated balance sheet and as financing cash inflows in the "Proceeds from equity interest transfer" line item on our consolidated statement of cash flows. After construction of the Gray Oak Pipeline is fully completed, these restrictions expire, and the sale will be recognized under GAAP. We will continue to control and consolidate Holdings LLC after sale recognition, and therefore the third party's 35% interest will be recharacterized from a long-term obligation to a noncontrolling interest on our consolidated balance sheet at that time. Also at that time, the premium paid will be recharacterized from a long-term obligation to a gain in our consolidated statement of income. During 2019, the third party contributed an aggregate of $342 million into Holdings LLC, and Holdings LLC used these contributions to fund its portion of Gray Oak Pipeline, LLC's cash calls.

In February 2019, Holdings LLC transferred a 10% interest in Gray Oak Pipeline, LLC, to a third party that exercised a purchase option, for proceeds of $81 million. This transfer was accounted for as a sale and resulted in a decrease in Holdings LLC's ownership interest in Gray Oak Pipeline, LLC from 75% to 65% and the recognition of an immaterial gain. The proceeds received from this sale are reflected as an investing cash inflow in the "Proceeds from sale of equity interest" line item on our consolidated statement of cash flows. At December 31, 2019, our effective ownership interest in the Gray Oak Pipeline was 42.25%.

In June 2019, Gray Oak Pipeline, LLC entered into a third-party term loan facility with an initial borrowing capacity of $1,230 million to cover a portion of the project cost for the Gray Oak Pipeline, inclusive of accrued interest. Subsequently, the facility was increased in July 2019 to $1,317 million and further increased in January 2020 to $1,379 million, inclusive of accrued interest. Borrowings under the facility are due on June 3, 2022. We and our co-venturers provided a guarantee through an equity contribution agreement requiring proportionate equity contributions to Gray Oak Pipeline, LLC up to the total outstanding loan amount. Under the agreement, our maximum potential amount of future obligations is $583 million, plus any additional accrued interest and associated fees, which would be required if the term loan facility is fully utilized and Gray Oak Pipeline, LLC defaults on certain of its obligations thereunder. At December 31, 2019, Gray Oak Pipeline, LLC had borrowings of $1,170 million outstanding, and our 42.25% proportionate exposure was $494 million. The net proceeds from the term loan were used by Gray Oak Pipeline, LLC for construction of the Gray Oak Pipeline and repayment of amounts borrowed under a related party loan agreement that we and our co-venturers executed in March 2019 and terminated upon the repayment by Gray Oak Pipeline, LLC in June 2019. Our total related party loan to and repayment received from Gray Oak Pipeline, LLC was $95 million.

Gray Oak Pipeline, LLC is considered a variable interest entity (VIE) because it does not have sufficient equity at risk to fully fund the construction of all assets required for principal operations. We have determined we are not the primary beneficiary because we and our co-venturers jointly direct the activities of Gray Oak Pipeline, LLC that most significantly impact economic performance. At December 31, 2019, our maximum exposure to loss was $1,253 million, which represented our guarantee of the third-party term loan facility of $494 million and the aggregate book value of our equity method investment in Gray Oak Pipeline, LLC of $759 million.

South Texas Gateway Terminal
In April 2018, we acquired a 25% interest in the South Texas Gateway Terminal under construction by a co-venturer. This marine export terminal will connect to the Gray Oak Pipeline in Corpus Christi, Texas, and it will have two deepwater docks with storage capacity of 8.5 million barrels and up to 800,000 BPD of throughput capacity. The terminal is expected to start up in the third quarter of 2020.

South Texas Gateway Terminal is considered a VIE because it does not have sufficient equity at risk to fully fund the construction of all assets required for principal operations. We have determined we are not the primary beneficiary because we and our co-venturers jointly direct the activities of the terminal that most significantly impact economic performance. At December 31, 2019, our maximum exposure to loss was $74 million, which represented the aggregate book value of our equity investment in South Texas Gateway Terminal.

Bakken Pipeline
In October 2017, we acquired a 25% interest in the Bakken Pipeline system as part of the Bakken Pipeline/Merey Sweeny Acquisition. Dakota Access owns a pipeline system that transports crude oil from the Bakken/Three Forks production area in North Dakota to Patoka, Illinois, and ETCO owns a connecting crude oil pipeline system from Patoka, Illinois, to Nederland, Texas. These two pipeline systems collectively form the Bakken Pipeline system, which is operated by a co-venturer. The Bakken Pipeline system went into service in June 2017. We have a positive basis difference of $50 million for this investment, which represents capitalized interest incurred during construction of the pipeline and a capital contribution disbursed to the co-venturer. The positive basis difference is being amortized over periods between 18 and 43 years. See Note 4—Acquisitions, for additional information.

In March 2019, a wholly owned subsidiary of Dakota Access closed on an offering of $2,500 million aggregate principal amount of unsecured senior notes. The net proceeds from the issuance of these notes were used to repay amounts outstanding under existing credit facilities of Dakota Access and ETCO. Dakota Access and ETCO have guaranteed repayment of the notes. In addition, we and our co-venturers provided a Contingent Equity Contribution Undertaking (CECU) in conjunction with the notes offering. Under the CECU, if Dakota Access receives an unfavorable court ruling related to certain disputed construction permits and Dakota Access determines that an equity contribution trigger event has occurred, the venturers may be severally required to make proportionate equity contributions to Dakota Access and ETCO up to an aggregate maximum of approximately $2,525 million. Our share of the maximum potential equity contributions under the CECU is approximately $631 million.

STACK
STACK is a joint venture that owns and operates a crude storage terminal and a common carrier pipeline that transports crude oil from the Sooner Trend, Anadarko Basin, Canadian and Kingfisher Counties play in northwestern Oklahoma to Cushing, Oklahoma. We have a positive basis difference of $39 million for this investment, which is due to the co-venturer's contributed assets being recorded at their historical book value. The positive basis difference is being amortized over 42 years.

Bakken Joint Ventures
Phillips 66 Partners Terminal and Paradigm are two joint ventures with Paradigm Midstream, LLC that own and operate midstream logistics infrastructure in North Dakota. Phillips 66 Partners Terminal owns the Palermo Terminal and Paradigm owns the Sacagawea pipelines and Keene Terminal. We account for both joint ventures under the equity method of accounting due to governance provisions that require supermajority or unanimous voting on all decisions that significantly impact the governance, management and economic performance of the joint ventures.

Sand Hills
Sand Hills is a joint venture with DCP Partners that owns an NGL pipeline system that extends from the Permian Basin and Eagle Ford to facilities along the Texas Gulf Coast and the Mont Belvieu market hub. The Sand Hills Pipeline system is operated by DCP Partners.

Southern Hills
Southern Hills is a joint venture with DCP Partners that owns an NGL pipeline system that extends from the Midcontinent region to the Mont Belvieu, Texas market hub. The Southern Hills Pipeline system is operated by DCP Partners. We have a negative basis difference of $90 million for this investment, which originated when the pipeline, formerly known as Seaway Products, was sold by Phillips 66 to a related party. The negative basis difference represents a deferred gain and is being amortized over 42 years.

Explorer
Explorer owns and operates a pipeline system that extends from the Texas Gulf Coast to Indiana. The Explorer Pipeline system transports refined petroleum products to more than 70 major cities in 16 U.S. states. We have a positive basis

difference of $78 million for this investment, which represents fair value adjustments attributable to ownership increases in the pipeline. The positive basis difference is being amortized over periods between 8 and 16 years.

Bayou Bridge
Bayou Bridge is a joint venture that owns a pipeline that transports crude oil from Nederland, Texas, to St. James, Louisiana. The Bayou Bridge Pipeline is operated by our co-venturer. A segment of the pipeline from Lake Charles to St. James, Louisiana, was completed on April 1, 2019.

Summarized 100% financial information for all equity investments is presented on a combined basis below:

	Millions of Dollars		
	2019	2018	2017
Revenues	$ **2,753**	2,294	1,406
Income before income taxes	**1,894**	1,536	853
Net income	**1,832**	1,518	778
Current assets	**642**	751	577
Noncurrent assets	**12,072**	9,561	8,571
Current liabilities	**662**	3,008	354
Noncurrent liabilities	**4,322**	496	3,001

From acquisition date forward.

Note 7—Net Income Per Limited Partner Unit

Net income per limited partner unit applicable to common units is computed by dividing the limited partners' interest in net income by the weighted-average number of common units outstanding for the period. Prior to August 1, 2019, we had more than one class of participating securities and used the two-class method to calculate net income attributable to the Partnership per unit applicable to the limited partners. The classes of participating securities prior to August 1, 2019, included common units, general partner units and IDRs. Effective August 1, 2019, common units are the only participating securities. For the years ended December 31, 2019, 2018, and 2017, our preferred units are potentially dilutive securities and were dilutive to net income per limited partner unit. See Note 15—Equity, for a discussion of the elimination of our General Partner's IDRs and 2% economic interest effective August 1, 2019 and for additional information related to our preferred units.

Net income earned by the Partnership is allocated between the classes of participating securities in accordance with our partnership agreement, after giving effect to priority income allocations to the holders of the preferred units. First, earnings are allocated based on actual cash distributions declared to our unitholders. To the extent net income exceeds or is less than cash distributions declared, this difference is allocated based on the unitholders' respective ownership percentages, after consideration of any priority allocations of earnings. For the diluted net income per limited partner unit calculation, the preferred units are assumed to be converted at the beginning of the period into common limited partner units on a one-for-one basis, and the distribution formula for available cash in our partnership agreement is recalculated, using the original available cash amount increased only for the preferred distributions which would not have been paid after conversion.

When our financial statements are retrospectively adjusted after a dropdown transaction, the earnings of the acquired business, prior to the closing of the transaction, are allocated entirely to our General Partner and presented as net income (loss) attributable to Predecessors. The earnings per unit of our limited partners prior to the close of the transaction do not change as a result of a dropdown transaction. After the closing of a dropdown transaction, the earnings of the acquired business are allocated in accordance with our partnership agreement as previously described.

	Millions of Dollars		
	2019	2018	2017
Net income attributable to the Partnership	$ **923**	796	461
Less:			
General partner's distributions declared (including IDRs)*	**139**	236	158
Limited partners' distributions declared on preferred units*	**37**	37	9
Limited partners' distributions declared on common units*	**609**	382	291
Distributions less than net income attributable to the Partnership	$ **138**	141	3

**Distributions declared are attributable to the indicated periods.*

	2019			
	Limited Partners' Common Units	General Partner (including IDRs)	Limited Partners' Preferred Units	Total
Net income attributable to the Partnership *(millions):*				
Distributions declared	$ **609**	**139**	**37**	**785**
Distributions less than net income attributable to the Partnership	**137**	**1**	**—**	**138**
Net income attributable to the Partnership (basic)	**746**	**140**	**37**	**923**
Dilutive effect of preferred units(1)	**32**			
Net income attributable to the Partnership (diluted)	$ **778**			
Weighted-average units outstanding—basic	**167,655,306**			
Dilutive effect of preferred units(1)	**13,819,791**			
Weighted-average units outstanding—diluted	**181,475,097**			
Net income attributable to the Partnership per limited partner unit—basic *(dollars)*	$ **4.45**			
Net income attributable to the Partnership per limited partner unit—diluted *(dollars)*	**4.29**			

[1] The dilutive effect of the preferred units assumes the reallocation of net income to the limited and general partners, including a reallocation associated with IDRs, pursuant to the available cash formula in the partnership agreement.

	2018			
	Limited Partners' Common Units	General Partner (including IDRs)	Limited Partners' Preferred Units	Total
Net income attributable to the Partnership *(millions):*				
Distributions declared	$ 382	236	37	655
Distributions less than net income attributable to the Partnership	137	4	—	141
Net income attributable to the Partnership (basic)	519	240	37	796
Dilutive effect of preferred units(1)	28			
Net income attributable to the Partnership (diluted)	$ 547			
Weighted-average units outstanding—basic	122,768,582			
Dilutive effect of preferred units(1)	13,819,791			
Weighted-average units outstanding—diluted	136,588,373			
Net income attributable to the Partnership per limited partner unit—basic *(dollars)*	$ 4.22			
Net income attributable to the Partnership per limited partner unit—diluted *(dollars)*	4.00			

[(1)] *The dilutive effect of the preferred units assumes the reallocation of net income to the limited and general partners, including a reallocation associated with IDRs, pursuant to the available cash formula in the partnership agreement.*

	2017			
	Limited Partners' Common Units	General Partner (including IDRs)	Limited Partners' Preferred Units	Total
Net income attributable to the Partnership *(millions):*				
Distributions declared	$ 291	158	9	458
Distributions less than net income attributable to the Partnership	1	2	—	3
Net income attributable to the Partnership (basic)	292	160	9	461
Dilutive effect of preferred units(1)	7			
Net income attributable to the Partnership (diluted)	$ 299			
Weighted-average units outstanding—basic	112,044,824			
Dilutive effect of preferred units(1)	3,294,032			
Weighted-average units outstanding—diluted	115,338,856			
Net income attributable to the Partnership per limited partner unit—basic *(dollars)*	$ 2.60			
Net income attributable to the Partnership per limited partner unit—diluted *(dollars)*	2.59			

[(1)] *The dilutive effect of the preferred units assumes the reallocation of net income to the limited and general partners, including a reallocation associated with IDRs, pursuant to the available cash formula in the partnership agreement.*

On January 21, 2020, the Board of Directors of our General Partner declared a quarterly cash distribution of $0.875 per common unit which, excluding distributions to holders of our preferred units, resulted in a total distribution of $200 million attributable to the fourth quarter of 2019. This distribution was paid February 13, 2020, to unitholders of record as of January 31, 2020.

Note 8—Major Customer and Concentration of Credit Risk

Phillips 66 accounted for 97%, 96%, and 95% of our total operating revenues for the years ended December 31, 2019, 2018 and 2017, 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, NGL fractionation, crude oil processing, and rail-unloading services to Phillips 66 and other related 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 and are settled against any existing payables we may have to Phillips 66 through Phillips 66's interaffiliate settlement process. We monitor the creditworthiness of Phillips 66, which has an investment grade credit rating.

Note 9—Properties, Plants and Equipment

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

	Estimated Useful Lives	Millions of Dollars	
		2019	2018
Land		$ **19**	19
Buildings and improvements	3 to 30 years	**94**	89
Pipelines and related assets*	10 to 45 years	**1,424**	1,398
Terminals and related assets*	25 to 45 years	**741**	710
Rail racks and related assets*	33 years	**137**	137
Processing and related assets*	25 years	**1,041**	842
Caverns and related assets*	25 to 45 years	**585**	584
Construction-in-progress		**367**	216
Gross PP&E		**4,408**	3,995
Accumulated depreciation		**(1,059)**	(943)
Net PP&E		$ **3,349**	3,052

**Assets for which we are the lessor.*

Note 10—Goodwill

The carrying amount of goodwill was as follows:

	Millions of Dollars	
	2019	2018
Beginning balance January 1	$ **185**	185
Activity during the year	**—**	—
Ending balance December 31	$ **185**	185

Note 11—Lease Assets and Liabilities

We have agreements with Phillips 66 to lease land underlying or associated with certain of our assets. These agreements are classified as operating leases. Due to the economic infeasibility of canceling these leases, we consider them non-cancellable. Certain leases include escalation clauses for adjusting rental payments to reflect changes in price indices. Our lease agreements do not impose any significant restrictions on distribution payments, asset dispositions or borrowing ability.

Effective with our implementation of ASU No. 2016-02, we elected to discount lease obligations using our incremental borrowing rate. For all leases, we elected the practical expedient not to separate service and lease costs. Our right-of way agreements in effect prior to January 1, 2019, were not accounted for as leases as they were not initially determined to be leases at their commencement dates. However, modifications to these agreements or new agreements will be assessed and accounted for accordingly under ASU No. 2016-02. For short-term leases, which are leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying asset that is reasonably certain to be exercised, we elected to not recognize the ROU asset and corresponding lease liability on our consolidated balance sheet.

Operating lease ROU assets are recorded in the “Other assets” line item and lease liabilities are recorded in the “Other current liabilities” and “Other liabilities” line items on our consolidated balance sheet. At December 31, 2019, the total operating lease ROU asset was $44 million.

Future minimum lease payments and recorded short- and long-term lease liabilities at December 31, 2019, for operating leases were:

	Millions of Dollars
2020	$ 3
2021	3
2022	3
2023	3
2024	3
Remaining years	90
Future minimum lease payments	105
Amount representing interest or discounts	(61)
Total lease liabilities	44
Short-term lease liabilities	(1)
Long-term lease liabilities	$ 43

Operating lease costs and operating cash outflows for the year ended December 31, 2019, were not material.

The weighted-average remaining lease term for our operating leases as of December 31, 2019, was 35 years. The weighted-average discount rate for our operating leases as of December 31, 2019, was 5.9%.

Note 12—Debt

Debt at December 31 was:

	Millions of Dollars	
	2019	2018
2.646% Senior Notes due February 2020	$ —	300
2.450% Senior Notes due December 2024	**300**	—
3.605% Senior Notes due February 2025	**500**	500
3.550% Senior Notes due October 2026	**500**	500
3.750% Senior Notes due March 2028	**500**	500
3.150% Senior Notes due December 2029	**600**	—
4.680% Senior Notes due February 2045	**450**	450
4.900% Senior Notes due October 2046	**625**	625
Tax-exempt bonds due April 2020 and April 2021, at 1.850% and 1.885% at December 31, 2019, and 2018, respectively	**75**	75
Revolving credit facility due January 2019 and October 2021 at weighted-average rate of 3.669% at year-end 2018	—	125
Debt at face value	**3,550**	3,075
Net unamortized discounts and debt issuance costs	**(34)**	(27)
Total debt	**3,516**	3,048
Short-term debt	**(25)**	(50)
Long-term debt	**$ 3,491**	2,998

The fair value of our fixed-rate and floating-rate debt is estimated based on observable market prices and is classified in level 2 of the fair value hierarchy. The fair value of our fixed-rate debt amounted to $3,650 million and $2,660 million at December 31, 2019 and 2018, respectively. The fair value of our floating-rate debt approximated carrying value of $75 million and $200 million at December 31, 2019 and 2018, respectively.

