PHILLIPS 66 PARTNERS LP
Form 10-K
February 13, 2015

2014

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

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

For the fiscal year ended December 31, 2014
OR

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

For the transition period from to

Commission file number: 001-36011
Phillips 66 Partners LP
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	[X] Yes [ ] No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	[ ] Yes [X] No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	[X] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	[X] Yes [ ] No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any	[X]

amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]

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

The aggregate market value of the registrant’s common units held by non-affiliates of the registrant on June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, based on the closing price on that date of $75.56, was $1,408 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 Company.
Documents incorporated by reference:
None

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Unless the context otherwise indicates, all references to “Phillips 66 Partners LP,” “the Partnership,” “us,” “our,” “we,” or simi expressions refer to Phillips 66 Partners LP, including its consolidated subsidiaries. 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,” “plan,” “potential,” “predict,” “seek,” “should,” “will,” “would,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guida “effort,” “target” and similar expressions identify forward-looking statements. The Partnership does not undertake to update, revise or correct any 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,” beginning on page 63.

PART I

Items 1 and 2. BUSINESS AND PROPERTIES

ORGANIZATIONAL STRUCTURE

Phillips 66 Partners LP, headquartered in Houston, Texas, is a Delaware limited partnership formed in 2013 by Phillips 66 Company and Phillips 66 Partners GP LLC (our General Partner), both wholly owned subsidiaries of Phillips 66. On July 26, 2013, we completed our initial public offering (the Offering), and our common units trade on the New York Stock Exchange (NYSE) under the symbol “PSXP.” As of December 31, 2014, Phillips 66, through Phillips 66 Company, owned 20,938,498 common units and 35,217,112 subordinated units, representing an aggregate 73.3 percent limited partner interest, as well as a 100 percent interest in our General Partner, who owned 1,531,518 general partner units, representing a 2 percent general partner interest.

We are a growth-oriented master limited partnership formed by Phillips 66 to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and natural gas liquids (NGL) pipelines, terminals and other transportation and midstream assets. Our assets consist of crude oil and refined petroleum product pipeline, terminal, rail rack and storage systems in the Central, Gulf Coast, Atlantic Basin and Western regions of the United States that are integral to the Phillips 66 refining and marketing operations they support. We generate revenue primarily by charging tariffs and fees for transporting crude oil and refined petroleum products through our pipelines and terminaling and storing crude oil and refined petroleum products at our terminals, rail racks and storage facilities. We do not take ownership of the crude oil or refined petroleum products that we transport, terminal and store, and we do not engage in the trading of any commodities. We have multiple commercial agreements with Phillips 66 that currently are the source of substantially all of our revenue. These agreements are long-term, fee-based agreements with minimum volume commitments and inflation escalators. We believe these agreements promote stable and predictable cash flows. Our operations consist of one reportable segment and are all conducted in the United States. See Item 8. Financial Statements and Supplementary Data, for financial information on our operations and assets.

2014 Developments

Gold Line/Medford Acquisition

In February 2014, we entered into a Contribution, Conveyance and Assumption Agreement with subsidiaries of Phillips 66 to acquire the Gold Line Products System and the Medford Spheres (collectively, the Gold Line/Medford Assets) from certain of those subsidiaries (the Gold Line/Medford Acquisition). The transaction closed on

February 28, 2014, with an effective date of March 1, 2014.

Bayway/Ferndale/Cross-Channel Acquisition

In October 2014, we entered into a Contribution, Conveyance and Assumption Agreement with subsidiaries of Phillips 66 to acquire the Bayway and Ferndale rail racks and the Cross-Channel Connector assets (collectively, the Bayway/Ferndale/Cross-Channel Assets) from certain of those subsidiaries (the Bayway/Ferndale/Cross-Channel Acquisition). In addition, we entered into a separate Purchase and Sale Agreement (PSA) with a subsidiary of Phillips 66 to acquire assets under construction associated with the Cross-Channel Connector organic growth project. The transactions closed on December 1, 2014.

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Palermo Rail Terminal Project Acquisition
In December 2014, we entered into a PSA and a Contribution Agreement with certain subsidiaries of Phillips 66 to acquire real property, assets under construction, lease agreements and permits associated with a rail terminal project (the Palermo Acquisition). The transactions closed on December 5, 2014, and December 10, 2014.

Eagle Ford Gathering System Project Acquisition
In December 2014, we entered into a PSA with a subsidiary of Phillips 66 to acquire real property and assets under construction associated with a gathering system project (the Eagle Ford Acquisition). The transaction closed on December 31, 2014.

Joint Ventures
In November 2014, we entered into agreements with Paradigm Energy Partners, LLC (Paradigm) to form Phillips 66 Partners Terminal LLC and Paradigm Pipeline LLC, two joint ventures established to develop the Palermo Rail Terminal, a central delivery facility and the Sacagawea Pipeline in North Dakota. The joint venture transactions closed on January 16, 2015.

For ease of reference, we refer to the Gold Line/Medford Assets, Bayway/Ferndale/Cross-Channel Assets and the assets associated with the Palermo Acquisition and Eagle Ford Acquisition collectively as “the Acquired Assets,” and the Gold Line/Medford Acquisition, Bayway/Ferndale/Cross-Channel Acquisition, Palermo Acquisition and Eagle Ford Acquisition collectively as “the Acquisitions.”

SUMMARY OF ASSETS AND OPERATIONS
At December 31, 2014, our assets consisted of the following systems:

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

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

- Hartford Connector Products System. A refined petroleum product pipeline, terminal and storage system located in Hartford, Illinois, that distributes diesel and gasoline produced at Phillips 66’s jointly owned and operated Wood River Refinery to third-party pipeline and terminal systems, including the Explorer pipeline system.

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

- Medford Spheres. Two refinery-grade propylene storage spheres located in Medford, Oklahoma, that commenced operations in March 2014. The Medford Spheres provide an outlet for delivery of refinery-grade propylene from Phillips 66’s Ponca City Refinery, through interconnections with third-party pipelines, to Mont Belvieu, Texas.

- Bayway Rail Rack. A four-track, 120-rail-car crude oil receiving facility located in Linden, New Jersey, within Phillips 66’s Bayway Refinery, which commenced operations in August 2014. The rail rack unloads crude oil and delivers it to storage tanks within the Bayway Refinery.

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- Ferndale Rail Rack. A two-track, 54-rail-car crude oil receiving facility located in Ferndale, Washington, adjacent to Phillips 66’s Ferndale Refinery, which commenced operations in November 2014. The rail rack unloads crude oil and delivers it to storage tanks at the adjacent Ferndale Refinery.

- Cross-Channel Connector Project. A refined petroleum product pipeline originating at our Pasadena terminal in Pasadena, Texas, running to terminal facilities located at Kinder Morgan’s Pasadena terminal and its Galena Park Station in Galena Park, Texas, and terminating at the Holland Avenue Junction in Galena Park, Texas. We have undertaken an organic growth project to provide shippers with a connection from our Pasadena terminal to third-party systems with water access on the Houston Ship Channel. The entire products system is anticipated to be completed and commence operations in the second quarter of 2015.

