

Delek Logistics Partners, LP
Form 10-K
March 12, 2013

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, 2012

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 001-35721

DELEK LOGISTICS PARTNERS, LP
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

45-5379027
(I.R.S. Employer Identification No.)

7102 Commerce Way
Brentwood, Tennessee
(Address of principal executive offices)

37027
(Zip Code)

(615) 771-6701
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments of this Form 10-K.

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

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

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

The registrant cannot calculate the aggregate market value of its common units held by non-affiliates as of the last business day of its most recently completed second fiscal quarter because there was no established public trading market for its common units as of such date.

At February 28, 2013, there were 11,999,258 common units, 11,999,258 subordinated units and 489,766 general partner units outstanding.

Documents incorporated by reference: None

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Unless otherwise indicated or the context requires otherwise, the terms "DKL," the "Partnership," "we," "our," and "us" are used in this report to refer to Delek Logistics Partners, LP, one or more of its consolidated subsidiaries or all of them taken as a whole.

Statements in this Annual Report on Form 10-K, other than purely historical information, including statements regarding our plans, strategies, objectives, beliefs, expectations and intentions are forward looking statements. These forward looking statements generally are identified by the words "may," "will," "should," "could," "would," "predicts," "intends," "believes," "expects," "plans," "scheduled," "goal," "anticipates," "estimates" and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, including those discussed below and in Item 1A, Risk Factors, which may cause actual results to differ materially from the forward-looking statements. See also "Forward-Looking Statements" included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 1, Business, of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

General

Delek Logistics Partners, LP is a Delaware limited partnership formed in April 2012 by Delek US Holdings, Inc. ("Delek") and its indirect subsidiary, Delek Logistics GP, LLC, our general partner. Unless otherwise indicated or the context requires, "Delek" and "Sponsor" refer collectively to Delek and its subsidiaries other than DKL, DKL's subsidiaries and DKL's general partner. On November 7, 2012, the Partnership completed an initial public offering (the "Offering") of 9,200,000 common units (including 1,200,000 common units issued pursuant to the exercise of the underwriters' option to purchase additional common units), representing limited partner interests in the Partnership.

Upon completion of the Offering and as of December 31, 2012, the Partnership's business consisted of the assets, liabilities and results of operations of certain crude oil and refined products pipeline, transportation, wholesale marketing and terminalling assets previously owned, operated or held by Delek and certain of its subsidiaries, including Delek Marketing & Supply, LLC ("Marketing"), Paline Pipeline Company, LLC ("Paline") and Lion Oil Company ("Lion Oil"). For accounting purposes, prior to the completion of the Offering, the assets, liabilities, and results of operations of the aforementioned assets related to Delek Logistics Partners, LP Predecessor (our "Predecessor").

Overview

The Partnership owns and operates crude oil and refined products logistics and marketing assets. We generate revenue and contribution margin, which we define as net sales less cost of goods sold and operating expenses, by charging fees for gathering, transporting and storing crude oil and for marketing, distributing, transporting and storing refined products. A substantial majority of our existing assets are both integral to and dependent upon the success of Delek's refining operations as our assets support Delek's refineries in Tyler, Texas (the "Tyler Refinery") and El Dorado, Arkansas (the "El Dorado Refinery"). Accordingly, a substantial majority of our contribution margin is derived from Delek's successful operation of these refineries and the commercial agreements we have entered into with Delek with respect to these refineries. See "Business—Commercial Agreements—Commercial Agreements with Delek" for a description of each agreement. In addition to the services we provide to Delek, we also provide crude oil transportation services for, and terminalling and marketing services to, third parties in Texas, Tennessee and Arkansas. Some of these services are provided pursuant to contractual agreements with such third parties. See "Business--Commercial Agreements--Commercial Agreement with Third Parties."

We are not a taxable entity for federal income tax purposes or the income taxes of those states that follow the federal income tax treatment of partnerships. Instead, for purposes of these income taxes, each partner of the Partnership is required to take into account his, her or its share of items of income, gain, loss and deduction in computing his, her or its federal and state income tax liabilities, regardless of whether cash distributions are made to such partner by the Partnership. The taxable income reportable to each partner takes into account differences between the tax basis and fair market value of our assets, the acquisition price of such partner's units and the taxable income allocation requirements under our partnership agreement.