Maturities of borrowings outstanding at December 31, 2019, inclusive of net unamortized discounts and debt issuance costs, for the five-year period ending 2024 were $25 million in 2020, $50 million in 2021 and $297 million in 2024.

During the year ended December 31, 2019, our debt at face value increased $475 million due to:

- Issuance of $900 million of 2019 Senior Notes.
- Repayment of the $300 million outstanding principal balance of our 2.646% Senior Notes due February 2020.
- Repayment of the $125 million outstanding under the revolving credit facility.

2019 Senior Notes
On September 6, 2019, we closed on a public offering of $900 million aggregate principal amount of unsecured notes consisting of:

- $300 million aggregate principal amount of 2.450% Senior Notes due December 15, 2024.
- $600 million aggregate principal amount of 3.150% Senior Notes due December 15, 2029.

Interest on each series of senior notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing on June 15, 2020. Total proceeds received from the offering were $892 million, net of underwriting discounts and commissions. Net proceeds from the Senior Notes offering were used for general partnership purposes, including debt repayments. On September 13, 2019, we used a portion of the proceeds to repay the $400 million outstanding principal balance of the senior unsecured term loan facility that was drawn during the first half of 2019. On October 15, 2019, we used a portion of the proceeds to repay the aggregate $300 million outstanding principal balance of our 2.646% Senior Notes due February 2020.

Revolving Credit Facility
On July 30, 2019, we amended and restated our revolving credit agreement. The agreement extended the termination date from October 3, 2021, to July 30, 2024. No other material amendments were made to the agreement, and the overall capacity remains at $750 million with an option to increase the overall capacity to $1 billion, subject to certain conditions. We also have the option to extend the Credit Agreement for two additional one-year terms after its July 30, 2024, maturity date, subject to, among other things, the consent of the lenders holding the majority of the commitments and of each lender extending its commitment.

As of December 31, 2019, no amount had been directly drawn under our $750 million revolving credit facility; however, $1 million in letters of credit had been issued that were supported by this facility. As of December 31, 2018, we had an aggregate of $125 million borrowed and outstanding under the credit facility.

Outstanding borrowings under the 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 base rate (as described in the Credit Agreement) plus the applicable margin. The pricing levels for the commitment fee and interest-rate margins are determined based on our credit ratings in effect from time to time. Outstanding borrowings bearing interest at the Eurodollar rate become due and payable on the revolving credit facility's termination date. Outstanding borrowings bearing interest at the base rate plus the applicable margin become due and payable on the earlier of the revolving credit facility's termination date or the fourteenth business day after such borrowings were made. We may at any time and from time to time prepay outstanding borrowings under the Credit Agreement, in whole or in part, without premium or penalty. The Credit Agreement requires that the Partnership's ratio of total debt to EBITDA for the prior four fiscal quarters must be no greater than 5.0:1.0 as of the last day of each fiscal quarter (and 5.5:1.0 during the period following certain specified acquisitions).

Our revolving credit facility is subject to customary financial covenants and limitations. We are in compliance with all such financial covenants and limitations.

Term Loan Facility
On March 22, 2019, we entered into a senior unsecured term loan facility with a borrowing capacity of $400 million due March 20, 2020. We borrowed an aggregate amount of $400 million under the facility during the first half of 2019. The proceeds were used for general partnership purposes, including repayment of amounts borrowed under our $750 million revolving credit facility. The outstanding principal balance of the senior unsecured term loan facility was repaid in full in September 2019.

2017 Senior Notes
In October 2017, we closed on a notes offering (2017 Notes Offering) of $650 million aggregate principal amount of unsecured senior notes consisting of:

- $500 million of 3.750% Senior Notes due March 1, 2028.
- An additional $150 million of our 4.680% Senior Notes due February 15, 2045.

Interest on the Senior Notes due 2028 is payable semiannually in arrears on March 1 and September 1 of each year, commencing on March 1, 2018. The Senior Notes due 2045 are an additional issuance of our Senior Notes due 2045, and interest is payable semiannually in arrears on February 15 and August 15 of each year. Total proceeds received from the 2017 Notes Offering were $643 million, net of underwriting discounts. We utilized the net proceeds to repay the remaining balances on the promissory notes and term loan assumed in the Bakken Pipeline/Merey Sweeny Acquisition and for general partnership purposes.

Tax-Exempt Bonds
In connection with the Bakken Pipeline/Merey Sweeny Acquisition, we assumed four $25 million tranches of tax-exempt bonds issued by the Brazos River Harbor Navigation District. We repaid one tranche in 2018, with another maturing in 2020 and two in 2021.

The tranches accrue interest monthly based on a daily rate derived by the remarketing agent for the bonds. The interest rates are designed to represent the lowest rate acceptable by the tax-exempt, variable-rate bond market and approximate the tax-exempt bonds trading at par.

Senior Bonds
In May 2017 and prior to their maturity, we repaid Merey Sweeny senior bonds assumed in the Bakken Pipeline/Merey Sweeny Acquisition with a carrying value of $136 million on the repayment date, which resulted in an immaterial gain.

Note 13—Contingencies

From time to time, lawsuits involving a variety of claims that arise in the ordinary course of business are 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.

Environmental
We are subject to federal, state and local environmental laws and regulations. We record accruals for contingent environmental liabilities based on management's best estimates, using all information that is available at the time. We measure estimates and base liabilities on currently available facts, existing technology, and presently enacted laws and regulations, taking into account stakeholder and business considerations. When measuring environmental liabilities, we also consider our prior experience in remediation of contaminated sites, other companies' cleanup experience, and data released by the U.S. Environmental Protection Agency or other organizations. We consider unasserted claims in our determination of environmental liabilities, and we accrue them in the period they are both probable and reasonably estimable.

In the future, we may be involved in additional environmental assessments, cleanups and proceedings.

Legal Proceedings
Under our amended omnibus agreement, Phillips 66 provides certain services for our benefit, including legal support services, and we pay an operational and administrative support fee for these services. Phillips 66's legal organization applies its knowledge, experience and professional judgment to the specific characteristics of our cases, employing a litigation management process to manage and monitor the legal proceedings against us. The process facilitates the early evaluation and quantification of potential exposures in individual cases and enables tracking of those cases that have been scheduled for trial and/or mediation. Based on professional judgment and experience in using these litigation

management tools and available information about current developments in all our cases, Phillips 66's legal organization regularly assesses the adequacy of current accruals and determines if adjustment of existing accruals, or establishment of new accruals, is required. At December 31, 2019 and 2018, we did not have any material accrued contingent liabilities associated with litigation matters.

Indemnification and Excluded Liabilities
Under our amended omnibus agreement and pursuant to the terms of various agreements under which we acquired assets from Phillips 66, Phillips 66 will indemnify us, or assume responsibility, for certain environmental liabilities, tax liabilities, litigation and any other liabilities attributable to the ownership or operation of the assets contributed to us and that arose prior to the effective date of each acquisition. These indemnifications and exclusions from liability have, in some cases, time limits and deductibles. When Phillips 66 performs under any of these indemnifications or exclusions from liability, we recognize noncash expenses and associated noncash capital contributions from our General Partner, as these are considered liabilities paid for by a principal unitholder.

Note 14—Asset Retirement Obligations and Accrued Environmental Costs

Asset retirement obligations and accrued environmental costs at December 31 were:

	Millions of Dollars	
	2019	2018
Asset retirement obligations	$ **11**	11
Accrued environmental costs	**3**	2
Total asset retirement obligations and accrued environmental costs	**14**	13
Asset retirement obligations and accrued environmental costs due within one year	**(1)**	(1)
Long-term asset retirement obligations and accrued environmental costs	$ **13**	12

Asset Retirement Obligations
We have asset retirement obligations we are required to perform under law or contract once an asset is permanently taken out of service. These obligations primarily relate to the abandonment or removal of certain pipelines. Most of these obligations are not expected to be paid until many years in the future.

During 2019 and 2018, our asset retirement obligations changed as follows:

	Millions of Dollars	
	2019	2018
Balance at January 1	$ **11**	10
Accretion of discount	—	1
New obligations	**—**	—
Changes in estimates of existing obligations	**—**	—
Balance at December 31	$ **11**	11

Note 15—Equity

ATM Programs
We have authorized an aggregate of $750 million under three $250 million continuous offerings of common units, or at-the-market (ATM) programs. The first two programs concluded in June 2018 and December 2019, respectively, leaving $250 million available under the third program. For the year ended December 31, 2019, on a settlement-date basis, we issued an aggregate of 3,195,521 common units under our ATM programs, generating net proceeds of $173 million. During the year ended December 31, 2018, on a settlement-date basis, we issued an aggregate of 2,532,096 common units under our ATM programs, generating net proceeds of $128 million. During the year ended December 31, 2017, on a settlement-date basis, we issued an aggregate of 3,372,716 common units under our ATM programs, generating net proceeds of $173 million. Since inception in June 2016 and through December 31, 2019, we issued an aggregate of 9,446,485 common units under our ATM programs, and generated net proceeds of $492 million, after broker commissions of $5 million and other costs of $3 million. The net proceeds from sales under the ATM programs are used for general partnership purposes, which may include debt repayment, acquisitions, capital expenditures and additions to working capital.

Restructuring Transaction
On August 1, 2019, we closed on the transactions contemplated by the Partnership Interests Restructuring Agreement, dated July 24, 2019, entered into with our General Partner. Pursuant to this agreement, all of the outstanding IDRs held by our General Partner were eliminated and its approximately 2% general partner interest in us was converted into a non-economic general partner interest; both in exchange for an aggregate of 101 million common units issued to Phillips 66 PDI. Because these transactions were between entities under common control, the common units issued to Phillips 66 PDI were assigned no value; rather, our General Partner’s negative equity balance of $1.4 billion at August 1, 2019, was transferred to Phillips 66’s limited partner equity account.

Common Unit Offerings
In October 2017, we completed a private placement of 6,304,204 common units representing limited partner interests at a price of $47.59 per common unit, for total proceeds of $295 million, net of underwriting discounts and commissions. The net proceeds were used in part to fund the cash portion of the Bakken Pipeline/Merey Sweeny Acquisition. See Note 4—Acquisitions, for additional information.

Preferred Unit Offering
In October 2017, we completed the private placement of 13,819,791 perpetual convertible preferred units (preferred units) representing limited partner interests at a price of $54.27 per preferred unit. We received proceeds of $737 million from the offering, net of offering and transaction expenses. The net proceeds were used in part to fund the cash portion of the Bakken Pipeline/Merey Sweeny Acquisition.

The preferred units rank senior to all common units with respect to distributions and rights upon liquidation. The holders of the preferred units are entitled to receive cumulative quarterly distributions equal to $0.678375 per unit, beginning for the quarter ended December 31, 2017, with a prorated amount from the date of issuance. Following the third anniversary of the issuance of the preferred units, the holders of the preferred units will receive as a quarterly distribution the greater of $0.678375 per unit or the amount of per-unit distributions paid to common unitholders as if such preferred units had converted into common units immediately prior to the record date.

The holders of the preferred units may convert their preferred units into common units, on a one-for-one basis, at any time after the second anniversary of the issuance date, in full or in part, subject to minimum conversion amounts and conditions. After the third anniversary of the issuance date, we may convert the preferred units into common units at any time, in whole or in part, subject to certain minimum conversion amounts and conditions, if the arithmetic average of the volume-weighted trading price of our common units is greater than $73.2645 per unit for the 20 day trading period immediately preceding the conversion notice date and the average trading volume of the common units is at least 100,000 for the preceding 20 trading days. The conversion rate for the preferred units shall be the quotient of (a) the sum of (i) $54.27, plus (ii) any unpaid cash distributions on the applicable preferred unit, divided by (b) $54.27. The holders of the preferred units are entitled to vote on an as-converted basis with the common unitholders and have certain other class voting rights with respect to any amendment to our partnership agreement that would adversely affect any rights, preferences or privileges of the preferred units. In addition, upon certain events involving a change in control, the holders of preferred units may elect, among other potential elections, to convert their preferred units to common units at the then change of control conversion rate.

Note 16—Related Party Transactions

Commercial Agreements

We have entered into long-term, fee-based commercial agreements with Phillips 66 to provide transportation, terminaling, storage, stevedoring, fractionation, processing, and rail terminal services. Under these agreements, Phillips 66 commits to provide us with minimum transportation, throughput or storage volumes, or minimum monthly service fees. If Phillips 66 does not meet its minimum volume commitments under an agreement, Phillips 66 pays us a deficiency payment based on the calculation described in the agreement.

Amended and Restated Operational Services Agreement

Under our amended and restated operational services agreement, we reimburse Phillips 66 for certain operational services provided in support of our pipelines, terminaling, processing, and storage facilities. These services include routine and emergency maintenance and repair services, routine operational activities, routine administrative services, construction and related services and such other services as we and Phillips 66 may mutually agree upon from time to time.

Amended Omnibus Agreement

The amended omnibus agreement addresses our payment of an operating and administrative support fee and our obligation to reimburse Phillips 66 for all other direct or allocated costs and expenses incurred by Phillips 66 in providing general and administrative services. Additionally, the omnibus agreement addresses Phillips 66's indemnification to us and our indemnification to Phillips 66 for certain environmental and other liabilities. Further, it addresses the granting of a license from Phillips 66 to us with respect to the use of certain Phillips 66 trademarks.

The operational and administrative support fee is for the provision of certain services, including: logistical services; asset oversight, such as operational management and supervision; corporate engineering services, including asset integrity and regulatory services; business development services; executive services; financial and administrative services (including treasury and accounting); information technology; legal services; corporate health, safety and environmental services; facility services; human resources services; procurement services; investor relations; tax matters; and public company reporting services. We pay Phillips 66 an operational and administrative support fee under the terms of our amended omnibus agreement in the amount of $8 million per month. The monthly support fee was $7 million from October 14, 2016 to October 6, 2017, and $8 million thereafter.

We also reimburse Phillips 66 for all other direct or allocated costs incurred on behalf of us, pursuant to the terms of our amended omnibus agreement. The classification of these charges between operating and maintenance expenses and general and administrative expenses is based on the functional nature of the services performed for our operations. Under our amended and restated operational services agreement, we reimburse Phillips 66 for the provision of certain operational services in support of our operating assets. Additionally, we pay Phillips 66 for insurance services provided to us, and recoveries under these policies are recorded as an offset to our expenses. Operating and maintenance expenses also include volumetric gains and losses associated with volumes transported by Phillips 66.

Tax Sharing Agreement

Under our tax sharing agreement, we reimburse Phillips 66 for our share of state and local income and other taxes incurred by Phillips 66 due to our results of operations being included in a combined or consolidated tax return filed by Phillips 66. Any reimbursement is limited to the tax that we (and our subsidiaries) would have paid had we not been included in a combined group with Phillips 66. Phillips 66 may use its tax attributes to cause its combined or consolidated group to owe no tax; however, we would nevertheless reimburse Phillips 66 for the tax we would have owed, even though Phillips 66 had no cash expense for that period.

Related Party Transactions
Significant related party transactions included in our total costs and expenses were:

	Millions of Dollars		
	2019	2018	2017
Operating and maintenance expenses	$ **258**	214	189
General and administrative expenses	**65**	60	64
Total	$ **323**	274	253

Other related party balances were included in the following line items on our consolidated balance sheet, all of which were related to commercial agreements with Phillips 66:

	Millions of Dollars	
	2019	2018
Prepaid expenses and other current assets	$ **7**	4
Other assets	**44**	—
Deferred revenues	**16**	60
Other current liabilities	**1**	—
Other liabilities	**70**	18

Equity Affiliate Arrangements
In March 2019, we and our co-venturers in Dakota Access provided a CECU in conjunction with an unsecured senior notes offering. See Note 6—Equity Investments and Loans, for additional information.

In June 2019, we issued a guarantee through an equity contribution agreement for 42.25% of the third-party term loan facility for Gray Oak Pipeline, LLC. See Note 6—Equity Investments and Loans, for additional information.

Note 17—Employee Benefit Plans

Pension and Retirement Savings Plans
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 wholly owned businesses are employed by Phillips 66. Those employees participate in the pension, postretirement health insurance and defined contribution benefit plans sponsored by Phillips 66. Most employees of Phillips 66 who provide direct support to our operations do so under the provisions of the amended and restated operational services agreement, which fees include a burden for benefit costs.

Note 18—Unit-Based Compensation

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

From the closing of our initial public offering through December 31, 2019, we have only issued phantom units to non-employee directors under the ICP. A phantom unit entitles the recipient to receive cash equal to the fair market value of a common unit on the date the phantom unit is settled after the vesting period (settlement date), and to also receive a distribution equivalent each quarter between the grant date and the settlement date in an amount equal to any cash distributions paid on a common unit during that time. During the year ended December 31, 2019, we granted a total of 4,950 phantom units to three non-employee directors of the Partnership. For the years ended December 31, 2018 and 2017, we granted a total of 4,326 and 4,794 phantom units, respectively. On the grant date, phantom units awarded to non-employee directors become non-forfeitable; therefore, we immediately recognize expense equal to the grant-date fair value of the award. Phantom units awarded under the ICP do not have voting rights.