- Palermo Rail Terminal Project. A project to construct a crude oil rail-loading facility in Palermo, North Dakota. The facility is designed to have an initial capacity of 100,000 barrels per day, with the flexibility to be expanded to 200,000 barrels per day. In December 2014, we purchased real property, assets under construction, lease agreements and permits associated with the rail terminal from Phillips 66. The terminal will have direct access to the Sacagawea Pipeline and provide east and west coast railway access for third-party shippers. The terminal is anticipated to be completed and in service in the fourth quarter of 2015.

- Eagle Ford Gathering System Project. A project to construct a crude oil gathering system that will consist of two pipelines and a storage facility near Helena and Tilden, Texas. The gathering system is designed to connect Eagle Ford production to third party pipelines. In December 2014, we purchased real property and assets under construction associated with the gathering system project from Phillips 66. The entire gathering system is anticipated to be completed and commence operations in the third quarter of 2015.

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Pipeline Assets

The following table sets forth certain information regarding our pipeline assets as of December 31, 2014. Except for the Cross-Channel Connector Pipeline, each asset listed below currently has an associated commercial agreement with Phillips 66:

System Name	Diameter	Length (Miles)	Active Throughput Capacity (Thousands of Barrels Daily)	Commodity Handled	Associated Phillips 66 Refinery	Significant Third-Party Pipeline System Connections
Clifton Ridge Crude System						
Clifton Ridge to Lake Charles Refinery	20”	10	260	Crude Oil	Lake Charles	Shell Houston-to-Houma
Pecan Grove to Clifton Ridge	12”	0.6	56	Crude Oil	Lake Charles	N/A
Shell to Clifton Ridge	20”	0.6	312	Crude Oil	Lake Charles	Shell Houston-to-Houma
Sweeny to Pasadena Products System						
Sweeny Refinery to Pasadena, Texas	12”	60	125	Refined Petroleum Products	Sweeny	Explorer; Colonial
Sweeny Refinery to Pasadena, Texas	18”	60	138	Refined Petroleum Products	Sweeny	Colonial
Hartford Connector Products System						
Wood River Refinery to Hartford, Illinois	12”	3	80	Refined Petroleum Products	Wood River	Explorer
Hartford, Illinois to Explorer Pipeline	24”	1	430	Refined Petroleum Products	Wood River	Explorer
Gold Line Products System						
Borger Refinery to Wichita, Kansas	16”	273	120	Refined Petroleum Products	Borger	NuStar
Wichita, Kansas to Paola, Kansas	16”	143	132	Refined Petroleum Products	Borger/ Ponca City	NuStar
Paola, Kansas to East St. Louis, Illinois	8”-12”	265	53	Refined Petroleum Products	Borger/ Ponca City	Explorer; Buckeye
Paola, Kansas to Kansas City, Kansas	8”	53	24	Refined Petroleum Products	Borger/ Ponca City	Magellan

Paola, Kansas to Kansas City, Kansas	10”	53	72	Refined Petroleum Products	Borger/ Ponca City	Magellan
Cross-Channel Connector Pipeline	20”	2.5	120	Refined Petroleum Products	Sweeny	Kinder Morgan

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Terminal, Rail Rack and Storage Assets

The following table sets forth certain information regarding our terminal, rail rack and storage assets as of December 31, 2014, each of which currently has an associated commercial agreement with Phillips 66:

System Name	Tank Shell Storage Capacity (Thousands of Barrels)	Active Terminaling Capacity* (Thousands of Barrels Daily)	Commodity Handled	Associated Phillips 66 Refinery	Significant Third-Party Pipeline System Connections
Clifton Ridge Crude System					
Clifton Ridge Terminal	3,410	12	Crude Oil	Lake Charles	Shell Houston-to-Houma
Pecan Grove Storage	142	N/A	Crude Oil	Lake Charles	N/A
Sweeny to Pasadena Products System					
Pasadena Terminal	3,210	65	Refined Petroleum Products	Sweeny	Explorer; Colonial
Hartford Connector Products System					
Hartford Terminal	1,075	25	Refined Petroleum Products	Wood River	Explorer
Gold Line Products System					
East St. Louis Terminal	2,245	78	Refined Petroleum Products	Borger/ Ponca City	Explorer; Buckeye
Jefferson City Terminal	110	16	Refined Petroleum Products	Borger/ Ponca City	N/A
Kansas City Terminal	1,294	66	Refined Petroleum Products	Borger/ Ponca City	Magellan
Wichita North Terminal	679	19	Refined Petroleum Products	Borger/ Ponca City	NuStar
Medford Spheres	70	N/A	Refined Petroleum Products	Ponca City	Sterling
Bayway Rail Rack	N/A	75	Crude Oil	Bayway	N/A
Ferndale Rail Rack	N/A	30	Crude Oil	Ferndale	N/A

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

Marine Assets

The following table sets forth certain information regarding our marine assets as of December 31, 2014, each of which currently has an associated commercial agreement with Phillips 66:

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

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The following table sets forth the percentage of the referenced Phillips 66 refinery's supply/production volumes that were delivered by or distributed on our systems for each of the periods set forth below:

Percentage of Volumes Transported

	Year Ended December 31			
	2014		2013	2012
Lake Charles Refinery				
Clifton Ridge crude pipelines	97	%	93	90
Sweeny Refinery				
Sweeny to Pasadena products pipelines	100	%	98	100
Wood River Refinery				
Hartford Connector products pipelines	20	%	18	17
Borger Refinery				
Gold Line products pipelines	41	%	47	40
Ponca City Refinery				
Gold Line products pipelines	20	%	13	17

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ASSET PORTFOLIO

Clifton Ridge Crude System

Our Clifton Ridge Crude System is strategically positioned to support flexible crude oil supply options for Phillips 66's Lake Charles Refinery in Westlake, Louisiana. Our Clifton Ridge Crude System consists of the following pipelines and terminals:

- Clifton Ridge terminal. Our Clifton Ridge terminal is located on the Calcasieu River approximately ten miles from the Lake Charles Refinery. The facility consists of a single-berth ship dock with an average ship delivery of 512,000 barrels at a flow rate of 48,000 barrels per hour, 12 above-ground storage tanks with approximately 3.4 million barrels of total storage capacity and a truck offloading facility. The Clifton Ridge terminal receives crude oil by pipeline, barge, tanker, and truck; stores crude oil in its storage tanks; and delivers crude oil to the Lake Charles Refinery through our Clifton Ridge to Lake Charles refinery pipeline.

- Pecan Grove terminal. Our Pecan Grove terminal is located on the Calcasieu River adjacent to our Clifton Ridge terminal. The facility consists of a single-berth barge dock with an average barge delivery of 33,000 barrels at a flow rate of 3,500 to 6,000 barrels per hour and three above-ground storage tanks with 142,000 barrels of total storage capacity. The Pecan Grove terminal receives crude oil and lubricant base stocks delivered to the terminal by barge, and delivers crude oil to the Lake Charles Refinery through our Clifton Ridge terminal and lubricant base stocks to Phillips 66's lubricant blending facility located adjacent to the terminal.