Information About Our Segments

We prepare segment information on the same basis that we review financial information for operational decision-making purposes. Currently, our business consists of two operating segments: (i) our pipelines and transportation segment and (ii) our wholesale marketing and terminalling segment. Additional segment and financial information is contained in our segment results included in Item 6, Selected Financial Data, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 14, Segment Data, of our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Pipelines and Transportation Segment

Our pipelines and transportation segment primarily consists of assets that provide crude oil gathering, crude oil and refined products transportation and storage services in support of Delek's refining operations in Tyler, Texas and El Dorado, Arkansas. Additionally, this segment provides crude oil transportation services to certain third parties, including a major integrated oil company. In providing these services, we do not take ownership of the products or crude oil that we transport or store; and, therefore, we are not directly exposed to changes in commodity prices. This segment consists of assets primarily divided into four operating systems: (i) our Lion Pipeline System, (ii) our SALA Gathering System, (iii) our Paline Pipeline System, and (iv) our East Texas Crude Logistics System. Please see "Item 2—Properties—Our Asset Portfolio—Pipelines and Transportation Segment" for detailed descriptions of the assets that comprise these operating systems. The tables below show the operating results for each of our operating systems. For the years ended December 31, 2011 and 2010, we present the results of our Predecessor and for the year ended December 31, 2012, we present the results of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012, the closing date of the Offering, through December 31, 2012.

Lion Pipeline System. Our Lion Pipeline System transports crude oil to, and refined products from, Delek's El Dorado Refinery. The pipelines in this system also have injection points where crude oil gathered from the SALA Gathering System is injected and then transported to the El Dorado Refinery. We do not charge an additional tariff for the transportation of these gathered crude oils over the Lion Pipeline System if a tariff has been charged for transportation on the SALA Gathering System. In addition, a pipeline within the Lion Pipeline System transports minimal crude oil for a third party. We own 100% of each of these pipelines. The Lion Pipeline System and SALA Gathering System each have crude oil storage tanks and facilities ancillary to the operation of the pipeline system. The Lion Pipeline System is capable of transporting crude oil offloaded from rail cars at or near the El Dorado Refinery. The following table details certain operating data for our Lion Pipeline System.

	Average Daily Throughput (bpd)	
	Year Ended	
	December 31,	
	2012 (1)	2011 (2)
		Predecessor
Lion Pipeline System:		
Crude Oil Pipelines (Non-gathered) (3)	46,027	57,442
Refined Products Pipelines to Enterprise System	45,220	45,337

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

(2) Throughputs for the year ended December 31, 2011 are for the 247 days Delek operated the El Dorado Refinery in 2011.

(3) Excludes crude oil gathered on our SALA Gathering System and injected into our Lion Pipeline System.

SALA Gathering System. The SALA Gathering System primarily gathers and transports crude oil that is purchased from various crude oil producers at individual crude oil leases. In addition, the gathering system transports small volumes of crude oil that is received from other sources and condensate that is purchased from a third party in east Texas. All such

crude oil and other products are transported to Delek's El Dorado Refinery for processing. The table below sets forth historical throughput information for the SALA Gathering System.

	Average Daily Throughput (bpd)	
	Year Ended	
	December 31,	
	2012 (1)	2011 (2)
		Predecessor
SALA Gathering System:		
Throughput (average bpd):	20,747	17,676

(1) Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

(2) Throughputs for the year ended December 31, 2011 are for the 247 days Delek operated the El Dorado Refinery in 2011.

Paline Pipeline System. Our Paline Pipeline System runs from Longview, Texas to Nederland, Texas and was initially a northbound crude oil pipeline. In 2011, prior to our acquisition of the pipeline, Paline entered into a contract with a major integrated oil company whereby Paline agreed to reverse the Paline Pipeline System to enable it to run southbound in exchange for the customer to pay for the use of 100% of such southbound capacity through December 31, 2014. We also have a customer that transports a small volume of crude oil northbound from Kilgore. For a more thorough discussion of this contract, please see "Business—Commercial Agreements—Commercial Agreements with Third Parties—Paline Pipeline System Capacity Reservation"; "Item 1A—Risk Factors—Risks Relating to Our Business—If third-party pipelines, terminals or other facilities interconnected to our pipeline systems or terminals become partially or fully unavailable, or if we are unable to fulfill our contractual obligations, our financial condition, results of operations, cash flows and ability to make distributions to our unitholders could be adversely affected" and "Item 13—Certain Relationships and Related Transactions, and Director Independence" of this Annual Report on Form10-K.

East Texas Crude Logistics System. Our East Texas Crude Logistics System is currently the only pipeline system capable of supplying crude oil transportation and storage for the Tyler Refinery and delivers substantially all of the refinery's crude oil needs. The table below sets forth historical average daily throughput for the East Texas Crude Logistics System.