Note 19—Income Taxes

We are not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Taxes on our net income are borne generally by our partners through the allocation of taxable income. Our income tax provision results from state laws that apply to entities organized as partnerships. For us, this is primarily the state of Texas.

At December 31, 2019 and 2018, we had a net deferred tax liability of $9 million and $7 million, respectively. The net deferred tax liability was primarily associated with PP&E and equity investments.

Our effective tax rate was less than 1% for the years ended December 31, 2019, 2018 and 2017.

At December 31, 2019 and 2018, we had no liability reported for uncertain tax positions. We also did not have any interest or penalties related to income taxes for the years ended December 31, 2019, 2018 and 2017. Texas tax returns for the years 2014 and forward are subject to examination.

Note 20—Cash Flow Information

The acquisition discussed below had cash and noncash elements. The common and general partner units issued to Phillips 66 in the Bakken Pipeline/Merey Sweeny acquisition assigned no value, because the cash consideration and any debt assumed exceeded the historical net book value of the acquired assets. Accordingly, the units issued for the acquisition had no impact on partner capital balances, other than changing ownership percentages. See Note 4—Acquisitions, for additional information.

Bakken Pipeline/Merey Sweeny Acquisition
The historical book value of the net assets acquired in the Bakken Pipeline/Merey Sweeny Acquisition in 2017 was $729 million. Total cash consideration and assumed debt immediately repaid to Phillips 66 at acquisition totaled $963 million. Of this total, $729 million was an investing cash outflow, and the remaining $234 million was deemed a cash distribution to our General Partner (a financing cash outflow). The remaining balance of debt assumed in the acquisition of $447 million was a noncash financing activity that increased debt and decreased our General Partner’s capital account.

Capital Expenditures and Investments
Our capital expenditures and investments consisted of:

		Millions of Dollars		
		2019	2018	2017*
Cash capital expenditures and investments	**$**	**1,095**	738	431
Change in capital expenditure accruals		**(13)**	38	3
Total capital expenditures and investments	**$**	**1,082**	776	434

** The 2017 total capital expenditures and investments includes $82 million funded by Predecessors.*

		Millions of Dollars		
		2019	2018	2017
Other Noncash Investing and Financing Activities				
Dividend of loan receivable to Phillips 66 by Predecessor	$	**—**	—	51
Cash Payments				
Interest and debt expense	$	**100**	109	96

Restricted Cash
At December 31, 2019, the Partnership did not have any restricted cash. The restrictions on the cash received in February 2017, as a result of the retrospective adjustment for the Bakken Pipeline/Merey Sweeny Acquisition, were fully removed in the second quarter of 2017 when Merey Sweeny's outstanding debt that contained lender restrictions on the use of cash was paid in full.

Note 21—Other Financial Information

		Millions of Dollars		
		2019	2018	2017
Interest and Debt Expense				
Incurred				
Debt	$	**133**	119	100
Other		**3**	3	2
		136	122	102
Capitalized		**(28)**	(7)	(1)
Expensed	$	**108**	115	101
Other Income				
Co-venturer contractual make-whole payments	$	**—**	—	7
Interest income		**3**	1	3
Other		**3**	1	2
Total other income	$	**6**	2	12

Selected Quarterly Financial Data (Unaudited)

	Millions of Dollars					Per Common Unit	
						Net Income Attributable to the Partnership	
		Total Revenues and Other Income	Income Before Income Taxes	Net Income Attributable to the Partnership	Limited Partners' Interest in Net Income Attributable to the Partnership	Basic	Diluted
2019							
First	**$**	**423**	**199**	**198**	**119**	**0.96**	**0.92**
Second		**401**	**234**	**233**	**153**	**1.23**	**1.15**
Third		**411**	**238**	**237**	**228**	**1.18**	**1.15**
Fourth		**432**	**255**	**255**	**246**	**1.08**	**1.06**
2018							
First	$	355	174	172	110	0.91	0.87
Second		354	186	186	121	0.99	0.94
Third		384	217	217	144	1.17	1.10
Fourth		393	223	221	144	1.16	1.09

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission (the SEC) rules and forms, and that such information is accumulated and communicated to our General Partner's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2019, our General Partner's Chairman and Chief Executive Officer and its Vice President and Chief Financial Officer, with the participation of the General Partner's management, carried out an evaluation, pursuant to Rule 13a-15(b) of the Act, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Act). Based upon that evaluation, our General Partner's Chairman and Chief Executive Officer and its Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of December 31, 2019.

There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Act, in the quarterly period ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

This report is included in Item 8. Financial Statements and Supplementary Data and is incorporated herein by reference.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

This report is included in Item 8. Financial Statements and Supplementary Data and is incorporated herein by reference.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Management of Phillips 66 Partners LP
We are managed by the directors and executive officers of our General Partner, Phillips 66 Partners GP LLC. Our General Partner is not elected by our unitholders and will not be subject to re-election by our unitholders in the future. Phillips 66 indirectly owns all of the membership interests in our General Partner. Our General Partner has a Board of Directors, and our unitholders are not entitled to elect the directors or directly or indirectly participate in our management or operations.

The Board of Directors of our General Partner currently has seven members, three of whom are independent as defined under the independence standards established by the New York Stock Exchange (NYSE). The NYSE does not require a listed limited partnership to have a majority of independent directors on its general partner's board of directors or to establish a compensation committee or a nominating committee. However, the Board of Directors of our General Partner has established an Audit Committee, as well as a Conflicts Committee to address conflict situations. Phillips 66 appoints all members to the Board of Directors of our General Partner. The Board of Directors of our General Partner has determined that Joseph W. O'Toole, Mark A. Haney and P.D. (David) Bairrington are independent directors under the independence standards of the NYSE. Mr. Haney has been appointed as the Lead Director to preside at executive sessions of the non-management and independent Board of Directors.

The officers of our General Partner manage the day-to-day affairs of our business. 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 affiliates of our General Partner, but we sometimes refer to these individuals in this Annual Report on Form 10-K as our employees for ease of reference.

Directors and Executive Officers of Phillips 66 Partners GP LLC
Directors are elected by the sole member of our General Partner and hold office until their successors have been elected or qualified or until the earlier of death, resignation, removal or disqualification. Executive officers are appointed by, and serve at the discretion of, the Board of Directors. The following table shows information for the directors and executive officers of Phillips 66 Partners GP LLC.

Name	Position with Phillips 66 Partners GP LLC	Age*
Greg C. Garland	Chairman of the Board of Directors and Chief Executive Officer	62
Robert A. Herman	Director and Vice President	60
Timothy D. Roberts	Director and Vice President, Operations	58
Kevin J. Mitchell	Director and Vice President and Chief Financial Officer	53
Rosy Zuklic	Vice President and Chief Operating Officer	46
Chukwuemeka A. Oyolu	Vice President and Controller	50
Joseph W. O'Toole	Director	81
Mark A. Haney	Director	65
P.D. (David) Bairrington	Director	64

**On February 21, 2020.*

Greg C. Garland has served as Chief Executive Officer and Chairman of the Board of Directors of our General Partner since March 2013. Mr. Garland has been Chairman of the Board of Directors and Chief Executive Officer of Phillips 66 since April 2012. Mr. Garland devotes the majority of his time to his roles at Phillips 66 and also spends time, as needed, directly managing our business and affairs. Mr. Garland previously served as Senior Vice President, Exploration and Production—Americas for ConocoPhillips from 2010 to 2012 and as President and Chief Executive Officer of Chevron Phillips Chemical Company LLC (CPChem) from 2008 to 2010. Mr. Garland is currently a member of the Board of Directors of Amgen Inc. We believe that Mr. Garland's extensive experience in the energy industry, including his 35-year career with Phillips Petroleum Company, CPChem and ConocoPhillips, and as Chief Executive Officer of Phillips 66, makes him well qualified to serve both as a director and as Chairman of the Board of Directors of our General Partner. In addition to his other skills and qualifications, we believe that Mr. Garland's role as both Chairman and Chief Executive Officer provides a vital link between management and the Board of Directors and allows the Board of Directors to perform its oversight role with the benefit of management's perspective on business and strategy.

Robert A. Herman has served as a member of the Board of Directors of our General Partner since June 2014 and as Vice President since August 2018, having previously served as Senior Vice President, Operations. Mr. Herman became Executive Vice President, Refining of Phillips 66 in September 2017. Before assuming his current role, Mr. Herman served Phillips 66 as Executive Vice President, Midstream, from June 2014 to September 2017, Senior Vice President, Health, Safety, and Environment, Projects and Procurement, from February 2014 to June 2014, and Senior Vice President, Health, Safety, and Environment, from April 2012 to February 2014. Before joining Phillips 66, Mr. Herman worked for ConocoPhillips as Vice President, Health, Safety, and Environment. Mr. Herman is currently a member of the Board of Directors of CPChem. We believe that Mr. Herman is a suitable member of the Board of Directors due to the significant industry experience he has gained through his employment with Phillips 66 and ConocoPhillips.

Timothy D. Roberts has served as a member of the Board of Directors of our General Partner since April 2016, and as Vice President, Operations, since August 2018. Mr. Roberts has been the Executive Vice President, Midstream for Phillips 66 since August 2018. He previously served as the Executive Vice President, Marketing and Commercial from January 2017 to August 2018 and the Executive Vice President, Strategy and Business Development for Phillips 66 from April 2016 through January 2017. Before joining Phillips 66, Mr. Roberts was a senior executive at LyondellBasell Industries NV ("Lyondell"), serving as Senior Vice President, Olefins and Polyolefins for the Americas from 2011 to 2013, was Executive Vice President - O&P Americas from 2013 through 2015, and Executive Vice President - Global O&P from 2015 until 2016. Prior to joining Lyondell, Mr. Roberts was Vice President of Strategic and Corporate Planning for CPChem from February 2011 until May 2011, and Chief Executive Officer of Americas Styrenics LLC, a joint venture between The Dow Chemical Company and CPChem, from 2008 until 2011. Mr. Roberts is currently a member of the Board of Directors of CPChem. We believe that Mr. Roberts is a suitable member of the Board of Directors because of his extensive industry experience.

Kevin J. Mitchell has served as Vice President and Chief Financial Officer and a member of the Board of Directors of our General Partner since January 2016. Mr. Mitchell previously served as the Vice President, Investor Relations, for Phillips 66 upon joining Phillips 66 in September 2014 and became Executive Vice President, Finance and Chief Financial Officer in January 2016. Mr. Mitchell devotes the majority of his time to his roles at Phillips 66 and also spends time, as needed, on our business and affairs. Prior to joining Phillips 66, he served as the General Auditor of ConocoPhillips from 2010 until 2014. Mr. Mitchell joined Conoco in 1991 and held a variety of finance and accounting positions with Conoco and ConocoPhillips, including General Manager of Upstream Finance, Strategy and Planning; Vice President, Finance and Administration for ConocoPhillips Alaska; and Manager of Treasury Services. Mr. Mitchell is a Certified Internal Auditor and a fellow with the Chartered Institute of Management Accountants. Mr. Mitchell is currently a member of the Board of Directors of CPChem. We believe that Mr. Mitchell is a suitable member of the Board of Directors because of his industry experience and knowledge of industry accounting and financial practices.

Rosy Zuklic has served as Vice President and Chief Operating Officer of our General Partner since January 2019. Ms. Zuklic also became General Manager, Master Limited Partnership of Phillips 66 in January 2019. Prior to her current role at Phillips 66, Ms. Zuklic served as General Manager, Investor Relations of Phillips 66, a position she held for over five years.

Chukwuemeka A. Oyolu has served as Vice President and Controller of our General Partner since December 2014. Mr. Oyolu also became the Vice President and Controller of Phillips 66 in December 2014. Mr. Oyolu devotes the majority of his time to his roles at Phillips 66 and also spends time, as needed, on our business and affairs.

Joseph W. O'Toole has served as a member of the Board of Directors of our General Partner since July 2013 and serves as the chair of the Audit Committee. Mr. O'Toole is currently the managing partner of Maeve Investment Company, LP, a private investment company. Mr. O'Toole retired as Vice President, General Tax Officer and General Tax Counsel of Phillips Petroleum Company in 1999, a position he held since 1977. Mr. O'Toole served as chairman of the American Petroleum Institute's General Tax Committee in 1983 and represented the industry and Phillips Petroleum Company before government bodies in the U.S. and foreign countries on numerous occasions. We believe that Mr. O'Toole is a suitable member of the Board of Directors because of his lengthy tenure and extensive experience in the energy industry and knowledge of industry accounting, tax and financial practices he procured while serving in senior tax and financial positions with Phillips Petroleum Company.

Mark A. Haney has served as a member of the Board of Directors of our General Partner since July 2013 and serves on the Audit Committee and as chair of the Conflicts Committee. Mr. Haney retired as Executive Vice President of Olefins and Polyolefins of CPChem in December 2011. Prior to that time, Mr. Haney served as Senior Vice President, Specialties, Aromatics and Styrenics of CPChem from 2008 to 2011, and Vice President, Polyethylene of CPChem from 2001 to 2008. Prior to joining CPChem in 2001, he held several senior positions with Phillips Petroleum Company, where he began his career in 1977. He also serves as a director for Advanced Drainage Systems, Inc. We believe that Mr. Haney is a suitable member of the Board of Directors because of his lengthy tenure and extensive experience in the energy industry, particularly his leadership experience with operating responsibilities.

P.D. (David) Bairrington has served as a member of the Board of Directors of our General Partner since August 2016 and serves on both the Audit Committee and the Conflicts Committee. Mr. Bairrington is the managing partner of a family owned real estate development company, JDMD Development, LLC. Prior to taking on that role, he spent 33 years in the energy industry with Phillips Petroleum Company and ConocoPhillips, from which he retired in June 2011. During his career, he held a number of executive positions with Phillips Petroleum Company and ConocoPhillips, including Senior Vice President of ConocoPhillips Canada, President and Managing Director of the Russia and Caspian Region, and Senior Vice President of Marketing and Transportation. Mr. Bairrington is a former board member of Syncrude Canada Ltd, and the former Chairman of the Board of the Polar Lights Company and NaryanMarNefteGas Company. Currently, Mr. Bairrington serves on the Texas Municipal Power Agency Board, Bryan Texas Utilities Board, Wells Fargo Community Board and the Blinn College Brazos County Advisory Committee. We believe that Mr. Bairrington is a suitable member of the Board of Directors because of his lengthy tenure and extensive experience in the energy industry, particularly his leadership experience with operating responsibilities.

Section 16(a) Beneficial Ownership Reporting Compliance
Section 16(a) of the Securities Exchange Act of 1934 (the Act) requires directors and executive officers of our General Partner, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership of our common units with the U.S. Securities and Exchange Commission (SEC) and the NYSE, and to furnish us with copies of the forms they file. To our knowledge, based solely upon a review of the copies of such reports furnished to us and written representations of our officers and directors, during the year ended December 31, 2019, all Section 16(a) reports applicable to our officers and directors were filed on a timely basis.

Committees of the Board of Directors
The Board of Directors of our General Partner has an Audit Committee and a Conflicts Committee. Each of the standing committees of the Board of Directors has the composition and responsibilities described below.

Audit Committee
Our General Partner has an Audit Committee consisting of three directors, each of whom meets the independence and experience standards established by the NYSE and the Act. The members of the Audit Committee are Messrs. Bairrington, Haney, and O’Toole. Mr. O’Toole serves as the chair of the Audit Committee, and the Board of Directors of our General Partner has determined that Mr. O’Toole is an audit committee financial expert (as defined in the Act). The Audit Committee assists the Board of Directors in its oversight of the integrity of our financial statements and our compliance with legal and regulatory requirements and corporate policies and controls. The Audit Committee has the sole authority to retain and terminate our independent registered public accounting firm, pre-approve all auditing services and related fees and the terms thereof, and pre-approve any non-audit services to be rendered by our independent registered public accounting firm. The Audit Committee is also responsible for confirming the independence and objectivity of our independent registered public accounting firm. Our independent registered public accounting firm has unrestricted access to the Audit Committee. The Audit Committee has a written charter adopted by the Board of Directors of our General Partner, which is available on our website at *http://www.phillips66partners.com* by selecting “Investors,” then “Corporate Governance,” then “Documents and Charters,” and selecting “Audit Committee Charter.”

Conflicts Committee
Two members of the Board of Directors of our General Partner serve on our General Partner's Conflicts Committee to review specific matters that may involve conflicts of interest in accordance with the terms of our partnership agreement. The members of the Conflicts Committee are Messrs. Bairrington and Haney, with Mr. Haney serving as the chair. The Board of Directors of our General Partner determines whether to refer a matter to the Conflicts Committee on a case-by-case basis. The members of our Conflicts Committee may not be officers or employees of our General Partner or directors, officers, or employees of its affiliates, and must meet the independence and experience standards established by the NYSE and the Act to serve on an audit committee of a board of directors. In addition, the members of our Conflicts Committee may not own any interest in our General Partner or its affiliates other than common units or awards under our incentive compensation plan. If our General Partner seeks approval from the Conflicts Committee, then it will be presumed that, in making its decision, the Conflicts Committee acted in good faith, and in any proceeding brought by or on behalf of any limited partner or Phillips 66 Partners LP challenging such determination, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

Code of Business Ethics and Conduct
Our General Partner has adopted a Code of Business Ethics and Conduct for directors and employees designed to help directors and employees resolve ethical issues in an increasingly complex global business environment. Our Code of Business Ethics and Conduct applies to all directors and employees. Our Code of Business Ethics and Conduct covers topics including, but not limited to, conflicts of interest, insider trading, competition and fair dealing, discrimination and harassment, confidentiality, payments to government personnel, anti-boycott laws, U.S. embargoes and sanctions, compliance procedures and employee complaint procedures. We also have a Code of Ethics for the Principal Executive Officer and Senior Financial Officers. This code supplements the Code of Business Ethics and Conduct and is applicable to our Chief Executive Officer, Chief Financial Officer and Controller. Any amendments to or waivers from this Code will be posted on our website. Both codes are available on our website under the "Corporate Governance" caption. Unitholders may also request printed copies of our Code of Business Ethics and Conduct by following the instructions located under the section "Website Access to SEC Reports" in Items 1 and 2. Business and Properties.