- Clifton Ridge to Lake Charles refinery pipeline. Our Clifton Ridge to Lake Charles refinery crude oil pipeline consists of approximately 10 miles of 20-inch pipeline that delivers crude oil from the Clifton Ridge terminal to the Lake Charles Refinery. The pipeline has a total capacity of 260,000 barrels per day.

- Pecan Grove to Clifton Ridge pipeline. Our Pecan Grove to Clifton Ridge crude oil pipeline consists of approximately 0.6 miles of 12-inch pipeline that delivers crude oil bi-directionally between the Pecan Grove terminal and the Clifton Ridge terminal. The pipeline has a total capacity of 56,000 barrels per day.

- Shell to Clifton Ridge pipeline. Our Shell to Clifton Ridge crude oil pipeline consists of approximately 0.6 miles of 20-inch pipeline that delivers crude oil from the Shell Houston-to-Houma crude oil pipeline to the Clifton Ridge terminal. The Shell to Clifton Ridge crude oil pipeline has a total capacity of 312,000 barrels per day.

Sweeny to Pasadena Products System

Our Sweeny to Pasadena Products System is strategically positioned to transport refined petroleum products from Phillips 66's Sweeny Refinery in Old Ocean, Texas, to major third-party interstate pipeline systems, including the Explorer and Colonial refined petroleum product pipeline systems. The Explorer and Colonial pipeline systems are two major interstate pipeline systems that transport refined petroleum products from the Gulf Coast to marketing terminals throughout the Midwestern, Southeastern and Northeastern regions of the United States.

Our Sweeny to Pasadena Products System consists of the following pipelines and terminal:

- Sweeny to Pasadena pipelines. Our Sweeny to Pasadena pipelines consist of approximately 60 miles of 12-inch pipeline that delivers gasoline and approximately 60 miles of 18-inch pipeline that delivers diesel from the Sweeny Refinery to our Pasadena terminal, as well as a pump station located at the Sweeny Refinery. The active capacity of the 12-inch pipeline and the 18-inch pipeline is 125,000 barrels per day and 138,000 barrels per day, respectively.

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Pasadena terminal. Our Pasadena terminal is located in Pasadena, Texas, and consists of a five-bay truck rack with 65,000 barrels per day of active terminaling capacity, 22 above-ground storage tanks with approximately 3.2 million barrels of total storage capacity and a vapor combustion unit. The terminal delivers refined petroleum products, including distillate and gasoline, to third-party pipeline systems, including the Explorer, Colonial, Enterprise, Chevron, Magellan Midstream and Kinder Morgan refined petroleum product pipeline systems, as well as local terminals.

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Hartford Connector Products System

Our Hartford Connector Products System is strategically positioned to transport refined petroleum products that are produced at the Wood River Refinery (a refinery jointly owned by Phillips 66 and Cenovus Energy Inc.) in Roxana, Illinois, to major third-party interstate pipeline systems, including the Explorer refined petroleum product pipeline system. We also receive refined petroleum products into our Hartford Connector Products System for delivery to marketing outlets through third-party pipeline systems.

Our Hartford Connector Products System consists of the following pipelines and terminal:

- Wood River to Hartford pipeline. Our Wood River to Hartford pipeline consists of approximately three miles of 12-inch pipeline that delivers diesel and gasoline produced at the Wood River Refinery to our Hartford terminal. The 12-inch pipeline has a total capacity of 80,000 barrels per day.

- Hartford terminal. Our Hartford terminal is located in Hartford, Illinois, approximately three miles from the Wood River Refinery. The facility consists of a three-bay diesel truck rack with an active capacity of 25,000 barrels per day and 13 above-ground storage tanks with a total storage capacity of approximately 1.1 million barrels. The Hartford terminal delivers diesel, gasoline and jet fuel to the Explorer refined petroleum product pipeline system through a direct pipeline connection to Explorer pipeline and delivers diesel, gasoline and naphtha to, and receives lubricant base stocks from, barges through our interconnecting pipelines to our Hartford barge dock.

- Hartford to Explorer pipeline. Our Hartford to Explorer pipeline consists of approximately one mile of 24-inch pipeline that delivers refined petroleum products from the Hartford terminal to the Explorer refined petroleum product pipeline system. The pipeline has a total capacity of 430,000 barrels per day.

- Hartford barge dock. Our Hartford barge dock is located on the Mississippi River approximately one mile from our Hartford terminal. Our Hartford barge dock consists of a single-berth barge loading facility with an average barge loading of 13,000 barrels at an average flow rate of 3,000 barrels per hour, approximately 0.8 miles of 8-inch pipeline that transports lubricant base stocks and diesel, and approximately 0.8 miles of 14-inch pipeline that delivers diesel and naphtha from our Hartford terminal to the Hartford barge dock for delivery to third-party vessels.

Gold Line Products System

Our Gold Line Products System is strategically positioned to transport refined petroleum products that are produced at the Borger Refinery (a refinery jointly owned by Phillips 66 and Cenovus Energy Inc.) in Borger, Texas, to major third-party interstate pipeline systems, including the Explorer refined petroleum product pipeline system, and also to four terminals located in Wichita, Kansas, Kansas City, Kansas, Jefferson City, Missouri, and Cahokia, Illinois, with access to Phillips 66's Ponca City Refinery.

Our Gold Line Products System consists of the following pipelines and terminals:

- Borger Refinery to Wichita pipeline. Our Borger to Wichita pipeline consists of approximately 273 miles of 16-inch pipeline that delivers diesel and gasoline produced at the Borger Refinery to our Wichita North terminal. The 16-inch pipeline has a total capacity of 120,000 barrels per day.

- Wichita to Paola pipeline. Our Wichita to Paola pipeline consists of approximately 143 miles of 16-inch pipeline with a connection to receive refined petroleum products from the Ponca City Refinery via the Phillips 66-owned Standish pipeline. The 16-inch pipeline has a total capacity of 132,000 barrels per day.

- Paola to East St. Louis pipeline. Our Paola to East St. Louis pipeline consists of approximately 265 miles of 8- to 12-inch pipeline that delivers diesel and gasoline to our Jefferson City and East St. Louis terminals. The pipeline has a total capacity of 53,000 barrels per day.

- Paola to Kansas City pipelines. Our Paola to Kansas City pipelines consist of two parallel 53-mile lateral lines that run from Paola, Kansas, to Kansas City, Kansas. These 8-inch and 10-inch pipelines have a total aggregate capacity of 96,000 barrels per day.

- East St. Louis terminal. Our East St. Louis terminal is located in Cahokia, Illinois, approximately 681 miles from the Borger Refinery. The facility consists of a six-bay truck rack with an active capacity of 78,000 barrels per day and 19 above-ground storage tanks with a total storage capacity of approximately 2.2 million barrels. The East St. Louis terminal delivers diesel, gasoline and jet fuel to the Explorer and Buckeye refined petroleum product pipeline systems through a direct pipeline connection.