	Average Daily Throughput (bpd)		
	Year Ended		
	December 31,		
	2012	2011	2010
		Predecessor	Predecessor
East Texas Crude Logistics System (average bpd)	55,068	55,341	49,388
% of Tyler Refinery Crude Throughput	97.6%	98.8%	98.8%

Beginning in the first half of 2013, we expect a reconfigured pipeline system that is owned and operated by third parties to also begin supplying crude oil to Delek's Tyler Refinery from west Texas. Delek has a 10-year agreement with these third parties to transport a substantial majority of the Tyler Refinery's crude oil requirements on this reconfigured system. As a result and to provide flexibility for our assets, we are reconfiguring a portion of the East Texas Crude Logistics System to be bi-directional, which will enable it to transport crude oil from the west to Longview if market conditions make doing so attractive. Please read "Item 1A—Risk Factors—Risks Relating to Our Business—We anticipate, beginning in the first half of 2013, our East Texas Crude Logistics System will operate at levels significantly below Delek's minimum volume commitment under its agreement with us for the foreseeable future" for additional information.

Wholesale Marketing and Terminalling Segment

Our wholesale marketing and terminalling segment provides wholesale marketing and terminalling services to Delek's refining operations and to independent third parties from whom we receive fees for marketing, transporting, storing and terminalling refined products. We generate revenue in our wholesale marketing and terminalling segment by (i) providing marketing services for the refined products output of the Tyler Refinery, (ii) engaging in wholesale activity at our Abilene and San Angelo, Texas terminals, as well as at terminals owned by third parties, whereby we purchase light products from third parties for sale and exchange to third parties, and (iii) providing terminalling services to independent third parties and Delek. See "Commercial Agreements—Commercial Agreements with Delek" and "Commercial Agreements—Commercial Agreements with Third Parties." The tables below show the operating results for the wholesale marketing and terminalling segment. For the years ended December 31, 2011 and 2010, we present the results of our Predecessor and for the year ended December 31, 2012 we present the results of our Predecessor from January 1, 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

Wholesale Marketing

East Texas. Pursuant to a 10-year agreement with Delek, we market 100% of the refined products output of the Tyler Refinery, other than jet fuel and petroleum coke. Our services consist of identifying potential customers, negotiating and recommending for Delek's approval purchase orders and supply contracts, monitoring anticipated sales volumes and inventories and serving as a point of contact for sales and marketing issues. The following table sets forth the historical production of the Tyler Refinery.

	2012 (1)	Year Ended December 31, 2011 Predecessor	2010 Predecessor
Sales volumes (average bpd):			
Gasoline and gasoline blendstocks	30,143	29,110	26,850
Diesel/jet (2)	20,875	22,239	19,286
Petrochemical, LPG, NGLs	1,820	1,814	1,614
Other (2)	4,736	3,884	2,423
Total sales volumes	57,574	57,047	50,173

Throughputs for the year ended December 31, 2012 include the throughputs of our Predecessor from January 1, (1) 2012 through November 6, 2012 and those of the Partnership for the period beginning November 7, 2012 through December 31, 2012.

Prior to November 7, 2012, we also marketed jet fuel and petroleum coke. Subsequent to November 7, 2012, we (2) ceased to market jet fuel and petroleum coke for Delek's Tyler Refinery. Accordingly, these amounts include jet fuel and petroleum coke for our Predecessor in years 2011 and 2010 and through November 6, 2012. Jet fuel and petroleum coke are excluded from these amounts subsequent to November 7, 2012.

West Texas. In our West Texas marketing operations, we generate revenue by purchasing refined products from independent third-party suppliers for sale and exchange to third parties at our San Angelo and Abilene, Texas terminals and at third-party terminals located in Aledo, Odessa, Big Spring and Frost, Texas. Substantially all of our product sales in west Texas are on a wholesale basis.

Substantially all of our refined petroleum products for sale in west Texas are purchased from two suppliers. Under our contract (the "Abilene contract") with Noble Petro, Inc. ("Noble Petro"), we have the right to purchase up to 20,350 bpd of refined petroleum products. Under this agreement, we purchase refined products based on monthly average prices from Noble Petro immediately prior to our resale of such products to customers at our San Angelo and Abilene, Texas terminals, which we lease to Noble Petro. Under this arrangement, we have limited direct exposure to risks

associated with fluctuating

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prices for these refined products due to the short period of time between the purchase and resale of these refined products. The Abilene contract expires in December 2017 and does not have a renewal option.

In addition, we have the right to purchase 7,000 bpd of refined products for resale at third-party terminals along the Magellan Orion Pipeline located in Aledo, Odessa and Frost, Texas pursuant to our contract (the "East Houston contract") with Magellan Asset Services, L.P. ("Magellan"). The East Houston contract expires in December 2015, unless earlier terminated, and does not have a renewal option. We do not own, lease or operate any of the assets used to transport or store the refined products we purchase from Magellan. We do, however, own the inventory purchased under the East Houston contract. To hedge our exposure to fluctuations in commodity prices for the period between our purchase of products from Magellan and subsequent sales to our customers, from time to time we enter into Gulf Coast product swap arrangements with respect to the products we purchase.

The following table details the average aggregate daily number of barrels and total barrels of refined products that we sold in our west Texas wholesale operations for the periods indicated.