Item 11. EXECUTIVE COMPENSATION

Neither we nor our General Partner employ the individuals who serve as executive officers of our General Partner and are responsible for managing our business. We are managed by our General Partner, the executive officers of which are employees of Phillips 66. We and our General Partner have entered into an omnibus agreement, as amended, with Phillips 66 pursuant to which, among other matters:

- Phillips 66 makes available to our General Partner the services of the Phillips 66 employees who serve as the executive officers of our General Partner.

- Our General Partner is obligated to reimburse Phillips 66 for an allocated portion of the costs that Phillips 66 incurs in providing compensation and benefits to certain Phillips 66 employees, including the executive officers of our General Partner who devote at least a majority of their working time to our business (but not the executive officers of our General Partner who devote less than a majority of their working time to our business).

- Our General Partner pays an operational and administrative support fee to Phillips 66 to cover, among other things, the services provided to us by the executive officers of our General Partner who devote less than a majority of their working time to our business.

Pursuant to the applicable provisions of our partnership agreement, we reimburse our General Partner for the costs it incurs in relation to the Phillips 66 employees, including executive officers, who provide services to operate our business. Our named executive officers (NEOs) consist of our General Partner's chief executive officer, chief financial officer and the next two most highly compensated executive officers. Our NEOs for 2019 were:

- Greg C. Garland, Chairman of the Board of Directors and Chief Executive Officer.

- Kevin J. Mitchell, Vice President and Chief Financial Officer.

- Chukwuemeka A. Oyolu, Vice President and Controller.

- Rosy Zuklic, Vice President and Chief Operating Officer.

Compensation Discussion and Analysis
Messrs. Garland, Mitchell and Oyolu, who were also officers of Phillips 66 during 2019, devoted the majority of their time to their respective roles at Phillips 66 and also spent time, as needed, directly managing our business and affairs. Pursuant to the terms of the amended omnibus agreement, we pay a fixed operational and administrative support fee to Phillips 66, which covers, among other things, the services provided to us by Messrs. Garland, Mitchell and Oyolu. Messrs. Garland, Mitchell and Oyolu do not receive any separate amounts of compensation for their services to our business or as executive officers of our General Partner and, except for the fixed operational and administrative support fee we pay to Phillips 66, we did not otherwise pay or reimburse any compensation amounts to or for Messrs. Garland, Mitchell and Oyolu during 2019.

Ms. Zuklic devoted substantially all of her working time to our business and, pursuant to the terms of the amended omnibus agreement, we reimbursed Phillips 66 for all the compensation and benefits paid to her with respect to time spent managing our business.

Neither we nor our General Partner has a compensation committee. The Human Resources and Compensation Committee of the Board of Directors of Phillips 66 (the Compensation Committee) has ultimate decision-making authority with respect to the compensation of Phillips 66's senior officers. The elements of compensation discussed below, and Phillips 66's decisions with respect to determinations on payments, were approved by the Compensation Committee, and were not subject to approvals by the Board of Directors of our General Partner.

See Note 16—Related Party Transactions—Amended Omnibus Agreement, in the Notes to Consolidated Financial Statements, for additional information.

Elements of Compensation
Phillips 66 provides compensation to its executives in the form of base salaries, annual cash incentive awards, long-term equity incentive awards and participation in various employee benefits plans and arrangements, including broad-based and supplemental defined contribution plans, defined benefit retirement plans and executive life insurance arrangements. Phillips 66 also provides additional benefits to approved senior officers, such as executive physicals, executive financial planning, and physical security. In addition, although our NEOs have not entered into employment agreements with Phillips 66, our NEOs are eligible to participate in Phillips 66's severance or executive severance and change in control plans, pursuant to which they would receive severance payments and benefits from Phillips 66 in the event of an involuntary termination of employment (sometimes with an enhanced level of payment if such termination occurs in connection with a change in control of Phillips 66). In the future, Phillips 66 and/or our General Partner may provide different and/or additional compensation components, benefits and/or perquisites to our NEOs, to ensure that they are provided with a comprehensive and competitive compensation structure.

As explained above, Messrs. Garland, Mitchell and Oyolu devoted a small portion of their overall working time to our business during 2019 and the compensation our NEOs received from Phillips 66 in relation to their services for us did not comprise a material amount of their total compensation. In addition, except for a fixed operational and administrative support fee that we pay to Phillips 66 pursuant to the terms of the amended omnibus agreement, and any awards that may be granted in the future to Messrs. Garland, Mitchell and Oyolu under the Incentive Compensation Plan (ICP), we will not pay or reimburse any compensation amounts to or for Messrs. Garland, Mitchell and Oyolu. For a detailed discussion of the compensation and benefits that Phillips 66 provides to its NEOs, and its philosophy, objectives and policies related to executive compensation, please refer to the Compensation Discussion and Analysis section of Phillips 66's 2020 Proxy Statement, which will be available upon its filing on the SEC's website at *http://www.sec.gov*. The following sets forth a more detailed explanation of the elements of Phillips 66's executive compensation program for Ms. Zuklic.

Base Salary. Base salary is designed to provide a competitive fixed rate of pay recognizing employees' different levels of responsibility and performance. In setting an executive's base salary, Phillips 66 considers factors including, but not limited to, the responsibility level for the position held, market data for its relevant peer group, experience and expertise, individual performance and business results.

Annual Cash Bonus. Phillips 66's annual cash incentive program provides participants with an opportunity to earn annual cash bonus awards generally based on company, business unit and individual performance. Target annual bonus levels are established at the beginning of each year and are based on a percentage of the executive's eligible earnings. For 2019, Ms. Zuklic had an annualized target bonus of 45% of her eligible earnings.

For 2019, Phillips 66 used the following metrics in relation to the corporate performance of Phillips 66 as a whole for annual bonus program purposes, with the weightings specified as follows:

Adjusted EBITDA	40%
Operating Excellence	35%
Adjusted Controllable Cost	15%
High-Performing Organization	10%

The Compensation Committee used its judgment in assessing results in relation to the foregoing categories of criteria to award between zero and 200% of each NEO's target bonus. There are multiple award units within Phillips 66 designed to measure performance and reward employees according to business unit performance. Performance criteria include quantitative and qualitative metrics specific to each business unit, such as EBITDA, cost control, safety and operational excellence, and resource and talent management. Finally, an individual performance adjustment may be applied for its executives and key employees. For 2019, Phillips 66 paid a cash bonus to Ms. Zuklic at a level of approximately 202% of her target award to recognize the overall performance of Phillips 66, the performance of Midstream, including Phillips 66 Partners, and her individual contributions.

Long-Term Equity-Based Compensation Awards. Phillips 66 maintains a long-term incentive program pursuant to which it grants equity-based awards in Phillips 66 stock to its executives and key employees. Awards are paid out from zero to 200% of target depending on Phillips 66's performance relative to the applicable targets. For the performance periods presented, payout levels for the Performance Share Program (PSP) awards were based on Phillips 66's Total Shareholder Return (TSR) (50%), as compared to a group of Phillips 66's peer companies, and after-tax Return on Capital Employed (ROCE) (50%), as compared to both its weighted average cost of capital and a group of Phillips 66's peer companies. Generally, performance at the 50th percentile of the peer group would result in a target payout subject to any adjustments made by the Compensation Committee. For performance periods that ended in 2019, payouts for the PSP were made in cash at the end of the performance period, with no escrow period.

We apply individual performance adjustments to targets at the beginning of the period. The Compensation Committee believes in applying performance adjustments at the beginning of the performance period, rather than the end, so that performance adjusted compensation is subject to company performance and market volatility throughout the performance period, aligning executive compensation with shareholder interests.

For 2019, Phillips 66's long-term incentive program delivered 50% of long-term target value in the form of performance share units through the PSP, 25% in the form of stock options and 25% in the form of restricted stock units. This reflects the cyclical nature of its business, promotes retention of high-performing talent and supports succession planning.

Retirement, Health, Welfare and Additional Benefits. Our NEOs are eligible to participate in the employee benefit plans and programs that Phillips 66 may from time to time offer to its employees, subject to the terms and eligibility requirements of those plans. Our NEOs are also eligible to participate in tax-qualified defined contribution and defined benefit retirement plans to the same extent as all other Phillips 66 employees. Phillips 66 also maintains three supplemental retirement plans in which its executives and key employees participate. Its voluntary deferred compensation plan (the Phillips 66 Key Employee Deferred Compensation Plan) allows executives to defer both the receipt and taxation of a portion of their base salary until separation and annual bonus until a specific date or when they separate from employment. Its defined contribution restoration plan (the Phillips 66 Defined Contribution Make-Up Plan) restores benefits capped under Phillips 66's qualified defined contribution plan due to Internal Revenue Code limits. Finally, its defined benefit restoration plan (the Phillips 66 Key Employee Supplemental Retirement Plan) restores company sponsored benefits capped under the qualified defined benefit pension plan due to Internal Revenue Code limits. Our NEOs, including Ms. Zuklic, participate in these programs and Phillips 66 remains responsible for providing 100% of the benefits thereunder. However, with respect to the executives for whom we are obligated to reimburse Phillips 66 for an allocated portion of compensation and benefits costs, we will pay periodic amounts to Phillips 66 pursuant to the terms of the amended omnibus agreement representing Phillips 66's estimated costs for providing these benefits. Phillips 66 also provides executive health and financial planning benefits to our NEOs, subject to certain eligibility requirements.

Severance and Change in Control Programs. Phillips 66 does not maintain individual severance or change in control agreements with its executives. Rather, Phillips 66 maintains a severance plan to provide and preserve an economic motivation for participating executives to consider a business combination that might result in an executive's job loss and to compete effectively in attracting and retaining executives in an industry that features frequent acquisitions and divestitures.

The severance plan provides that if Phillips 66 terminates the employment of an executive other than for cause, the executive will receive the following benefits:

- An amount equal to three weeks of pay for each year of service up to a maximum of 60 weeks of pay.
- Continued eligibility for a pro rata portion of the annual bonus paid with respect to the year of termination.
- Layoff treatment under compensation plans that generally allows the executive to retain grants of Phillips 66 stock options and restricted stock units, and maintain eligibility for Phillips 66 PSP awards for ongoing periods in which the NEO had participated for at least one year.

In addition, upon severance following a change in control, an executive becomes eligible for vesting in all Phillips 66 equity awards and lapsing of any restrictions, with continued ability to exercise any stock options for their remaining terms. Stock options shall be exercisable at the original times set forth in the applicable award documents.

Our Incentive Compensation Plan
Our General Partner adopted the ICP for officers, directors and employees of our General Partner or its affiliates, and any consultants, affiliates of our General Partner or other individuals who perform services for us. Our General Partner may issue our executive officers and other service providers long-term equity-based awards under the ICP. These awards are intended to compensate the recipients thereof based on the performance of our common units and their continued employment during the vesting period, as well as align their long-term interests with those of our unitholders. We will be responsible for the cost of awards granted under the ICP, and all determinations with respect to awards to be made under the ICP will be made by the Board of Directors of our General Partner or any committee thereof that may be established for such purpose or by any delegate of the Board of Directors or such committee, subject to applicable law, which we refer to as the plan administrator. The Board of Directors of our General Partner is currently designated as the plan administrator. The following description reflects the principal terms of the ICP.

General. The ICP provides for the grant, from time to time at the discretion of the Board of Directors of our General Partner or any applicable committee or delegate thereof, subject to applicable law, of unit awards, restricted units, phantom units, unit options, unit appreciation rights, distribution equivalent rights, profits interest units and other unit-based awards. The purpose of awards under the ICP is to provide additional incentive compensation to individuals providing services to us, and to align the economic interests of such individuals with the interests of our unitholders. The ICP limits the number of units that may be delivered pursuant to vested awards to 2,500,000 common units, subject to proportionate adjustment in the event of unit splits and similar events. Common units subject to awards that are canceled, forfeited, or otherwise terminated without delivery of the common units will be available for delivery pursuant to other awards. Common units canceled for payment of taxes will not be available for delivery pursuant to other awards.

Restricted Units and Phantom Units. A restricted unit is a common unit that is subject to forfeiture if the terms of vesting are not met. Upon vesting, the forfeiture restrictions lapse and the recipient holds a common unit that is not subject to forfeiture. A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or on a deferred basis upon specified future dates or events or, in the discretion of the plan administrator, cash equal to the fair market value of a common unit. The plan administrator may make grants of restricted and phantom units under the ICP that contain such terms, consistent with the ICP, as the administrator may determine are appropriate, including the period over which restricted or phantom units will vest. The plan administrator may, in its discretion, base vesting on the grantee's completion of a period of service or upon the achievement of specified financial objectives or other criteria or upon a change of control (as defined in the ICP) or as otherwise described in an award agreement. Distributions made by us with respect to awards of restricted units may be subject to the same vesting requirements as the restricted units.

Distribution Equivalent Rights. The plan administrator, in its discretion, may also grant distribution equivalent rights, either as stand-alone awards or in tandem with other awards. Distribution equivalent rights are rights to receive an amount in cash, restricted units or phantom units equal to all or a portion of the cash distributions made on units during the period in which an award remains outstanding.

Unit Options and Unit Appreciation Rights. The ICP also permits the grant of options covering common units. Unit options represent the right to purchase a number of common units at a specified exercise price. Unit appreciation rights represent the right to receive the appreciation in the value of a number of common units over a specified exercise price, either in cash or in common units. Unit options and unit appreciation rights may be granted to such eligible individuals and with such terms as the plan administrator may determine, consistent with the ICP; however, a unit option or unit appreciation right must have an exercise price equal to at least the fair market value of a common unit on the date of grant.

Unit Awards. Awards covering common units may be granted under the ICP with such terms and conditions, including restrictions on transferability, as the plan administrator may establish.

Profits Interest Units. Awards granted to grantees who are partners, or granted to grantees in anticipation of the grantee becoming a partner or granted as otherwise determined by the plan administrator, may consist of profits interest units. The plan administrator will determine the applicable vesting dates, conditions to vesting and restrictions on transferability and any other restrictions for profits interest awards.

Other Unit-Based Awards. The ICP may also permit the grant of "other unit-based awards," which are awards that, in whole or in part, are valued or based on or related to the value of a common unit. The vesting of another unit-based award may be based on a participant's continued service, the achievement of performance criteria or other measures. On vesting or on a deferred basis upon specified future dates or events, other unit-based awards may be paid in cash and/or in units (including restricted units), or any combination thereof as the plan administrator may determine.

Source of Common Units. Common units to be delivered with respect to awards may be newly issued units, common units acquired by us or our General Partner in the open market, common units already owned by our General Partner or us, common units acquired by our General Partner directly from us or any other person or any combination of the foregoing.

Anti-Dilution Adjustments and Change in Control. If an "equity restructuring" event occurs, and any adjustments to awards under the ICP with respect to such event were discretionary, the plan administrator will equitably adjust the number and type of units covered by each outstanding award and the terms and conditions of such award to equitably reflect the restructuring event, and the plan administrator will adjust the number and type of units with respect to which future awards may be granted under the ICP. With respect to other similar events, including, for example, a combination or exchange of units, a merger or consolidation or an extraordinary distribution of our assets to unitholders, that would not result in an accounting charge if adjustment to awards were discretionary, the plan administrator will have discretion to adjust awards in the manner it deems appropriate and to make equitable adjustments, if any, with respect to the number of units available under the ICP and the kind of units or other securities available for grant under the ICP. Furthermore, upon any such event, including a change in control of us or our General Partner, or a change in any law or regulation affecting the ICP or outstanding awards or any relevant change in accounting principles, the plan administrator will generally have discretion to (1) accelerate the time of exercisability or vesting or payment of an award, (2) require awards to be surrendered in exchange for a cash payment or substitute other rights or property for the award, (3) provide for the award to be assumed by a successor or one of its affiliates, with appropriate adjustments thereto, (4) cancel unvested awards without payment or (5) make other adjustments to awards as the plan administrator deems appropriate to reflect the applicable transaction or event.

Termination of Employment. The consequences of the termination of a grantee's employment, membership on our General Partner's Board of Directors or other service arrangement will generally be determined by the Compensation Committee in the terms of the relevant award agreement.

Amendment or Termination of ICP. The plan administrator, at its discretion, may terminate the ICP at any time with respect to the common units for which a grant has not previously been made. The ICP automatically terminates in July 2023. The plan administrator also has the right to alter or amend the ICP or any part of it from time to time or to amend any outstanding award made under the ICP, provided that no change in any outstanding award may be made that would materially impair the vested rights of the participant without the consent of the affected participant or result in taxation to the participant under Section 409A of the Internal Revenue Code.

Compensation Consultants
Our General Partner does not have a compensation committee, and its Board of Directors did not retain a compensation consultant in 2019.