- Jefferson City terminal. Our Jefferson City terminal is located in Jefferson City, Missouri. The facility consists of a two-bay truck rack with an active capacity of 16,000 barrels per day and 8 above-ground storage tanks with a total storage capacity of approximately 110,000 barrels.

- Kansas City terminal. Our Kansas City terminal is located in Kansas City, Kansas, approximately 469 miles from the Borger Refinery. The facility consists of a five-bay truck rack with an active capacity of 66,000 barrels per day and 17 above-ground storage tanks with a total storage capacity of approximately 1.3 million barrels. The Kansas City terminal delivers diesel, gasoline and jet fuel to the Magellan refined petroleum product pipeline system through a direct pipeline connection.

- Wichita North terminal. Our Wichita North terminal is located in Wichita, Kansas, approximately 273 miles from the Borger Refinery. The facility also receives refined petroleum products from the Ponca City Refinery via the Phillips 66-owned Standish pipeline. The facility consists of a two-bay truck rack with an active capacity of 19,000 barrels per day and 19 above-ground storage tanks with a total storage capacity of approximately 679,000 barrels. The Wichita North terminal delivers diesel, gasoline and jet fuel to the NuStar refined petroleum product pipeline system through a direct pipeline connection.

Medford Spheres
Our Medford Spheres provide an outlet for delivery of refinery-grade propylene from the Ponca City Refinery, through interconnections with third-party pipelines, to Mont Belvieu, Texas. The two refinery-grade propylene storage spheres are located in Medford, Oklahoma, and have a total aggregate working capacity of 70,000 barrels. Medford Spheres commenced operations in March 2014.

Bayway Rail Rack
Our Bayway Rail Rack is located in Linden, New Jersey, within the Bayway Refinery. The rail rack consists of a four-track crude oil receiving facility with a rail unloading capacity of 75,000 barrels per day. The facility commenced commercial operations in August 2014 and is capable of unloading 120 railcars simultaneously.

Ferndale Rail Rack
Our Ferndale Rail Rack is located in Ferndale, Washington, adjacent to the Ferndale Refinery. The rail rack consists of a two-track crude oil receiving facility with a rail unloading capacity of 30,000 barrels per day. The facility commenced commercial operations in November 2014 and is capable of unloading 54 railcars simultaneously.

Cross-Channel Connector Project
Our Cross-Channel Connector project is a 20-inch refined products pipeline originating at our Pasadena terminal, running to terminal facilities located at Kinder Morgan’s Pasadena terminal and its Galena Park station in Galena Park, Texas, and terminating at the Holland Avenue Junction in Galena Park, Texas. We have undertaken an organic growth project to provide shippers with a connection from the Pasadena terminal to third-party systems with water access on the Houston Ship Channel. The pipeline system will have an initial capacity of up to 180,000 barrels per day and is anticipated to be completed and commence operations in the second quarter of 2015.

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Bakken Joint Ventures
In January 2015, we closed on our joint venture transactions with Paradigm to develop and operate midstream logistics infrastructure in the Bakken region of North Dakota:

- Phillips 66 Partners Terminal LLC. We contributed the Palermo Rail Terminal project to the terminal joint venture, Phillips 66 Partners Terminal LLC, in exchange for a 70 percent interest, with Paradigm owning the remaining 30 percent interest. The Palermo Rail Terminal is a crude oil rail-loading facility currently under construction on a 710-acre site near Palermo, North Dakota. The terminal will have an initial capacity of 100,000 barrels per day, with the flexibility to be expanded to 200,000 barrels per day. It is located on a railway main line with two mainline switches, allowing east- and west-bound rail traffic. The terminal is anticipated to include a pipeline delivery and receipt connection to the Sacagawea Pipeline, allowing the terminal to receive crude oil from areas in Dunn and McKenzie County, North Dakota, and deliver it to terminals and pipelines located in Stanley, North Dakota. The terminal will also include adequate space for up to 12 truck unloading facilities and approximately 300,000 barrels of operational storage, with permits allowing total storage capacity of up to 2.4 million barrels. We are constructing and will operate the terminal. The terminal is anticipated to be completed and in service in the fourth quarter of 2015.

- Paradigm Pipeline LLC. We and Paradigm each own a 50 percent interest in the pipeline joint venture, Paradigm Pipeline LLC. The pipeline joint venture will own an 88 percent interest in Sacagawea Pipeline Company, LLC, the owner of the Sacagawea Pipeline, with the remaining 12 percent interest owned by Grey Wolf Midstream, LLC. The pipeline joint venture will also construct and own a crude oil storage terminal and a central delivery facility for various crude gathering systems located in Keene, North Dakota (the Paradigm CDP). The Sacagawea Pipeline project is a 76-mile pipeline being developed to deliver crude oil from various points in and around Johnson's Corner and the Paradigm CDP, located in McKenzie County, North Dakota, to destinations with take away options for both rail and pipeline in Palermo and Stanley, North Dakota. Paradigm is constructing the pipeline and we will be the operator. The pipeline is anticipated to commence operations in the fourth quarter of 2015.

Eagle Ford Gathering System Project
Our Eagle Ford Gathering System is a crude oil gathering system, currently under construction, that will consist of two pipelines and a storage facility near Helena and Tilden, Texas. The gathering system is designed to connect Eagle Ford production to third-party pipelines. The pipelines will include a 6-inch, 6-mile crude oil pipeline near Helena and a 10-inch, 17-mile crude oil pipeline near Tilden with 7 origination/injection points. The storage facility, located in Tilden, will have a capacity of 90,000 barrels with an injection point into a third-party pump station. The Helena portion of the gathering system began operations in January 2015, and the entire gathering system is anticipated to be completed and in service in the third quarter of 2015, upon commencement of operations at the Tilden section of the gathering system. In January 2015, we entered into a throughput and deficiency agreement with Phillips 66, which provides minimum volume commitments on the gathering system when each portion of the system is completed and in service.

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COMMERCIAL AND OTHER AGREEMENTS WITH PHILLIPS 66
Our assets are physically connected to, and integral to the operation of, Phillips 66's wholly owned Lake Charles, Sweeny, Ponca City, Bayway and Ferndale refineries and its jointly owned Wood River and Borger refineries. In connection with the Offering and the Acquisitions, we entered into multiple commercial agreements with Phillips 66, and amended an existing commercial agreement with Phillips 66, which include minimum volume commitments and inflation escalators. Currently, those agreements are the source of a significant portion of our revenue. Under these long-term, fee-based agreements, we provide transportation, terminaling and storage services to Phillips 66, and Phillips 66 commits to provide us with minimum quarterly volumes of crude oil and refined petroleum products.

The following table sets forth minimum commitment information regarding our commercial agreements with Phillips 66 as of December 31, 2014.