Unit Ownership Requirements
Our General Partner does not have established unit ownership requirements.

Guidelines for Trading by Insiders
We maintain policies that govern trading in our units by the officers and directors of our General Partner who are required to report under Section 16 of the Exchange Act, as well as certain other employees who may have regular access to material non-public information about us. These policies include pre-approval requirements for all trades and periodic trading "black-out" periods designed with reference to our quarterly financial reporting schedule. We also require pre-approval of all trading plans adopted pursuant to Rule 10b5-1 promulgated under the Exchange Act. These policies also prohibit speculative transactions in our units that are designed to hedge the economic risks of unit ownership, as well as pledging our units.

Compensation Risk Assessment
The Compensation Committee oversees the risk assessment performed by Phillips 66 management of all elements of its compensation programs, policies and practices for all employees. A discussion of this risk assessment will be included in

the Compensation Discussion and Analysis section of Phillips 66's 2020 Proxy Statement, which will be available upon its filing on the SEC's website at *http://www.sec.gov*.

Chief Executive Officer Pay Ratio
Neither we nor our General Partner have any employees. As a result, we have no basis for disclosing the annual compensation and corresponding ratio as required under Item 402(u) of Regulation S-K.

Compensation Committee Interlocks and Insider Participation
As discussed above, the listing rules of the New York Stock Exchange (NYSE) do not require us to maintain, and we do not maintain, a compensation committee.

Compensation Committee Report
The independent directors of our General Partner (the Independent Directors) have reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Independent Directors recommended to the Board of Directors of our General Partner that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

The Independent Directors have submitted this Report to the Board of Directors as of February 21, 2020:

- P.D. (David) Bairrington
- Mark A. Haney
- Joseph W. O'Toole

Summary Compensation Table

The following table summarizes the compensation for our NEOs for fiscal years 2019, 2018 and 2017.

Name and Principal Position	Year	Salary[2]($)	Stock Awards[3] ($)	Stock Options[4] ($)	Non-Equity Incentive Compensation Plan[5] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[6] ($)	All Other Compensation[7]($)	Total ($)
Greg C. Garland, Chief Executive Officer[1]	2019	—	—	—	—	—	—	—
	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—
Kevin J. Mitchell, Vice President and Chief Financial Officer[1]	2019	—	—	—	—	—	—	—
	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—
Chukwuemeka A. Oyolu, Vice President and Controller[1]	2019	—	—	—	—	—	—	—
	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—
Rosy Zuklic, Vice President and Chief Operating Officer	2019	328,300	357,742	94,932	298,425	53,253	76,850	1,209,502
	2018	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—

[1] *Messrs. Garland, Mitchell and Oyolu devote a small portion of their overall working time to our business. The compensation these NEOs receive from Phillips 66 in relation to their services for us does not represent a material amount of their total compensation.*

[2] *Includes any amounts that were voluntarily deferred under Phillips 66's Key Employee Deferred Compensation Plan.*

[3] *Amounts shown represent the aggregate grant date fair value of awards determined in accordance with generally accepted accounting principles in the United States (GAAP) and reflect awards granted under Phillips 66's PSP and Phillips 66's Restricted Stock Program. These include awards that are expected to be finalized as late as 2021. Amounts shown relating to PSP are targets because target is the probable outcome for the applicable performance period, consistent with the accounting treatment under GAAP. If the maximum payout were used for the PSP awards the amounts shown relating to PSP would double, although the value of the actual payout would depend on the stock price at the time of the payout. If the minimum payout were used, the amounts for PSP awards would be reduced to zero. Actual payouts with regards to the targets set for the performance period that ended in 2019 were approved by the Compensation Committee at its February 2020 meeting. Earned payouts under the PSP 2019-2021 are expected to be made in cash at the end of the applicable performance period and will be forfeited if the NEO terminates prior to the end of the performance period (other than for death or following disability or after a change in control). If the NEO retires after age 55 and with five years of service, the NEO is entitled to a prorated award for any ongoing program in which he or she participated for at least 12 months.*

[4] *Amounts shown represent the aggregate grant date fair value of awards determined in accordance with GAAP and reflect awards granted under the Phillips 66 Stock Option Program.*

[5] *These are amounts paid under Phillips 66's annual bonus program (VCIP), including bonus amounts that were voluntarily deferred under the Key Employee Deferred Compensation Plan. These amounts were paid in February following the performance year.*

[6] *Reflects the actuarial increase in the present value of the benefits under Phillips 66's pension plans determined using interest rate and mortality rate assumptions consistent with those used in its financial statements. There are no Deferred Compensation Earnings reported in this column, as the nonqualified deferred compensation plans do not provide above-market or preferential earnings.*

[7] *Amounts shown represent company contributions under the Phillips 66 Matching Gift Program, company contributions made under our tax-qualified savings plan and non-qualified deferred compensation plan, costs associated with executive physicals, costs associated with financial counseling services with approved provider and occasionally, small gifts with associated tax protection (Ms. Zuklic: $66.09).*

Grants of Plan-Based Awards

The following table provides additional information about plan-based compensation disclosed in the Summary Compensation Table. The table only includes awards to Ms. Zuklic because she is the only NEO for whom we directly reimbursed Phillips 66 for compensation expenses.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[(2)]			Estimated Future Payouts Under Equity Incentive Plan Awards[(3)]						
Name	Grant Date[(1)]	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/sh)	Grant Date Fair Value of Stock and Option Awards[(4)] ($)
Ms. Zuklic		—	147,735	369,338	—	—	—	—	—	—	—
	2/5/2019	—	—	—	—	—	—	1,095	—	—	103,989
	2/5/2019	—	—	—	—	2,672	5,344	—	—	—	253,753
	2/5/2019	—	—	—	—	—	—	—	5,400	94.9675	94,932

(1) The grant date shown is the date on which the Compensation Committee approved the target awards.

(2) Threshold and maximum awards are based on the provisions in the VCIP. Actual awards earned can range from 0 to 200% of the target awards, with a further possible adjustment of +/- 50% of the target award depending on individual performance. The Compensation Committee retains the authority to make awards under the program and to use its judgment in adjusting awards, including making awards greater than the amounts shown in the table above, provided the award does not exceed amounts permitted under the 2013 Omnibus Stock and Performance Incentive Plan of Phillips 66. Actual payouts under the annual bonus program for 2019 are calculated using base salary earned in 2019 and reflected in the "Non-Equity Incentive Compensation Plan" column of the "Summary Compensation Table".

(3) Threshold and maximum awards are based on the provisions of the PSP. Actual awards earned can range from 0 to 200% of the target awards. Performance periods under the PSP cover a three-year period, and since a new three-year period commences each year, there could be three overlapping performance periods ongoing at any time. In 2019, targets were set for Ms. Zuklic with respect to an award for the three-year performance period beginning in 2019 and ending in 2021. The Compensation Committee retains the authority to make awards under the PSP using its judgment, including making awards greater than the maximum payout shown in the table above, provided the award does not exceed amounts permitted under the 2013 Omnibus Stock and Performance Incentive Plan of Phillips 66.

(4) For equity incentive plan awards, these amounts represent the grant date fair value at target level under the PSP as determined pursuant to GAAP. For Stock Option awards, these amounts represent the grant date fair value of the option awards using a Black-Scholes-Merton-based methodology. Actual value realized upon option exercise depends on market prices at the time of exercise. For other stock awards, these amounts represent the grant date fair value of the restricted stock unit awards determined pursuant to GAAP.

Outstanding Equity Awards at Fiscal Year End

We have not granted, and none of our NEOs have received any grants of, unit or unit-based awards and no such awards were outstanding as of December 31, 2019. We may make grants of unit and unit-based awards to our NEOs and other key employees under the ICP. See "Our Incentive Compensation Plan," for additional information.

Our NEOs have received and may continue to receive equity or equity-based awards in Phillips 66 under Phillips 66's equity compensation programs. The following table provides additional information about only Ms. Zuklic's outstanding equity awards in Phillips 66 as of December 31, 2019, because she is the only NEO for whom we reimbursed Phillips 66 for her compensation.

Name	Grant Date [(1)]	Option Awards [(2)]				Stock Awards			
		Number of Securities Underlying Unexercised Options Exercisable[(3)](#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested[(4)](#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested[(5)](#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Ms. Zuklic	2/7/2017	2,133	1,067	78.475	2/7/2027				
	2/6/2018	900	1,800	94.850	2/6/2028				
	2/5/2019	—	5,400	94.9675	2/5/2029				
						8,857	986,758	9,202	1,025,195

[(1)] The dates presented in this column represent the respective dates on which the awards were granted by Phillips 66.
[(2)] All options shown in the table have a maximum term for exercise of ten years from the grant date. Under certain circumstances, the terms for exercise may be shorter, and in certain circumstances, the options may be forfeited and canceled. All awards shown in the table have associated restrictions upon transferability.
[(3)] The options shown in this column vested and became exercisable in 2019 or prior years (although under certain termination circumstances, the options may still be forfeited). Options become exercisable in one-third increments on the first, second and third anniversaries of the grant date.
[(4)] These amounts include unvested restricted stock and restricted stock units. The awards have no voting rights, but do entitle the holder to receive dividend equivalents in cash. The value of the awards reflects the closing price of our stock, as reported on the NYSE, on December 31, 2019 ($111.41).
[(5)] Reflects potential awards from ongoing performance periods under the PSP for performance periods ending December 31, 2020, and December 31, 2021. These awards are shown at maximum; however, there is no assurance that awards will be granted at, below or above target after the end of the relevant performance periods, as the determination to make a grant and the amount of any grant is within the judgment of Phillips 66's Compensation Committee. Until an actual grant is made, these unearned awards pay no dividend equivalents. The value of these unearned awards reflects the closing price of Phillips 66's stock, as reported on the NYSE, on December 31, 2019 ($111.41).

Option Exercises and Stock Vested

The following table summarizes the value received from stock option exercises and stock grants vested during 2019 for Ms. Zuklic only because she is the only NEO for whom we reimbursed Phillips 66 for her compensation.

	Option Awards		Stock Awards[1]	
Name	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise($)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)
Ms. Zuklic	—	—	4,760	502,570

[1] Stock awards include restricted stock units that vested during the year, as well as the PSP 2017-2019 award that vested on December 31, 2019, and was paid out in cash in early 2020. The PSP award for Ms. Zuklic was 2,875 units valued at $324,098.

Pension Benefits

The following table lists the pension program participation and actuarial present value of only Ms. Zuklic's defined benefit pension as of December 31, 2019, because she is the only NEO for whom we reimbursed Phillips 66 for her compensation.

Name	Plan Name	Number of Years Credited Service[1](#)	Present Value of Accumulated Benefit($)	Payments During Last Fiscal Year($)
Ms. Zuklic	Phillips 66 Retirement Plan—Title II	18	132,529	—
	Phillips 66 Key Employee Supplemental Retirement Plan[2]	—	57,461	—

[1] Years of credited service include service recognized under the predecessor ConocoPhillips plans from which these plans were spun off effective May 1, 2012.
[2] The Phillips 66 Key Employee Supplemental Retirement Plan restores Company-sponsored benefits capped under the qualified defined benefit pension plan to Internal Revenue Code (IRC) limits. All employees, including Ms. Zuklic, are eligible to participate in the plan.

Nonqualified Deferred Compensation

The following table provides information on nonqualified deferred compensation of only Ms. Zuklic's defined benefit pension as of December 31, 2019, because she is the only NEO for whom we reimbursed Phillips 66 for her compensation.

Name	Beginning Balance($)	Executive Contribution in Last Fiscal Year($)	Registrant Contribution in Last Fiscal Year[2]($)	Aggregate Earnings in Last Fiscal Year[3]($)	Aggregate Withdrawals/Distributions($)	Aggregate Balance at Last Fiscal Year-End[4]($)
Ms. Zuklic[1]	365	—	45,100	3,165	—	48,630

[1] Ms. Zuklic participates in the Phillips 66 Defined Contribution Make-Up Plan (DCMP). As of December 31, 2019, participants in this plan had 36 investment options. 28 of the options were the same as those available in Phillips 66's 401(k) plan and the remaining options were other mutual funds approved by the plan administrator.
[2] These amounts represent Phillips 66's contributions under the DCMP. These amounts are also included in the "All Other Compensation" column of the "Summary Compensation Table".
[3] These amounts represent earnings on plan balances from January 1 to December 31, 2019. These amounts are not included in the "Summary Compensation Table".
[4] The total reflects contributions by Ms. Zuklic, contributions by us, and earnings on balances prior to 2019; plus contributions by Ms. Zuklic and earnings from January 1, 2019, through December 31, 2019 (shown in the appropriate columns of this table, with amounts that are included in the "Summary Compensation Table" shown in footnote 2 above).

Potential Payments upon Termination or Change-in-Control

The following table provides information about potential payments only to Ms. Zuklic upon termination or change-in-control assuming the occurrence of a triggering event on December 31, 2019, because she is the only NEO for whom we reimbursed Phillips 66 for her compensation.

Executive Benefits and Payments Upon Termination	Involuntary Not-for-Cause Termination (Not CIC)($)	Involuntary or Good Reason for Termination (CIC) ($)	Death($)	Disability($)
Severance payment	469,718	469,718	—	—
Accelerated equity[(1)]	1,712,737	1,729,599	1,712,737	1,712,737
Life insurance	—	—	328,296	—
	2,182,455	2,199,317	2,041,033	1,712,737

[(1)] *For the PSP, amounts for PSP 2017-2019 are shown based on the cash amount received in February 2020, while amounts for other periods are prorated to reflect the portion of the performance period completed by the end of 2019 and shown at target payout levels. These amounts reflect the closing price of Phillips 66 stock as reported on the NYSE on December 31, 2019 ($111.41). Restricted Stock and RSU amounts reflect the closing price of Phillips 66 stock as reported on the NYSE on December 31, 2019 ($111.41). For Stock Options with an exercise price lower than Phillips 66 stock's closing price on December 31, 2019, amounts reflect the intrinsic value as if the options had been exercised on December 31, 2019, but only for options the NEO would have retained for the specific termination event.*

Compensation of Our Directors

The officers or employees of our General Partner or of Phillips 66 who also serve as directors of our General Partner do not receive additional compensation for their service as a director of our General Partner. Directors of our General Partner who are not officers or employees of our General Partner or of Phillips 66, or independent directors, receive compensation as described below. In addition, independent directors are reimbursed for out-of-pocket expenses in connection with attending meetings of the Board of Directors or its committees. Each director will be indemnified for their actions associated with being a director to the fullest extent permitted under Delaware law.

Each of our General Partner’s independent directors receives an annual compensation package, which consists of $70,000 in annual cash compensation and $80,000 in annual equity-based compensation. In addition, the chairman of the Audit Committee and the chairman of the Conflicts Committee each receives an additional $15,000 in annual cash compensation and each member of the Conflicts Committee other than the Chairman receives a cash retainer of $10,000. Our Board of Directors periodically benchmarks our independent director compensation with a group of peer partnerships.

The equity portion of the independent directors’ compensation consists of phantom units granted under the ICP, which are subject to a three-year restriction period. The phantom units are expected to be granted in tandem with distribution equivalent rights and will be settled upon the expiration of the three-year restriction period. No deferral elections are expected to be permitted with respect to the equity-based portion of the annual compensation package. The cash portion of the annual compensation package is paid monthly, unless a timely election is made by the independent director to defer payment.

Non-Employee Director Compensation Table

The following table summarizes the compensation for our non-employee directors for 2019.

Name	Fees Earned or Paid in Cash[1] ($)	Unit Awards[2]($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation[3]($)	Total ($)
P.D. (David) Bairrington	80,000	80,029	—	—	—	13,000	173,029
Mark A. Haney	85,000	80,029	—	—	—	1,127	166,156
Joseph W. O’Toole	85,000	80,029	—	—	—	16,500	181,529

(1) *Reflects 2019 base cash compensation of $70,000 payable to each non-employee director and the applicable committee retainers. In 2019, non-employee directors serving in specified committee positions also received the additional cash compensation described above. Compensation amounts reflect adjustments related to various changes in committee assignments by board members through the year, if any. Amounts shown in the “Fees Earned or Paid in Cash” column include any amounts that were voluntarily deferred. No directors elected to defer their cash compensation in 2019.*

(2) *Amounts represent the grant date fair value of unit awards. In 2019, non-employee directors received a grant of phantom units valued at $80,000 on the date of grant based on the average of the high and low prices for Phillips 66 Partners LP units on the grant date. These grants are made in whole units with fractional units rounded up, resulting in units with a value of $80,029 being granted on January 15, 2019.*

(3) *“All Other Compensation” is made up primarily of certain gifts by directors to charities and educational institutions (excluding certain religious, political, fraternal, or athletic organizations) that are tax-exempt under Section 501(c)(3) of the IRC or meet similar requirements under the applicable law of other countries that we match under our Matching Gifts Program (Mr. Bairrington $13,000; and Mr. O’Toole $16,500). For active directors, the program matches up to $15,000 with regard to each program year. The amounts shown reflect the actual payments made by us in 2019, which due to processing delays can include contributions in 2018 that were matched by the Company in 2019 and therefore reported in 2019. “All Other Compensation” also includes any smaller gifts, such as books, ornaments and jackets, as well as associated tax protection (Mr. Haney $328).*

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The following table sets forth information about Phillips 66 Partners LP common units that may be issued under all existing equity compensation plans as of December 31, 2019.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights[1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[3]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	14,070 [2]	$ —	2,472,375
Equity compensation plans not approved by security holders	—	—	—
Total	14,070	$ —	2,472,375

[1] *Includes awards issued under the Incentive Compensation Plan (ICP).*
[2] *Includes 14,070 phantom units issued to non-employee directors that will be settled in cash upon lapsing of restrictions; however, the Partnership reserves the right to settle the phantom units with common units representing limited partner interests.*
[3] *There were no options outstanding under the ICP as of December 31, 2019.*

Security Ownership of Certain Beneficial Owners

The following table sets forth information regarding persons who we know to be the beneficial owners of more than 5% of our issued and outstanding common units and Series A preferred units as of February 14, 2020.

Name and Address	Common Units Beneficially Owned	Percentage of Common Units Beneficially Owned	Series A Preferred Units Beneficially Owned	Percentage of Series A Preferred Units Beneficially Owned
Phillips 66 Project Development Inc.[1] 2331 CityWest Blvd. Houston, TX 77042	169,760,137	74.4%	—	—
Tortoise Capital Advisors, L.L.C.[2] 11550 Ash Street Suite 300 Leawood, KS 66211	12,669,175	5.6%	—	—
Stonepeak Screwdriver SPV LLC[3] 717 5th Avenue New York, NY 10022	—	—	11,608,624	84.0%
FR XIII Pantheon Holdings, L.L.C.[4] One Lafayette Place Greenwich, CT 06830	—	—	1,842,639	13.3%

[1] *Phillips 66 is the parent company of Phillips 66 Company, which is the parent company of Phillips 66 Project Development Inc., the sole owner of the member interests of our General Partner. Phillips 66 and Phillips 66 Company may, therefore, be deemed to beneficially own the units held by Phillips 66 Project Development Inc.*
[2] *Based solely on an amendment to Schedule 13G filed with the SEC on February 14, 2020, by Tortoise Capital Advisors, L.L.C.*
[3] *Stonepeak Screwdriver Holdings, LLC is the managing member of Stonepeak Screwdriver SPV LLC. Stonepeak Infrastructure Fund II (AIV) LP is the managing member of Stonepeak Screwdriver Holdings, LLC. Stonepeak Associates II LLC is the general partner of Stonepeak Infrastructure Fund II (AIV) LP. Stonepeak GP Holdings II LP is the sole member of Stonepeak Associates II LLC. Stonepeak GP Investors II LLC is the general partner of Stonepeak GP Holdings II LP. Stonepeak GP Investors Manager LLC is the managing member of Stonepeak GP Investors II LLC. Each of Michael Dorrell and Trent Vichie serve as a managing member of Stonepeak GP Investors Manager LLC.*
[4] *FR XIII Pantheon Holdings Parent, L.L.C. is the managing member of FR XIII Pantheon Holdings, L.L.C. FR XIII Charlie AIV, L.P. is the sole member of FR XIII Pantheon Holdings Parent, L.L.C. First Reserve GP XIII, L.P. is the general partner of FR XIII Charlie AIV, L.P. First Reserve GP XIII Limited is the general partner of First Reserve GP XIII, L.P.*

Security Ownership of Directors and Executive Officers

The following table sets forth the beneficial ownership of common units of Phillips 66 Partners LP held by each director and named executive officer (NEO) of Phillips 66 Partners GP LLC, our General Partner, and by all directors and executive officers of our General Partner as a group as of February 14, 2020.

Name of Beneficial Owner*	Common Units Beneficially Owned	Percentage of Common Units Beneficially Owned
NEOs and Directors		
Greg C. Garland	35,000	**
Kevin J. Mitchell	10,000	**
Rosy Zuklic	7,500	**
Robert A. Herman	25,000	**
Timothy D. Roberts	—	**
Chukwuemeka A. Oyolu	5,000	**
Joseph W. O'Toole	35,000	**
Mark A. Haney	31,032	**
P.D. (David) Bairrington	12,253	**
All Directors and Executive Officers as a Group (9 Persons)	160,785	**

** Unless otherwise indicated, the address for all beneficial owners in this table is 2331 CityWest Blvd., Houston, Texas 77042.*
*** The beneficial ownership does not exceed 1% of the common units outstanding.*

The following table sets forth the number of shares of Phillips 66 common stock beneficially owned as of February 14, 2020, except as otherwise noted, by each director and NEO of our General Partner and by all directors and executive officers of our General Partner as a group.

Name of Beneficial Owner	Total Common Stock Beneficially Owned	Restricted/Deferred Stock Units[1]	Options Exercisable Within 60 Days[2]	Percentage of Total Outstanding
NEOs and Directors				
Greg C. Garland	512,367	100,094	932,466	**
Kevin J. Mitchell	41,452	33,525	119,232	**
Rosy Zuklic	202	17,609	5,999	**
Robert A. Herman	35,701	69,528	134,533	**
Timothy D. Roberts	7,645	22,864	86,866	**
Chukwuemeka A. Oyolu	14,784	13,248	31,333	**
Joseph W. O'Toole	—	—	—	—
Mark A. Haney	—	—	—	—
P.D. (David) Bairrington	—	—	—	—
All Directors and Executive Officers as a Group (9 Persons)	612,151	256,868	1,310,429	**

[1] Includes restricted or deferred stock units that may be voted or sold only upon passage of time.
[2] Includes beneficial ownership of shares of common stock that may be acquired within 60 days of February 14, 2020, through stock options awarded under compensation plans.
*** The beneficial ownership does not exceed 1% of the common stock outstanding.*

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

At December 31, 2019, our General Partner, Phillips 66 Partners GP LLC, and its affiliates owned 169,760,137 common units, representing approximately 74% of our total outstanding common units, and approximately 70% of our total outstanding common units and Series A preferred units (on an as-converted basis) in the aggregate.

Distributions and Payments to Our General Partner and Its Affiliates

The following table summarizes the distributions and payments to be made by us to our General Partner and its affiliates in connection with the ongoing operations and liquidation of Phillips 66 Partners LP. These distributions and payments were determined by and among affiliated entities and, consequently, are not the result of arm's-length negotiations.

Operational Stage	
Distributions of available cash to our General Partner and its affiliates	We generally make cash distributions to the unitholders pro rata, including Phillips 66 Project Development Inc., as a holder of 169,760,137 common units.
Payments to our General Partner and its affiliates	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 and restated operational services agreement and tax sharing agreement, our General Partner determines the amount of these expenses and such determinations must be made in good faith under the terms of our partnership agreement. Under our amended omnibus agreement, we reimburse Phillips 66 for expenses incurred by Phillips 66 and its affiliates in providing certain operational support and general and administrative services to us, including the provision of executive management services by certain officers of our General Partner. The expenses of other employees are allocated to us based on the amount of time actually spent by those employees on our business. These reimbursable expenses also include an allocable portion of the compensation and benefits of employees and executive officers of other affiliates of our General Partner who provide services to us. We also reimburse Phillips 66 for any additional out-of-pocket costs and expenses incurred by Phillips 66 and its affiliates in providing general and administrative services to us. 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. Under our amended and restated operational services agreement, we pay Phillips 66 for any direct costs actually incurred by Phillips 66 in providing our pipelines, terminals, processing and storage facilities with certain maintenance, operational, administrative and construction services. Under our tax sharing agreement, we 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 with respect to taxable periods on or after the completion of our initial public offering in 2013.
Withdrawal or removal of our General Partner	If our General Partner withdraws or is removed, its general partner interest will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests.
Liquidation Stage	
Liquidation	Upon our liquidation, the partners will be entitled to receive liquidating distributions according to their respective capital account balances.

Transactions and Commercial and Other Agreements with Phillips 66 and Related Parties
See “2019 Developments” in Items 1 and 2. Business and Properties, for a description of our transactions and related agreements with Phillips 66 in 2019. See the “Commercial Agreements,” “Amended and Restated Operational Services Agreement,” “Amended Omnibus Agreement” and “Tax Sharing Agreement” sections of Note 16—Related Party Transactions, in the Notes to Consolidated Financial Statements, for summaries of the terms of these and other agreements with Phillips 66.

Procedures for Review, Approval and Ratification of Related Person Transactions
The Board of Directors of our General Partner adopted a related person transactions policy that provides that the Board of Directors of our General Partner or its authorized committee will review on at least a quarterly basis all related person transactions that are required to be disclosed under the SEC rules and, when appropriate, initially authorize or ratify all such transactions. In the event that the Board of Directors of our General Partner or its authorized committee considers ratification of a related person transaction and determines not to so ratify, the code of business conduct and ethics provides that our management will make all reasonable efforts to cancel or annul the transaction.

The related person transactions policy provides that, in determining whether or not to recommend the initial approval or ratification of a related person transaction, the Board of Directors of our General Partner or its authorized committee should consider all of the relevant facts and circumstances available, including (if applicable) but not limited to: (1) whether there is an appropriate business justification for the transaction; (2) the benefits that accrue to us as a result of the transaction; (3) the terms available to unrelated third parties entering into similar transactions; (4) the impact of the transaction on a director’s independence (in the event the related person is a director, an immediate family member of a director or an entity in which a director or an immediate family member of a director is a partner, shareholder, member or executive officer); (5) the availability of other sources for comparable products or services; (6) whether it is a single transaction or a series of ongoing, related transactions; and (7) whether entering into the transaction would be consistent with the code of business conduct and ethics.

Director Independence
See Item 10. Directors, Executive Officers and Corporate Governance, for information on director independence required by Item 407(a) of Regulation S-K.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table presents fees for the years ended December 31, 2019 and 2018, for professional services performed by our independent registered public accounting firm, Ernst & Young LLP (EY).

	Millions of Dollars	
	2019	2018
Fees		
Audit fees(1)	$ **1.3**	1.3
Audit-related fees	**—**	—
Tax fees	**—**	—
All other fees	**—**	—
Total	$ **1.3**	1.3

[(1)] *Fees for audit services related to the fiscal year consolidated audit, quarterly reviews and registration statements.*

The Audit Committee has adopted a pre-approval policy that provides guidelines for the audit, audit-related, tax and other non-audit services that may be provided by EY to the Partnership. All of the fees in the table above were approved in accordance with this policy. The policy (a) identifies the guiding principles that must be considered by the Audit Committee in approving services to ensure that EY's independence is not impaired; (b) describes the audit, audit-related, tax and other services that may be provided and the non-audit services that are prohibited; and (c) sets forth pre-approval requirements for all permitted services. Under the policy, all services to be provided by EY must be pre-approved by the Audit Committee. The Audit Committee has delegated authority to approve permitted services to the Audit Committee's Chair. Such approval must be reported to the entire Audit Committee at the next scheduled Audit Committee meeting.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements and Supplementary Data
The financial statements and supplementary data listed in the Index to Financial Statements, which appears on page 56, are filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedules
Financial statement schedules are omitted because they are not required, not significant, not applicable or the information is shown in the Financial Statements or the Notes to Consolidated Financial Statements.

3. Exhibits
The exhibits listed in the Index to Exhibits, which appears on pages 120 to 122, are filed as part of this Annual Report on Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

PHILLIPS 66 PARTNERS LP

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	**Exhibit Number**	**Filing Date**	**SEC File No.**
3.1	Certificate of Limited Partnership of Phillips 66 Partners LP.	S-1	3.1	3/27/2013	333-187582
3.2	Amendment to Certificate of Limited Partnership, dated October 5, 2017.	8-K	3.1	10/10/2017	001-36011
3.3	Third Amended and Restated Agreement of Limited Partnership of Phillips 66 Partners LP dated as of August 1, 2019.	8-K	3.1	8/1/2019	001-36011
4.1	Registration Rights Agreement dated as of October 6, 2017 by and among Phillips 66 Partners LP and the Purchasers party thereto.	8-K	4.1	10/10/2017	001-36011
4.2*	Description of Phillips 66 Partners L.P.'s securities.				
	As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the partnership has not filed with this Annual Report on Form 10-K certain instruments defining the rights of holders of long-term debt of the partnership and its subsidiaries because the total amount of securities authorized thereunder does not exceed 10% of the total assets of the partnership and its subsidiaries on a consolidated basis. The partnership agrees to furnish a copy of such agreements to the Commission upon request.				
10.1	Amended and Restated Credit Agreement dated as of July 30, 2019, among Phillips 66 Partners Holdings LLC, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	8-K	10.1	8/1/2019	001-36011
10.2	Omnibus Agreement dated as of July 26, 2013, by and among Phillips 66 Company, Phillips 66 Pipeline LLC, Phillips 66 Partners LP, Phillips 66 Partners Holdings LLC, Phillips 66 Carrier LLC, and Phillips 66 Partners GP LLC.	8-K	10.2	7/30/2013	001-36011
10.3	First Amendment to the Omnibus Agreement, dated as of February 28, 2014, by and among Phillips 66 Company, on behalf of itself and the other Phillips 66 Entities (as defined in the Omnibus Agreement), Phillips 66 Pipeline LLC, Phillips 66 Partners LP, Phillips 66 Partners Holdings LLC, Phillips 66 Carrier LLC and Phillips 66 Partners GP LLC.	8-K	10.1	3/3/2014	001-36011
10.4	Second Amendment to the Omnibus Agreement, dated as of December 1, 2014, by and among Phillips 66 Company, on behalf of itself and the other Phillips 66 Entities (as defined in the Omnibus Agreement), Phillips 66 Pipeline LLC, Phillips 66 Partners LP, Phillips 66 Partners Holdings LLC, Phillips 66 Carrier LLC and Phillips 66 Partners GP LLC.	8-K	10.1	12/2/2014	001-36011
10.5	Third Amendment to the Omnibus Agreement, dated as of March 2, 2015, by and among Phillips 66 Company, on behalf of itself and the other Phillips 66 Entities (as defined in the Omnibus Agreement), Phillips 66 Pipeline LLC, Phillips 66 Partners LP, Phillips 66 Partners Holdings LLC, Phillips 66 Carrier LLC and Phillips 66 Partners GP LLC.	8-K	10.1	3/2/2015	001-36011

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	Exhibit Number	Filing Date	SEC File No.
10.6	Fourth Amendment to the Omnibus Agreement, dated as of March 1, 2016, by and among Phillips 66 Company, on behalf of itself and the other Phillips 66 Entities (as defined in the Omnibus Agreement), Phillips 66 Pipeline LLC, Phillips 66 Partners LP, Phillips 66 Partners Holdings LLC, Phillips 66 Carrier LLC and Phillips 66 Partners GP LLC.	8-K	10.1	3/1/2016	001-36011
10.7	Fifth Amendment to the Omnibus Agreement, dated as of October 14, 2016, by and among Phillips 66 Partners LP, Phillips 66 Partners GP LLC, Phillips 66 Company, Phillips 66 Pipeline LLC, Phillips 66 Partners Holdings LLC, and Phillips 66 Carrier LLC.	8-K	10.1	10/17/2016	001-36011
10.8	Sixth Amendment to the Omnibus Agreement, dated as of January 11, 2017, by and among Phillips 66 Partners LP, Phillips 66 Partners GP LLC, Phillips 66 Company, Phillips 66 Pipeline LLC, Phillips 66 Partners Holdings LLC, and Phillips 66 Carrier LLC.	10-K	10.19	2/17/2017	001-36011
10.9	Seventh Amendment to the Omnibus Agreement, dated as of October 1, 2017, by and among Phillips 66 Partners LP, Phillips 66 Partners GP LLC, Phillips 66 Company, Phillips 66 Pipeline LLC, Phillips 66 Partners Holdings LLC, and Phillips 66 Carrier LLC.	8-K	10.1	10/10/2017	001-36011
10.10	Amended and Restated Operational Services Agreement, dated as of October 1, 2017, by and among Phillips 66 Carrier LLC, Phillips 66 Partners Holdings LLC, and Phillips 66 Pipeline LLC.	8-K	10.2	10/10/2017	001-36011
10.11	First Amendment to the Amended and Restated Operational Services Agreement, dated as of May 30, 2018, by and among Phillips 66 Carrier LLC, Phillips 66 Partners Holdings LLC, and Phillips 66 Pipeline LLC.	10-Q	10.1	07/27/2018	001-36011
10.12	Tax Sharing Agreement dated as of July 26, 2013, between Phillips 66 and Phillips 66 Partners LP.	8-K	10.9	7/30/2013	001-36011
10.13	Natural Gas Liquids Storage Agreement (Clemens Facility), dated March 1, 2016, by and between Phillips 66 Sweeny Frac LLC and Phillips 66 Company.	8-K	10.4	3/1/2016	001-36011
10.14	Fractionation Agreement, dated March 1, 2016, by and between Phillips 66 Sweeny Frac LLC and Phillips 66 Company.	8-K	10.3	3/1/2016	001-36011
10.15*	Amendment No. 1 to Fractionation Agreement, dated December 11, 2019, by and between Phillips 66 Sweeny Frac LLC and Phillips 66 Company.				
10.16†	Amended and Restated Tolling Services Agreement, dated as of October 1, 2017, by and between Merey Sweeny, L.P. and Phillips 66 Company.	8-K	10.3	10/10/2017	001-36011
10.17**	Phillips 66 Partners LP 2013 Incentive Compensation Plan.	8-K	10.1	7/26/2013	001-36011
10.18**	Phillips 66 Partners GP LLC Deferred Compensation Plan for Non-Employee Directors.	10-Q	10.12	8/20/2013	001-36011

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	Exhibit Number	Filing Date	SEC File No.
10.19**	Form of Phantom Unit Award Agreement for Non-Employee Directors under the Phillips 66 Partners LP 2013 Incentive Compensation Plan.	10-Q	10.13	8/20/2013	001-36011
21*	List of Subsidiaries of Phillips 66 Partners LP.				
23.1*	Consent of Ernst & Young LLP, independent registered public accounting firm.				
23.2*	Consent of Deloitte & Touche LLP, independent registered public accounting firm.				
23.3*	Consent of Grant Thornton, independent registered public accounting firm.				
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
32*	Certifications pursuant to 18 U.S.C. Section 1350.				
101.INS*	Inline XBRL Instance Document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document.				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

* Filed herewith.