Agreement	Phillips 66 Minimum Volume Commitment (Thousands of Barrels Daily)(1)	Phillips 66 Capacity Reservation (Thousands of Barrels Daily)
Transportation Services Agreements		
Clifton Ridge Transportation Services Agreement		
Clifton Ridge to Lake Charles refinery pipeline	190	—
Sweeny to Pasadena Transportation Services Agreement		
Sweeny to Pasadena pipelines	200	—
Hartford Connector Throughput and Deficiency Agreement		
Wood River refinery to Hartford pipeline(2)	43	12.2
Hartford to Explorer pipeline(2)	16	39.2
Gold Line Transportation Services Agreement		
Borger refinery to Wichita pipeline	54	—
Wichita to Kansas City pipeline	45	—
Wichita to Jefferson City pipeline	7	—
Wichita to East St. Louis Pipeline	10	—
Terminal and Storage Services Agreements		
Clifton Ridge Terminal Services Agreement		
Clifton Ridge terminal storage	190	—
Clifton Ridge ship dock / Pecan Grove barge dock	150	—
Hartford and Pasadena Terminal Services Agreement		
Pasadena terminal	135	—
Pasadena and Hartford terminal truck racks	55	—
Gold Line Terminal Services Agreement		
Wichita North, Kansas City, Jefferson City and East St. Louis terminals truck racks	80	—
Gold Line Storage Services Agreement		
Wichita North, Kansas City and East St. Louis terminals(3)	1,010	—
Medford Spheres Storage Services Agreement		
Medford Spheres(3)	70	—
Bayway Terminal Services Agreement		
Bayway Rail Rack(3)	75	—
Ferndale Terminal Services Agreement		
Ferndale Rail Rack(3)	30	—

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

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See the “Commercial Agreements,” “Amended Operational Services Agreement,” “Amended Omnibus Agreement” and “Tax Sharing Agreement” sections of Note 18—Related Party Transactions, in the Notes to Consolidated Financial Statements, for summaries of the terms of these and other agreements with Phillips 66.

COMPETITION

As a result of our contractual relationship with Phillips 66 under our commercial agreements and our direct connections to Phillips 66’s owned or operated refineries, we believe that our crude oil and refined petroleum product pipelines, terminals and storage facilities will not face significant competition from other pipelines, terminals and storage facilities for Phillips 66’s crude oil or refined petroleum product transportation requirements to and from the refineries we support. If Phillips 66’s customers were to reduce their purchases of refined petroleum products from Phillips 66, Phillips 66 might only ship the minimum volumes through our pipelines (or pay the shortfall payment if it does not ship the minimum volumes), which would cause a decrease in our revenue. Phillips 66 competes with integrated petroleum companies, which have their own crude oil supplies and distribution and marketing systems, as well as with independent refiners, many of which also have their own distribution and marketing systems. Phillips 66 also competes with other suppliers that purchase refined petroleum products for resale. Competition in any particular geographic area is affected significantly by the volume of products produced by refineries in that area and by the availability of products and the cost of transportation to that area from distant locations.

RATES AND OTHER REGULATIONS

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

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

EPAct 1992 required FERC to establish a simplified and generally applicable methodology to adjust tariff rates for inflation for interstate petroleum pipelines. As a result, FERC adopted an indexing rate methodology which, as currently in effect, allows common carriers to change their rates within prescribed ceiling levels that are tied to changes in the Producer Price Index (PPI) for finished goods. FERC’s indexing methodology is subject to review every five years. During the five-year period commencing July 1, 2011, and ending June 30, 2016, common carriers charging indexed rates are permitted to adjust their indexed ceilings annually by PPI plus 2.65 percent. The indexing methodology is applicable to existing rates, including grandfathered rates, with the exclusion of market-based rates. A pipeline is not required to raise its rates up to the index ceiling, but it is permitted to do so and rate increases made under the index are presumed to be just and reasonable unless a protesting party can demonstrate that the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline's increase in costs. Under the indexing rate methodology, in any year in which the index is negative, pipelines must file to lower their rates if those rates would otherwise be above the rate ceiling.

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

Pipeline Safety

Our assets are subject to increasingly strict safety laws and regulations. The transportation and storage of crude oil and refined petroleum products involves a risk that hazardous liquids may be released into the environment, potentially causing harm to the public or the environment. In turn, any such incidents may result in substantial expenditures for response actions, significant government penalties, liability to government agencies for natural resources damages, and significant business interruption. The United States Department of Transportation (DOT) has adopted safety regulations with respect to the design, construction, operation, maintenance, inspection and management of our assets. These regulations contain requirements for the development and implementation of pipeline integrity management programs, which include the inspection and testing of pipelines and necessary maintenance or repairs. These regulations also require that pipeline operation and maintenance personnel meet certain qualifications and that pipeline operators develop comprehensive spill response plans. We are subject to regulation by the DOT under the Hazardous Liquid Pipeline Safety Act of 1979 (the HLPSA). The HLPSA delegated to DOT the authority to develop, prescribe, and enforce minimum federal safety standards for the transportation of hazardous liquids by pipeline. Congress also enacted the Pipeline Safety Act of 1992 (the PSA), which added the environment to the list of statutory factors that must be considered in establishing safety standards for hazardous liquid pipelines, required regulations be issued to define the term “gathering line” and establish safety standards for certain “regulated gathering lines,” and mandated that regulations be issued to establish criteria for operators to use in identifying and inspecting pipelines located in High Consequence Areas (HCAs), defined as those areas that are unusually sensitive to environmental damage, that cross a navigable waterway, or that have a high population density. In 1996, Congress enacted the Accountable Pipeline Safety and Partnership Act (the APSPA), which limited the operator identification requirement mandate to pipelines that cross a waterway where a substantial likelihood of commercial navigation exists, required that certain areas where a pipeline rupture would likely cause permanent or long-term environmental damage be considered in determining whether an area is unusually sensitive to environmental damage, and mandated that regulations be issued for the qualification and testing of certain pipeline personnel. In the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006 (the PIPES Act), Congress required mandatory inspections for certain U.S. crude oil and natural gas transmission pipelines in HCAs

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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 reauthorized funding for federal pipeline safety programs through 2015, increased penalties for safety violations, established additional safety requirements for newly constructed pipelines, and required studies of certain safety issues that could result in the adoption of new regulatory requirements for existing pipelines.