** Compensatory plan or arrangement.

† Confidential treatment has been requested for certain portions of this Exhibit pursuant to a confidential treatment request filed with the Securities and Exchange Commission on October 10, 2017. Such portions have been omitted and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHILLIPS 66 PARTNERS LP

By: Phillips 66 Partners GP LLC, its general partner

Date: February 21, 2020

/s/ Greg C. Garland

Greg C. Garland
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below, as of February 21, 2020, by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ Greg C. Garland *Greg C. Garland*	Chairman of the Board of Directors and Chief Executive Officer (Principal executive officer) Phillips 66 Partners GP LLC
/s/ Kevin J. Mitchell *Kevin J. Mitchell*	Director, Vice President and Chief Financial Officer (Principal financial officer) Phillips 66 Partners GP LLC
/s/ Chukwuemeka A. Oyolu *Chukwuemeka A. Oyolu*	Vice President and Controller (Principal accounting officer) Phillips 66 Partners GP LLC

/s/ P.D. Bairrington	Director
P.D. (David) Bairrington	Phillips 66 Partners GP LLC
/s/ Mark A. Haney	Director
Mark A. Haney	Phillips 66 Partners GP LLC
/s/ Robert A. Herman	Director
Robert A. Herman	Phillips 66 Partners GP LLC
/s/ Joseph W. O'Toole	Director
Joseph W. O'Toole	Phillips 66 Partners GP LLC
/s/ Timothy D. Roberts	Director
Timothy D. Roberts	Phillips 66 Partners GP LLC

Exhibit 4.2

DESCRIPTION OF PHILLIPS 66 PARTNERS LP'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

DESCRIPTION OF COMMON UNITS

Our common units represent limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and are entitled to exercise the rights and privileges available to limited partners under our partnership agreement, which has been filed as an exhibit to the Form 10-K to which this Exhibit 4.2 is also filed. For a description of the relative rights and preferences of holders of common units in and to partnership distributions, please read "Provisions of our Partnership Agreement Relating to Cash Distributions." For a description of the rights and privileges of holders of common units under the partnership agreement, including voting rights, please read "Our Partnership Agreement." All references to "Phillips 66 Partners," "PSXP," "the Partnership," "us," "our," "we" or similar expressions, refer to Phillips 66 Partners LP, including its consolidated subsidiaries. References to our "general partner," refer to Phillips 66 Partners GP LLC.

Our common units are listed on the New York Stock Exchange under the symbol "PSXP."

Transfer of Common Units

Upon the transfer of a common unit in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission are reflected in our books and records. Each transferee:

- automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement;
- represents and warrants that the transferee has the right, power, authority, and capacity to enter into our partnership agreement; and
- gives the consents, waivers and approvals contained in our partnership agreement.

Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder's rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and any transfers are subject to the laws governing the transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a substituted limited partner in our partnership for the transferred common units.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the common unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

PROVISIONS OF OUR PARTNERSHIP AGREEMENT RELATING TO CASH DISTRIBUTIONS

Set forth below is a summary of the significant provisions of our partnership agreement that relate to cash distributions.

Distributions of Available Cash

General

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 (other than holders of Series A preferred units, who are entitled to receive distributions as described under "Series A preferred unit distributions" below) on the applicable record date.

Definition of available cash

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, future acquisitions, anticipated future debt service requirements and refunds of collected rates reasonably likely to be refunded as a result of a settlement or hearing related to FERC rate proceedings or rate proceedings under applicable law subsequent to that quarter);
  - comply with applicable law, any of our or our subsidiaries' debt instruments or other agreements; or
  - 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 $0.2125 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.

The purpose and effect of the last bullet point above is to allow our general partner, if it so decides, to use cash from working capital borrowings made after the end of the quarter but on or before the date of determination of available cash for that quarter to pay distributions to unitholders. Under our partnership agreement, working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within 12 months with funds other than from additional working capital borrowings.

Distributions on Series A Preferred Units

We have outstanding Series A preferred units that have the right to receive cumulative distributions prior to any other distributions made in respect of any other partnership interests in us in the amounts described herein. Commencing with the quarter that ended on December 31, 2017 and continuing through the applicable Series A conversion date, the record holder of each Series A preferred unit as of an applicable record date for each quarter will be entitled to receive cumulative distributions in respect of such quarter equal to the sum of (1) the Series A Distribution Amount (as defined below) for such quarter and (2) any previously accrued but unpaid distributions with respect to such Series A preferred unit. If we fail to pay in full the Series A Distribution Amount, the amount of the unpaid portion of the Series A Distribution Amount will continue to accrue and accumulate until such amount is paid in full, and shall be paid to the Series A preferred unitholders before any distribution can be made to holders of any class or series of partnership interests ranking junior to the Series A preferred units or holders of Series A Parity Securities (as defined below), including our common unitholders (with respect to the common units).

As used herein, "Series A Distribution Amount" means (1) with respect to any quarter ending on or before September 30, 2020, an amount per Series A preferred unit equal to $0.678375 for such quarter, and (2) with respect to any quarter ending after September 30, 2020, an amount per quarter per Series A preferred unit equal to the greater of (a) $0.678375 and (b) an amount equal to the distributions that would have been payable with respect to such Series A preferred unit if such Series A preferred unit had converted immediately prior to the record date for such quarter in respect of which such distributions are being paid into the number of common units into which such Series A preferred unit would be convertible at the then applicable conversion rate.

Distributions of Cash upon Liquidation

General

If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. Next, we will distribute proceeds to the holders of the Series A preferred units, prior and in preference to any distribution of remaining proceeds to the unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to cause the capital accounts of the holders to reflect the different distributions intended for the different classes of units, and, in particular, to implement any intended preference in liquidation to the holders of Series A preferred units over the capital accounts of holders of common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units or other partnership units to fully recover these amounts, even though there may be cash available for distribution.

Any cash or cash equivalents available for distribution upon liquidation shall be distributed to the holders of the Series A preferred units up to the positive balances of their capital accounts prior to any distribution of cash or cash equivalents to the holders of common units.

Manner of adjustments for gain

The manner of the adjustment for gain is set forth in our partnership agreement. We will allocate any gain to our partners in the following manner:

- *first*, to the Series A preferred unitholders, pro rata, until the capital account for each Series A preferred unit is equal to the Series A issue price of $54.27, plus the amount of unpaid cash distributions on the Series A preferred units;
- *second,* to our general partner to the extent of any negative balance in its capital account; and
- *thereafter*, to all common unitholders, pro rata.

The preceding discussion is based on the assumption that we do not issue additional classes of equity securities.

Manner of adjustments for losses

After making allocations of loss to our general partner and the unitholders (other than Series A preferred unitholders) in a manner intended to offset the reverse order of allocations of gains that have previously been allocated, we will generally allocate any loss to our general partner and unitholders in the following manner:

- *first*, to the holders of common units in proportion to the positive balances in their capital accounts, until the capital accounts of the common unitholders have been reduced to zero;
- *second,* to the Series A preferred unitholders, to the extent of and in proportion to the positive balances in their capital accounts; and
- *thereafter*, 100% to our general partner.

The preceding discussion is based on the assumption that we do not issue additional classes of equity securities.

Adjustments to capital accounts

Our partnership agreement requires that we make adjustments to capital accounts upon the issuance of additional units. In this regard, our partnership agreement specifies that we allocate any unrealized and, for tax purposes, unrecognized gain resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, our partnership agreement requires that we generally allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner that results, to the extent possible, in the partners' capital account balances equaling the amount that they would have been if no earlier positive adjustments to the capital accounts had been made. In contrast to the allocations of gain, and except as provided above, we generally will allocate any unrealized and unrecognized loss resulting from the adjustments to capital accounts upon the issuance of additional units to the unitholders and our general partner based on their respective percentage ownership of us. If we make negative adjustments to the capital accounts as a result of such loss, future positive adjustments resulting from the issuance of additional units will be allocated in a manner designed to reverse the prior negative adjustments, and special allocations will be made upon liquidation in a manner that results, to the extent possible, in our unitholders' capital account balances equaling the amounts they would have been if no earlier adjustments for loss had been made.

OUR PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement that relate to ownership of our common units.

Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described below under "—Limited Liability."

Voting Rights

The following is a summary of the unitholder vote required for the matters specified below. Matters that require the approval of a "unit majority" require the approval of a majority of the outstanding common units, and, to the extent outstanding, the Series A preferred units, voting together with the common units as a single class on an as-converted basis (whether or not the Series A preferred units are convertible as of such time). Except as provided in our partnership agreement, the outstanding Series A preferred units will have voting rights identical to the voting rights of the common units and will vote with the common units as a single class, so that each outstanding Series A preferred unit will be entitled to one vote for each common unit into which such Series A preferred unit would be converted at the then applicable conversion rate (regardless of whether the Series A preferred units are then convertible) on each matter with respect to which each common unit is entitled to vote. In addition, the affirmative vote of the Series A Required Voting Percentage (as defined below) will be necessary to amend our partnership agreement or our certificate of limited partnership (including by merger or otherwise) in a manner that is adverse (other than in a *de minimis* manner) to any of the rights, preferences and privileges of the Series A preferred units. In addition, the partnership shall not declare or pay any distribution from capital surplus without the affirmative vote of 66 2/3% of the outstanding Series A preferred units (the "Series A Required Voting Percentage").

In voting their common units, our general partner and its affiliates will have no duty or obligation whatsoever to us or the limited partners, including any duty to act in the best interests of us or the limited partners, other than the implied contractual covenant of good faith and fair dealing.

Issuance of additional units	No common unitholder approval rights. The Series A Required Voting Percentage is required for issuances of any class or series of partnership interests in us that, with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up, ranks senior to the Series A preferred units ("Series A Senior Securities") or, subject to certain limitations, any class or series of partnership interests in us that, with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up, ranks *pari passu* with the Series A preferred units ("Series A Parity Securities") (with certain limited exceptions) or additional Series A preferred units.
Amendment of our partnership agreement	Certain amendments may be made by our general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. Amendments that would be adverse (other than in a *de minimis* manner) to any of the rights, preferences and privileges of the Series A preferred units require the approval of the Series A Required Voting Percentage. Please read "—Amendment of Our Partnership Agreement."
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority. Please read "—Merger, Consolidation, Conversion, Sale or Other Disposition of Assets."
Dissolution of our partnership	Unit majority. Please read "—Termination and Dissolution."
Continuation of our business upon dissolution	Unit majority. Please read "—Termination and Dissolution."
Withdrawal of our general partner	Under most circumstances, the approval of unitholders holding at least a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, excluding units held by our general partner and its affiliates, is required for the withdrawal of our general partner prior to September 30, 2023, in a manner that would cause a dissolution of our partnership. Please read "—Withdrawal or Removal of Our General Partner."
Removal of our general partner	Not less than 66 2/3% of the outstanding common and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, including units held by our general partner and its affiliates. Please read "—Withdrawal or Removal of Our General Partner."
Transfer of our general partner interest	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets to, such person. The approval of a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, excluding units held by our general partner and its affiliates, is required in other circumstances for a transfer of our general partner interest to a third party prior to September 30, 2023. Please read "—Transfer of General Partner Interest."
Transfer of ownership interests in our general partner	No approval right. Please read "—Transfer of Ownership Interests in Our General Partner."

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Revised Uniform Limited Partnership Act, or the Delaware Act, and that it otherwise acts in conformity with the provisions of our partnership agreement, its liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital it is obligated to contribute to us for its common units plus its share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace our general partner;
- to approve some amendments to our partnership agreement; or
- to take other action under our partnership agreement;

constituted "participation in the control" of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as our general partner. This liability would extend to persons who transact business with us who reasonably believe that a limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their limited partner interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited is included in the assets of the limited partnership only to the extent that the fair value of that property exceeds that liability. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, a substituted limited partner of a limited partnership is liable for the obligations of its assignor to make contributions to the partnership, except that such person is not obligated for liabilities unknown to it at the time it became a limited partner and that could not be ascertained from the partnership agreement.

Our subsidiaries conduct business in several states and we may have subsidiaries that conduct business in other states in the future. Maintenance of our limited liability as a member of our operating company may require compliance with legal requirements in the jurisdictions in which our operating company conducts business, including qualifying our subsidiaries to do business there.

Limitations on the liability of members or limited partners for the obligations of a limited liability company or limited partnership have not been clearly established in many jurisdictions. If, by virtue of our ownership interests in our operating subsidiaries or otherwise, it were determined that we were conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted "participation in the control" of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership interests for the consideration and on the terms and conditions determined by our general partner without the approval of the unitholders, provided that the approval of the Series A Required Voting Percentage is required prior to the issuance of any Series A Senior Securities, Series A Parity Securities (subject to certain exceptions) or Series A preferred units.

It is possible that we will fund acquisitions through the issuance of additional common units or other partnership interests. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership interests that, as determined by our general partner, may have special voting rights to which the common units are not entitled. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of equity interests, which may effectively rank senior to the common units.

Our general partner has the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other partnership interests whenever, and on the same terms that, we issue those interests to persons other than our general partner and its affiliates, to the extent necessary to maintain the percentage interest of our general partner and its affiliates, including such interest represented by common units, that existed immediately prior to each issuance. The other holders of common units will not have preemptive rights to acquire additional common units or other partnership interests.

Amendment of Our Partnership Agreement

General

Amendments to our partnership agreement may be proposed only by our general partner. However, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any duty or obligation whatsoever to us or our limited partners, including any duty to act in the best interests of us or the limited partners, other than the implied contractual covenant of good faith and fair dealing. In order to adopt a proposed amendment, other than the amendments discussed below, our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by the holders of at least a unit majority. In addition, any amendment that is adverse (other than in a *de minimis* manner) to any of the rights, preferences and privileges of the Series A preferred units must be approved by the affirmative vote of the Series A Required Voting Percentage.

Prohibited amendments

No amendment may be made that would, among other actions:

- enlarge the obligations of any limited partner without its consent, unless such is deemed to have occurred as a result of an amendment approved by at least a majority of the type or class of limited partner interests so affected; or

- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without its consent, which consent may be given or withheld at its option.

The provisions of our partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting together as a single class (including units owned by our general partner and its affiliates). As of December 31, 2019, our general partner and its affiliates own approximately 74% of our total outstanding common units and approximately 70% of the combined number of outstanding common units and Series A preferred units (on an as-converted basis at the then-applicable conversion rate).

No unitholder approval

Subject to the right of the holders of Series A preferred units to approve by the consent of the Series A Required Voting Percentage any amendment that is adverse (other than in a *de minimis* manner) to any of the rights, preferences and privileges of the Series A preferred units, our general partner may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

- a change in our name, the location of our principal office, our registered agent or our registered office;
- the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;
- a change that our general partner determines to be necessary or appropriate to qualify or continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we nor any of our subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;
- an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents or trustees from, in any manner, being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or “plan asset” regulations adopted under the Employee Retirement Income Security Act of 1974 (“ERISA”), each as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the U.S. Department of Labor;
- an amendment that our general partner determines to be necessary or appropriate in connection with the authorization or issuance of additional partnership interests;
- any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;
- an amendment effected, necessitated or contemplated by a merger agreement or plan of conversion that has been approved under the terms of our partnership agreement;
- any amendment that our general partner determines to be necessary or appropriate to reflect and account for the formation by us of, or our investment in, any corporation, partnership or other entity, in connection with our conduct of activities permitted by our partnership agreement;
- a change in our fiscal year or taxable year and any other changes that our general partner determines to be necessary or appropriate as a result of such change;
- mergers with, conveyances to or conversions into another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the merger, conveyance or conversion other than those it receives by way of the merger, conveyance or conversion; or
- any other amendments substantially similar to any of the matters described in the clauses above.

In addition, subject to the right of the holders of Series A preferred units to approve by the consent of the Series A Required Voting Percentage any amendment that is adverse (other than in a de minimis manner) to any of the rights, preferences and privileges of the Series A preferred units, our general partner may make amendments to our partnership agreement without the approval of any limited partner if our general partner determines that those amendments:

- do not adversely affect in any material respect the limited partners considered as a whole or any particular class of partnership interests as compared to other classes of partnership interests;
- are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;
- are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed or admitted to trading;
- are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units under the provisions of our partnership agreement; or
- are required to effect the intent expressed herein or the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

Opinion of counsel and unitholder approval

For amendments of the type not requiring unitholder approval, our general partner will not be required to obtain an opinion of counsel to the effect that an amendment will not affect the limited liability of any limited partner under Delaware law. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, unless we first obtain such an opinion of counsel.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of partnership interests in relation to other classes of partnership interests will require the approval of at least a majority of the type or class of partnership interests so affected. Any amendment that would reduce the percentage of units required to take any action, other than to remove our general partner or call a meeting of unitholders, must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the percentage sought to be reduced. Any amendment that would increase the percentage of units required to remove our general partner must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than 90% of outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class. Any amendment that would increase the percentage of units required to call a meeting of unitholders must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute at least a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate).

Merger, Consolidation, Conversion, Sale or Other Disposition of Assets

A merger, consolidation or conversion of our partnership requires the prior consent of our general partner. However, our general partner will have no duty or obligation to consent to any merger, consolidation or conversion and may decline to do so free of any duty or obligation whatsoever to us or the limited partners, including any duty to act in the best interest of us or the limited partners, other than the implied contractual covenant of good faith and fair dealing.

In addition, our partnership agreement generally prohibits our general partner, without the prior approval of the holders of at least a unit majority, from causing us to, among other things, sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions. Our general partner may, however, mortgage, pledge, hypothecate, or grant a security interest in all or substantially all of our assets without that approval. Our general partner may also sell any or all of our assets under a foreclosure or other realization upon those encumbrances without that approval. Finally, our general partner may consummate any merger with another limited liability entity without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction would not result in an amendment to our partnership agreement requiring unitholder approval, each of our units will be an identical unit of our partnership following the transaction and the partnership interests to be issued by us in such merger do not exceed 20% of our outstanding partnership interests immediately prior to the transaction.

If the conditions specified in our partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity if the sole purpose of that conversion, merger or conveyance is to effect a mere change in our legal form into another limited liability entity, our general partner has received an opinion of counsel regarding limited liability and tax matters, and our general partner determines that the governing instruments of the new entity provide the limited partners and our general partner with the same rights and obligations as contained in our partnership agreement. The unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets or any other similar transaction or event.

Termination and Dissolution

We will continue as a limited partnership until dissolved and terminated under our partnership agreement. We will dissolve upon:

- the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or withdrawal or removal followed by approval and admission of a successor;
- the election of our general partner to dissolve us, if approved by the holders of units representing a unit majority;
- the entry of a decree of judicial dissolution of our partnership; or
- there being no limited partners, unless we are continued without dissolution in accordance with the Delaware Act.

Upon a dissolution under the first clause above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of units representing a unit majority, subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability of any limited partner; and
- neither our partnership nor any of our subsidiaries would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate to, liquidate our assets and apply the proceeds of the liquidation as described in "Provisions of Our Partnership Agreement Relating to Cash Distributions—Distributions of Cash Upon Liquidation." The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

Withdrawal or Removal of Our General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to September 30, 2023, without obtaining the approval of the holders of at least a unit majority, excluding units held by our general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after September 30, 2023, our general partner may withdraw as general partner without first obtaining approval of any unitholder by giving 90 days' written notice, and that withdrawal will not constitute a violation of our partnership agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days' written notice to the limited partners if at least 50% of the outstanding units are held or controlled by one person and its affiliates other than our general partner and its affiliates. In addition, our partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. Please read "—Transfer of General Partner Interest."

Upon voluntary withdrawal of our general partner by giving notice to the other partners, the holders of a unit majority may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within a specified period after that withdrawal, the holders of a unit majority agree to continue our business by appointing a successor general partner. Please read "—Termination and Dissolution."

Our general partner may not be removed unless that removal is approved by the vote of the holders of at least 66 2/3% of our outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting together as a single class, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate). The ownership of more than 33 1/3% of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate) by our general partner and its affiliates would give them the practical ability to prevent our general partner's removal. As of December 31, 2019, our general partner and its affiliates own approximately 70% of our total outstanding common units and Series A preferred units (on an as-converted basis at the then-applicable conversion rate).

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal, our general partner will have the right to receive cash in exchange for its general partner interests based on the fair market value of such interests as of the effective date of its removal.

In the event of removal of our general partner under circumstances where cause exists or withdrawal of our general partner where that withdrawal violates our partnership agreement, a successor general partner will have the option to purchase our general partner interest for a cash payment equal to the fair market value of those interests. Under all other circumstances where our general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner for fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner will become a limited partner and its general partner interest will automatically convert into common units pursuant to a valuation of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interest

Except for transfer by our general partner of all, but not less than all, of its general partner interest to (1) an affiliate of our general partner (other than an individual), or (2) another entity as part of the merger or consolidation of our general partner with or into such entity or the transfer by our general partner of all or substantially all of its assets to such entity, our general partner may not transfer all or any part of its general partner interest to another person prior to September 30, 2023, without the approval of the holders of at least a unit majority, excluding common units held by our general partner and its affiliates. As a condition of this transfer, the transferee must assume, among other things, the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement, and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates may at any time transfer units to one or more persons, without unitholder approval.

Transfer of Ownership Interests in Our General Partner

At any time, Phillips 66 and its affiliates may sell or transfer all or part of their membership interest in our general partner, to an affiliate or third party without the approval of our unitholders.

Change of Management Provisions

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove Phillips 66 Partners GP LLC as our general partner or otherwise change our management. If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group who are notified by our general partner that they will not lose their voting rights or to any person or group who acquires the units with the prior approval of the board of directors of our general partner. Please read "—Withdrawal or Removal of Our General Partner."

Limited Call Right

If at any time our general partner and its affiliates own more than 80% of the then-issued and outstanding limited partner interests of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the limited partner interests (but excluding the Series A preferred units) of such class held by unaffiliated persons as of a record date to be selected by our general partner, on at least 10, but not more than 60, days' written notice.

The purchase price in the event of this purchase is the greater of:

- the highest cash price paid by either our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and

- the current market price calculated in accordance with our partnership agreement as of the date three business days before the date the notice is mailed.

As a result of our general partner's right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at a price that may be lower than market prices at various times prior to such purchase or lower than a unitholder may anticipate the market price to be in the future. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market.

Redemption of Ineligible Holders

In order to avoid 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 analogous regulatory body, our general partner at any time can request a transferee or a unitholder to certify or recertify:

- that the transferee or unitholder is an individual or an entity subject to United States federal income taxation on the income generated by us; or

- that, if the transferee unitholder is an entity not subject to United States federal income taxation on the income generated by us, as in the case, for example, of a mutual fund taxed as a regulated investment company or a partnership, all the entity's owners are subject to United States federal income taxation on the income generated by us.

Furthermore, in order to avoid a substantial risk of cancellation or forfeiture of any property, including any governmental permit, endorsement or other authorization, in which we have an interest as the result of any federal, state or local law or regulation concerning the nationality, citizenship or other related status of any unitholder, our general partner may at any time request unitholders to certify as to, or provide other information with respect to, their nationality, citizenship or other related status.

The certifications as to taxpayer status and nationality, citizenship or other related status can be changed in any manner our general partner determines is necessary or appropriate to implement its original purpose.

If a unitholder fails to furnish the certification or other requested information within 30 days or if our general partner determines, with the advice of counsel, upon review of such certification or other information that a unitholder does not meet the status set forth in the certification, we will have the right to redeem all of the units held by such unitholder at the market price as of the date three days before the date the notice of redemption is mailed.

The purchase price will be paid in cash or by delivery of a promissory note, as determined by our general partner. Any such promissory note will bear interest at the rate of 5% annually and be payable in three equal annual installments of principal and accrued interest, commencing one year after the redemption date. Further, the units will not be entitled to any allocations of income or loss, distributions or voting rights while held by such unitholder.

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited.

Our general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or, if authorized by our general partner, without a meeting if consents in writing describing the action so taken are signed by holders of the number of units that would be necessary to authorize or take that action at a meeting where all limited partners were present and voted. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage. The units representing the general partner interest are units for distribution and allocation purposes, but do not entitle our general partner to any vote other than its rights as general partner under our partnership agreement, will not be entitled to vote on any action required or permitted to be taken by the unitholders and will not count toward or be considered outstanding when calculating required votes, determining the presence of a quorum, or for similar purposes.

Subject to the special voting rights of the holders of Series A preferred units described herein, each record holder of a unit has a vote according to its percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read "—Issuance of Additional Securities." However, if at any time any person or group, other than (a) our general partner and its affiliates, (b) a direct transferee of our general partner and its affiliates, (c) a transferee of such direct transferee who is notified by our general partner that it will not lose its voting rights, (d) any person or group that acquired such beneficial ownership with the prior approval of the board of directors of our general partner, (e) the purchasers of the Series A preferred units with respect to their ownership (beneficial or of record) of the Series A preferred units or the common units into which the Series A preferred units are convertible or (f) any holder of Series A preferred units in connection with any vote, consent or approval of the Series A preferred units as a separate class, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum, or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and its nominee provides otherwise. Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

Status as Limited Partner

By transfer of units in accordance with our partnership agreement, each transferee of units shall be admitted as a limited partner with respect to the units transferred when such transfer and admission is reflected in our register. Except as described under "—Limited Liability," the units will be fully paid, and unitholders will not be required to make additional contributions.

Indemnification

Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- our general partner;
- any departing general partner;
- any person who is or was an affiliate of our general partner or any departing general partner;
- any person who is or was a director, officer, managing member, manager, general partner, fiduciary or trustee of us or our subsidiaries, an affiliate of us or our subsidiaries or any entity set forth in the preceding three bullet points;
- any person who is or was serving as director, officer, managing member, manager, general partner, fiduciary or trustee of another person owing a fiduciary duty to us or any of our subsidiaries at the request of our general partner or any departing general partner or any of their affiliates, excluding any such person providing, on a fee-for-service basis, trustee, fiduciary or custodial services; and
- any person designated by our general partner because such person's status, service or relationship expose such person to potential claims or suits relating to our or our subsidiaries' business and affairs.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, our general partner will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We will purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against such liabilities under our partnership agreement.

Reimbursement of Expenses

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. Our general partner is entitled to determine in good faith the expenses that are allocable to us. The expenses for which we are required to reimburse our general partner are not subject to any caps or other limits.

Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for financial reporting purposes on an accrual basis. For fiscal and tax reporting purposes, our fiscal year is the calendar year.

We will mail or make available to record holders of units, within 105 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent registered public accounting firm. Except for our fourth quarter, we will also mail or make available summary financial information within 50 days after the close of each quarter.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to unitholders will depend on the cooperation of unitholders in supplying us with specific information. Every unitholder will receive information to assist in determining its federal and state tax liability and filing its federal and state income tax returns, regardless of whether it supplies us with information.

Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to its interest as a limited partner, upon reasonable written demand stating the purpose of such demand and at its own expense, have furnished to him:

- a current list of the name and last known address of each record holder;

- copies of our partnership agreement and our certificate of limited partnership and all amendments thereto; and

- certain information regarding the status of our business and financial condition.

Our general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our general partner determines is not in our best interests or that we are required by law or by agreements with third parties to keep confidential. Our partnership agreement limits the right to information that a limited partner would otherwise have under Delaware law.

Registration Rights

Under our partnership agreement, we have agreed to register for resale under the Securities Act and applicable state securities laws any common units or other partnership interests proposed to be sold by our general partner or any of its affiliates, other than individuals, or their assignees if an exemption from the registration requirements is not otherwise available. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions.

Exclusive Forum

Our partnership agreement provides that the Court of Chancery of the State of Delaware shall be the exclusive forum for any claims, suits, actions or proceedings:

- arising out of or relating in any way to our partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among our partners, or obligations or liabilities of our partners to us, or the rights or powers of, or restrictions on, our partners or us);

- brought in a derivative manner on our behalf;

- asserting a claim of breach of a duty owed by any of our, or our general partner's, directors, officers, or other employees, or owed by our general partner, to us or our partners;

- asserting a claim against us arising pursuant to any provision of the Delaware Act; or

- asserting a claim against us governed by the internal affairs doctrine.

By purchasing or otherwise acquiring an interest in our common units or other partnership interests, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware in connection with any such claims, suits, actions or proceedings.

Under our partnership agreement, if the Court of Chancery of the State of Delaware does not have jurisdiction over any matter, then the applicable claim, suit, action or proceeding is required to be brought in any other court in the State of Delaware having jurisdiction. The exclusive forum provision is not, however, intended to be deemed a waiver by any limited partner with respect to our compliance with U.S. federal securities laws, and the application of the forum selection provision may in some instances be limited by applicable law. For example, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of limiting a limited partner's ability to bring a claim in a judicial forum that the limited partner finds favorable for disputes with us or our general partner's directors or officers, or may result in a limited partner incurring additional costs in order to commence litigation in Delaware, each of which may discourage such lawsuits against us and such persons. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation or similar governing documents has been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the choice of forum provisions contained in our partnership agreement to be inapplicable or unenforceable in such action.

Exhibit 10.15

**AMENDMENT NO. 1 TO
FRACTIONATION AGREEMENT**

This AMENDMENT NO. 1 TO FRACTIONATION AGREEMENT (this "Amendment") is made as of the 11th day of December, 2019, by and between Phillips 66 Sweeny Frac LLC, a Delaware limited liability company ("P66SF") and Phillips 66 Company, a Delaware corporation ("Phillips 66"). P66SF and Phillips 66 are sometimes referred to herein singularly as a "Party" and collectively as the "Parties."

WHEREAS, the Parties previously entered into that certain Fractionation Agreement, dated as of March 1, 2016 (the "Original Agreement"); and

WHEREAS, the Parties desire to amend the Original Agreement as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Amendment. The Parties hereby agree to amend the Original Agreement by amending and restating the definition of "Raw Product Delivery Point" as follows:

   AA. "Raw Product Delivery Point shall mean any of (i) the Seagas meter location site near the Fractionator, or (ii) such other locations as the Parties may from time to time agree in writing.

2. Ratification; No Waiver. Except as expressly modified hereby, the Original Agreement and all documents, instruments, and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The execution, delivery, and effectiveness of this Amendment shall not operate as a waiver of any right, power, or remedy of either party hereto under the Original Agreement, nor constitute a waiver of any provision of the Original Agreement. The Original Agreement shall, together with this Amendment, be read and construed as a single agreement. All references in the Original Agreement and any related documents, instruments, and agreements shall hereafter refer to the Original Agreement as modified hereby.

3. Counterparts; Effectiveness. This Amendment may be executed in one or more counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same instrument, and shall become effective when one or more counterparts have been signed by each Party and delivered to the other Party (including by .pdf or other electronic means).

4. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas, without regard to any provision thereof that would direct the application of the law of another jurisdiction.

[*Remainder of page intentionally left blank; signature page follows.*]

IN WITNESS WHEREOF, the Parties have duly executed this Amendment as of the day and year first set forth above.

PHILLIPS 66 SWEENY FRAC LLC

By: /s/ Damon Daniels
Damon Daniels
Vice President

PHILLIPS 66 COMPANY

By: /s/ Andy Giffhorn
Andy Giffhorn
Vice President, Midstream Commercial & BD

Exhibit 21

SUBSIDIARY LISTING OF PHILLIPS 66 PARTNERS LP
At December 31, 2019

Company Name	Incorporation Location
ACE Pipeline LLC	Delaware
Gray Oak Holdings LLC	Delaware
Merey Sweeny LLC	Delaware
Phillips 66 Carrier LLC	Delaware
Phillips 66 DAPL Holdings LLC	Delaware
Phillips 66 ETCO Holdings LLC	Delaware
Phillips 66 LCR Isomerization LLC	Delaware
Phillips 66 Partners Finance Corporation	Delaware
Phillips 66 Partners Holdings LLC	Delaware
Phillips 66 Sand Hills LLC	Delaware
Phillips 66 Southern Hills LLC	Delaware
Phillips 66 Sweeny Frac LLC	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Amendment No. 1 to the Registration Statement (Form S-3 No. 333-234334) of Phillips 66 Partners LP,

(2) Registration Statement (Form S-3 No. 333-232865) of Phillips 66 Partners LP,

(3) Amendment No. 1 to the Registration Statement (Form S-3 No. 333-221353) of Phillips 66 Partners LP,

(4) Registration Statement (Form S-3 No. 333-217734) of Phillips 66 Partners LP, and

(5) Registration Statement (Form S-8 No. 333-190195) of Phillips 66 Partners LP;

of our reports dated February 21, 2020, with respect to the consolidated financial statements of Phillips 66 Partners LP and the effectiveness of internal control over financial reporting of Phillips 66 Partners LP included in this Annual Report (Form 10-K) of Phillips 66 Partners LP for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Houston, Texas
February 21, 2020

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our reports dated February 7, 2020, relating to the financial statements of DCP Sand Hills Pipeline, LLC as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and the financial statements of DCP Southern Hills Pipeline, LLC as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, each appearing in this Annual Report on Form 10-K of Phillips 66 Partners LP for the year ended December 31, 2019:

- Registration Statement No. 333-190195 on Form S-8 of Phillips 66 Partners LP,
- Amendment No. 1 to Registration Statement Nos. 333-221353 and 333-234334 on Form S-3 of Phillips 66 Partners LP, and
- Registration Statement Nos. 333-217734 and 333-232865 on Form S-3 of Phillips 66 Partners LP.

/s/ Deloitte & Touche LLP

Denver, Colorado
February 21, 2020

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 13, 2020, with respect to the consolidated financial statements of Dakota Access, LLC, included in the Annual Report of Phillips 66 Partners LP on Form 10-K for the year ended December 31, 2019. We consent to the incorporation by reference of the aforementioned report in the Registration Statements of Phillips 66 Partners LP on Forms S-3 (File No. 333-234334, File No. 333-232865, File No. 333-221353 and File No. 333-217734) and Form S-8 (File No. 333-190195).

/s/ GRANT THORNTON LLP

Dallas, Texas
February 21, 2020

Exhibit 31.1

CERTIFICATION

I, Greg C. Garland, certify that:

1. I have reviewed this annual report on Form 10-K of Phillips 66 Partners LP;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

/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)

Exhibit 31.2

CERTIFICATION

I, Kevin J. Mitchell, certify that:

1. I have reviewed this Annual Report on Form 10-K of Phillips 66 Partners LP;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

/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)

Exhibit 32

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report of Phillips 66 Partners LP (the Partnership) on Form 10-K for the year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the Report), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

(1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: February 21, 2020

/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)