DOT's Pipeline and Hazardous Materials Safety Administration (PHMSA) administers compliance with these statutes and has promulgated comprehensive safety standards and regulations for the transportation of hazardous liquid by pipeline, including regulations for the design and construction of new pipeline systems or those that have been relocated, replaced, or otherwise changed; pressure testing of new pipelines; operation and maintenance of pipeline systems, including inspecting and reburying pipelines in the Gulf of Mexico and its inlets, establishing programs for public awareness and damage prevention, managing the integrity of pipelines in HCAs, and managing the operation of pipeline control rooms; protection of steel pipelines from the adverse effects of internal and external corrosion; and integrity management requirements for pipelines in HCAs. In addition, in 2010, PHMSA issued an advance notice of proposed rulemaking on a range of topics relating to the safety of crude oil and other hazardous liquids pipelines. Among other items, the advance notice of proposed rulemaking requested comment on whether to extend regulation to certain pipelines currently exempt from federal safety regulations; whether to extend integrity management regulations to additional pipelines outside of HCAs; and whether to require leak detection outside of HCAs. PHMSA has not yet taken further action on the issues raised in the advance notice of proposed rulemaking. We do not anticipate that we would be impacted by these regulatory initiatives to any greater degree than other similarly situated competitors. In addition, PHMSA has published an advisory bulletin providing guidance on verification of records related to pipeline maximum operating pressure. PHMSA is considering a rulemaking on this topic referred to as the Integrity Verification Process. We have performed hydrostatic tests of our facilities to confirm the maximum operating pressure and do not expect that any final rulemaking by PHMSA regarding verification of maximum operating pressure would materially affect our operations or revenue.

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

Product Quality Standards

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

Terminal Safety

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

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Rail Safety

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

Security

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

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

ENVIRONMENTAL REGULATIONS

General

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

Expensed environmental costs were $1.0 million in 2014 and are expected to be approximately $4.6 million in 2015 and $0.5 million in 2016. The majority of the environmental expenses forecasted for 2015 and 2016 relate to environmental matters attributable to ownership of our current assets prior to our acquisition of these assets from Phillips 66. Phillips 66 has agreed to retain responsibility for these liabilities. Accordingly, although these amounts would be expensed by us, there would be no required cash outflow from us. See the “Indemnification” and “Excluded Liabilities of the Acquired Assets” sections to follow for additional information on Phillips 66-retained liabilities.
Capitalized environmental costs were $23.9 million in 2014 and are expected to be approximately $25 million in 2015 and $26 million in 2016. These amounts do not include capital expenditures made for other purposes that have an indirect benefit on environmental compliance.

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Air Emissions and Climate Change

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

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

These air emissions requirements also affect Phillips 66’s domestic refineries from which we directly or indirectly receive substantially all 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 year 2014, the U.S. Environmental Protection Agency (EPA) proposed to reduce the statutory volumes of advanced and total renewable fuels using authority granted to it under the EISA. We do not know whether this reduction will be finalized as proposed and/or whether the EPA will utilize its authority to reduce statutory volumes in future compliance years.

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

In addition, the EPA has proposed and may adopt further regulations under the CAA addressing GHGs, to which some of our facilities may become subject. 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 a large extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater, and surface water, and include measures to control pollution of the environment. These laws generally regulate the generation, storage, treatment, transportation, and disposal of solid and hazardous waste. They also require corrective action, including investigation and remediation, at a facility where such waste may have been released or disposed.

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

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

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

Water

Our operations can result in the discharge of pollutants, including crude oil and petroleum products. Regulations under the Water Pollution Control Act of 1972 (Clean Water Act), Oil Pollution Act of 1990 (OPA 90) and comparable state laws impose regulatory burdens on our operations. Spill Prevention Control and Countermeasure (SPCC) requirements of federal laws and some state laws require containment to mitigate or prevent 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 tank 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 company to pay resulting removal costs and damages. OPA 90 also provides for civil penalties and imposes criminal sanctions for violations of its provisions. We operate facilities at which releases of oil and hazardous substances could occur. We have implemented emergency oil response plans for all of our components and facilities covered by OPA 90 and we have established SPCC plans for facilities subject to Clean Water Act SPCC requirements. Construction or maintenance of our pipelines, terminals and storage facilities may impact wetlands, which are also regulated under the Clean Water Act by the EPA and the United States Army Corps of Engineers. Regulatory requirements governing wetlands (including associated mitigation projects) may result in the delay of our projects while we obtain necessary permits and may increase the cost of new projects and maintenance activities.

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

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

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

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

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

Acquired Assets, from and after the effective date of each acquisition.

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GENERAL

Major Customer
Phillips 66 accounted for 95 percent, 94 percent and 95 percent of our total revenues in the years ended December 31, 2014, 2013 and 2012, respectively. We provide crude oil and refined petroleum product pipeline transportation, terminaling, storage and rail-unloading services to Phillips 66.

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

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

Employees
We are managed and operated by the executive officers of our General Partner with oversight provided by its Board of Directors. Neither we nor our subsidiaries have any employees. Our General Partner has the sole responsibility for providing the employees and other personnel necessary to conduct our operations. All of the employees that conduct our business are employed by affiliates of our General Partner. Our General Partner and its affiliates have approximately 130 employees who spend a significant amount of their time performing services for our operations. We believe that our General Partner and its affiliates have a satisfactory relationship with those employees.

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

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

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Item 1A. RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- A significant interruption in one or more of Phillips 66’s facilities could adversely affect business.
- Any decision by Phillips 66 to temporarily or permanently curtail or shut down operations at one or more of its domestic refineries or other facilities and reduce or terminate its obligations under our commercial agreements.
- Phillips 66’s performance depends on the uninterrupted operation of its refineries and other facilities, which are becoming increasingly dependent on information technology systems.
- Potential indemnification of ConocoPhillips by Phillips 66 for various matters related to Phillips 66’s separation may have an adverse impact on its results of operations and financial condition.

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

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

We may not generate sufficient distributable cash flow each quarter to support the payment of the minimum quarterly distribution. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- The volume of crude oil and refined petroleum products we transport.
- The tariff rates with respect to volumes that we transport.
- Changes in revenue we realize under the loss allowance provisions of our regulated tariffs resulting from changes in underlying commodity prices.

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

- The amount of our operating expenses and general and administrative expenses, including reimbursements to Phillips 66, which are not subject to any caps or other limits, in respect of those expenses.
- The application by Phillips 66 of any remaining credit amounts to any volumes handled by our assets after the expiration or termination of our commercial agreement.
- The application by Phillips 66 of credit amounts under our Hartford Connector throughput and deficiency agreement, which may be applied towards deficiency payments in future periods.
- The level of maintenance capital expenditures we make.
- Our debt service requirements and other liabilities.

- Our ability to borrow funds and access capital markets.
- Restrictions contained in our revolving credit facility and other debt service requirements.
- Changes in commodity prices.
- Other business risks affecting our cash levels.

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

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

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

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

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

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

- Damages to pipelines, terminals and facilities, related equipment and surrounding properties caused by earthquakes, tornados, hurricanes, floods, fires, severe weather, explosions and other natural disasters and acts of terrorism.
- Maintenance, repairs, mechanical or structural failures at our or Phillips 66's facilities or at third-party facilities on which our or Phillips 66's operations are dependent, including electrical shortages, power disruptions and power grid failures.
- Damages to and loss of availability of interconnecting third-party pipelines, terminals and other means of delivering crude oil, feedstocks and refined petroleum products.
- Disruption or failure of information technology systems and network infrastructure due to various causes, including unauthorized access or attack.
- Curtailments of operations due to severe seasonal weather.
- Riots, strikes, lockouts or other industrial disturbances.

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

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

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

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

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

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

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

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

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

We do not own all of the land on which our pipelines are located, and we are, therefore, 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.

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

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

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

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

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

Transportation of crude oil and refined petroleum products involves inherent risks of spills and releases from our facilities, and can subject us to various federal and state laws governing spills and releases, including reporting and remediation obligations. The costs associated with such obligations can be substantial, as can costs associated with related enforcement matters, including possible fines and penalties. Transportation of such products over water or proximate to navigable water bodies involves inherent risks (including risks of spills) and could subject us to the provisions of the Oil Pollution Act of 1990 and similar state environmental laws should a spill occur from our pipelines. We and Phillips 66 have contracted with various spill response service companies in the areas in which we transport or store crude oil and refined petroleum products; however, these companies may not be able to adequately contain a "worst case discharge" in all instances, and we cannot ensure that all of their services would be available at any given time. In these and other cases, we may be subject to liability in connection with the discharge of crude oil or petroleum products into navigable waters. We could incur potentially significant additional expenses should we determine that any of our assets are not in compliance with applicable laws and regulations. Our failure to comply with these or any other environmental, safety or pipeline-related regulations could result in the assessment of administrative, civil, or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of injunctions that may subject us to additional operational constraints. Any such penalties or liability could have a material adverse effect on our business, financial condition, or results of operations. We will be subject to an aggregate deductible of $0.1 million before we are entitled to indemnification from Phillips 66 for certain environmental liabilities under our amended omnibus agreement. Even if we are insured or indemnified against such risks, we may be responsible for costs or penalties to the extent our insurers or indemnitors do not fulfill their obligations to us. See Items 1 and 2. Business and Properties—Environmental Regulations and Items 1 and 2. Business and Properties—Rates and Other Regulations—Pipeline Safety, for additional information.

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

Potential additional 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

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maintain our facilities, (2) capital expenditures to install new emission controls on our facilities and (3) costs to administer and manage any potential GHG emissions regulations or carbon trading or tax programs. These actions could also have an indirect adverse effect on our business if Phillips 66's refinery operations are adversely affected due to increased regulation of Phillips 66's facilities or reduced demand for crude oil, refined petroleum products and NGL, and a direct adverse effect on our business from increased regulation of our facilities. See Items 1 and 2. Business and Properties—Environmental Regulations—Air Emissions and Climate Change, for additional information.

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

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

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

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

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

Hydraulic fracturing is a common practice used to stimulate production of crude oil and/or natural gas from dense subsurface rock formations, and is primarily presently regulated by state agencies. However, Congress has in the past and may in the future consider legislation to regulate hydraulic fracturing by federal agencies. Many states have already adopted laws and/or regulations that require disclosure of the chemicals used in hydraulic fracturing, and are considering legal requirements that could impose more stringent permitting, disclosure and well construction requirements on oil and/or natural gas drilling activities. The EPA is also moving forward with various regulations requiring, among other matters, "green completions" of hydraulically fractured wells by 2015 and certain emission requirements for some midstream equipment. We do not believe these new regulations will have a direct effect on our operations, but because oil and/or natural gas production using hydraulic fracturing is growing rapidly in the United States, if new or more stringent federal, state or local legal restrictions relating to such drilling activities or to the hydraulic fracturing process are adopted in areas where our shippers' producer suppliers operate, those producers could incur potentially significant added costs to comply with such requirements and experience delays or curtailment in the pursuit of production or development activities, which could reduce demand for our transportation and midstream services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Risks Inherent in an Investment in Us

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

As of December 31, 2014, Phillips 66 owned a 2 percent general partner interest and a 73.3 percent limited partner interest in us and owned and controlled our General Partner. Additionally, Phillips 66 continues to own a 50 percent equity interest in DCP Midstream, LLC (DCP Midstream), and a 50 percent equity interest in Chevron Phillips Chemical Company LLC (CPChem). Although our General Partner has a duty to manage us in a manner that is in the best interests of our partnership and our unitholders, the directors and officers of our General Partner also have a duty to manage our General Partner in a manner that is in the best interests of its owner, Phillips 66. Conflicts of interest may arise between Phillips 66 and its affiliates, including our General Partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts, our General Partner may favor its own interests and the interests of its affiliates, including Phillips 66, over the interests of our common unitholders. These conflicts include, among others, the following situations:

- Neither our partnership agreement nor any other agreement requires Phillips 66 to pursue a business strategy that favors us or utilizes our assets, which could involve decisions by Phillips 66 to increase or decrease refinery production, shut down or reconfigure a refinery, pursue and grow particular markets, or undertake acquisition opportunities for itself. 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 partnership agreement replaces the fiduciary duties that would otherwise be owed by our General Partner with contractual standards governing its duties, limiting our General Partner's liabilities and restricting the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty.

- Except in limited circumstances, our General Partner has the power and authority to conduct our business without unitholder approval.

- Our General Partner will determine the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and the creation, reduction or increase of cash reserves, each of which can affect the amount of cash that is distributed to our unitholders.

- Our General Partner will determine the amount and timing of many of our cash expenditures and whether a cash expenditure is classified as an expansion capital expenditure, which would not reduce operating surplus, or a maintenance capital expenditure, which would reduce our operating surplus. This determination can affect the amount of available cash from operating surplus that is distributed to our unitholders and to our General Partner, the amount of adjusted operating surplus generated in any given period and the ability of the subordinated units to convert into common units.

- Our General Partner will determine which costs incurred by it are reimbursable by us.

- Our General Partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate expiration of the subordination period.

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- Our partnership agreement permits us to classify up to $60.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions on our subordinated units or to our General Partner in respect of the general partner interest or the incentive distribution rights.

- Our partnership agreement does not restrict our General Partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.

- Our General Partner intends to limit its liability regarding our contractual and other obligations.

- Our General Partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if it and its affiliates own more than 80 percent of the common units.

- Our General Partner controls the enforcement of obligations owed to us by our General Partner and its affiliates, including our commercial agreements with Phillips 66.

- Our General Partner decides whether to retain separate counsel, accountants or others to perform services for us.

- Our General Partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our General Partner’s incentive distribution rights without the approval of the conflicts committee of the Board of Directors of our General Partner, which we refer to as our conflicts committee, or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

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

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

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

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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 and subordinated 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 our partnership, and will not be subject to any other or different standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or at equity.

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

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

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

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

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

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

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

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

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

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. For example, unlike holders of stock in a public corporation, unitholders will not have "say-on-pay" advisory voting rights. Unitholders did not elect our General Partner or the Board of Directors of our General Partner and will have no right to elect our General Partner or the Board of Directors of our General Partner on an annual or other continuing basis. The Board of Directors of our General Partner is chosen by the member of our General Partner, which is a wholly owned subsidiary of Phillips 66. Furthermore, if the unitholders are dissatisfied with the performance of our General

Partner, they have little ability to remove our General Partner. As a result of these limitations, the price at which our common units trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

The unitholders are unable initially to remove our General Partner without its consent because our General Partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3 percent of all outstanding common units and subordinated units voting together as a single class is required to remove our General Partner. Our General Partner and its affiliates own approximately 73 percent of our total outstanding common units and subordinated units on an aggregate basis. Also, if our General Partner is removed without cause during the subordination period and common units and subordinated units held by our General Partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically be converted into common units, and any existing arrearages on the common units will be extinguished. A removal of our General Partner under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests.

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

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

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

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

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

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

- Our unitholders' proportionate ownership interest in us will decrease.
- The amount of cash we have available to distribute on each unit may decrease.
- Because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase.
- 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, 2014, Phillips 66 held 20,938,498 common units and 35,217,112 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period and may convert earlier under certain circumstances. Additionally, we have agreed to provide Phillips 66 with certain registration rights under applicable securities laws. The sale of these units in the public or private markets could have an adverse impact on the price of the common units or on any trading market that may develop.

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

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

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

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

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

If at any time our General Partner and its affiliates own more than 80 percent of our then-outstanding common units, our General Partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units. Our General Partner and its affiliates owned approximately 53 percent of our common units at December 31, 2014. At the end of the subordination period, assuming no additional issuances of common units by us (other than upon the conversion of the subordinated units), our General Partner and its affiliates would own approximately 75 percent of our then outstanding common units and therefore would not be able to exercise the call right at that time.

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

Our General Partner has the right, at any time when there are no subordinated units outstanding and it has received distributions on its incentive distribution rights at the highest level to which it is entitled (48 percent, in addition to distributions paid on its 2 percent general partner interest) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our distributions at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution. If our General Partner elects to reset the target distribution levels, it will be entitled to receive a number of common units and general partner units. The number of common units to be issued to our General Partner will be equal to that number of common units that would have entitled their holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our General Partner on the incentive distribution rights in such two quarters. Our General Partner will also be issued the number of general partner units necessary to maintain our General Partner's interest in us at the level that existed immediately prior to the reset election. We anticipate that our General Partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion. It is possible, however, that our General Partner could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may, therefore, desire to be issued common units rather than retain the right to receive distributions based on the initial target distribution levels. This risk could be elevated if our incentive distribution rights have been transferred to a third party. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that they would have otherwise received had we not issued new common units and general partner units in connection with resetting the target distribution levels. Additionally, our General Partner has the right to transfer all or any portion of our incentive distribution rights at any time, and such transferee shall have the same rights as the general partner relative to resetting target distributions if our General Partner concurs that the tests for resetting target distributions have been fulfilled.

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.

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Tax Risks

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

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

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

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

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

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

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

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

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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 day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could 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 day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. The U.S. Treasury Department issued proposed regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge this method or new Treasury Regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

We have adopted certain valuation methodologies and monthly conventions for federal income tax purposes that may result in a shift of income, gain, loss and deduction between our General Partner and our unitholders. The IRS may challenge this treatment, which could adversely affect the value of our common units.

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our General Partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and our General Partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of taxable income, gain, loss and deduction between our General Partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of taxable gain from our unitholders’ 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 without the benefit of additional deductions.

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

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

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 litigation or governmental or other proceeding that we believe will have a material adverse impact on our consolidated financial condition or results of operations. In addition, under our amended omnibus agreement, Phillips 66 indemnifies us for liabilities relating to litigation and environmental matters attributable to the ownership or operation of the assets contributed to us in connection with the Offering prior to the closing of the Offering. Pursuant to the terms of the various agreements under which we acquired assets from Phillips 66 since the Offering, Phillips 66 assumed the responsibility for all the liabilities relating to litigation and environmental matters attributable to the ownership and operation of the Acquired Assets prior to our acquisition of those assets.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Quarterly Common Unit Prices and Cash Distributions Per Unit
Our common units trade on the New York Stock Exchange (NYSE) under the symbol “PSXP.” The following table reflects intraday high and low sales prices per common unit and cash distributions declared to unitholders for each quarter starting July 23, 2013, the date on which our common units began trading on the NYSE:

	Common Unit Price		Quarterly Cash Distribution Per Unit*
	High	Low	
2014			
First Quarter	$50.45	35.50	.2743
Second Quarter	79.92	47.50	.3017
Third Quarter	79.83	61.82	.3168
Fourth Quarter	71.00	51.35	.3400
2013			
Third Quarter	$35.92	28.10	.1548
Fourth Quarter	38.99	29.03	.2248

*Represents cash distribution attributable to the quarter and declared and paid within 45 days of quarter end pursuant to our partnership agreement. The quarterly cash distribution per unit for the third quarter of 2013 was pro-rated for the period from July 26, 2013, through September 30, 2013.

Closing Common Unit Price at December 31, 2014	$68.93
Closing Common Unit Price at January 30, 2015	$72.42
Number of Unitholders of Record at January 30, 2015*	8

*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, beginning with the quarter ended September 30, 2013, 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, 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.
- Provide funds for distributions to our unitholders and to our General Partner for any one or more of the next four quarters (provided that our General Partner may not establish cash reserves for distributions if the effect of the establishment of such reserves will prevent us from distributing the minimum quarterly distribution on all common units and any cumulative arrearages on such common units for the current quarter).

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

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

General Partner Interest and Incentive Distribution Rights. Our General Partner is entitled to 2 percent of all quarterly distributions that we make. This general partner interest was represented by 1,531,518 general partner units at December 31, 2014. Our General Partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. The general partner's initial 2 percent interest in these distributions will be reduced if we issue additional units in the future and our General Partner does not contribute a proportionate amount of capital to us to maintain its 2 percent general partner interest.

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

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

	Total Quarterly Distribution Per Unit Target Amount		Marginal Percentage Interest in Distributions			
			Unitholders		General Partner	
Minimum Quarterly Distribution	$0.2125		98	%	2	%
First Target Distribution	Above $0.2125	up to $0.244375	98	%	2	%
Second Target Distribution	Above $0.244375	up to $0.265625	85	%	15	%
Third Target Distribution	Above $0.265625	up to $0.318750	75	%	25	%
Thereafter	Above $0.318750		50	%	50	%

Subordination Period

Our partnership agreement provides that, during the subordination period (as defined below), the common units will have the right to receive distributions of available cash from operating surplus each quarter in an amount equal to $0.2125 per common unit, which amount is defined in our partnership agreement as the minimum quarterly distribution, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. These units are deemed "subordinated" because for a period of time, referred to as the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters. Furthermore,

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no arrearages will accrue or be payable on the subordinated units. The practical effect of the subordinated units is to increase the likelihood that, during the subordination period, there will be available cash to be distributed on the common units.

Definition of Subordination Period. Except as described below, the subordination period began on the closing date of the Offering and extends until the first business day following the distribution of available cash in respect of any quarter beginning with the quarter ending September 30, 2016, that each of the following tests are met:

- Distributions of available cash from operating surplus on each of the outstanding common units, subordinated units and general partner units equaled or exceeded $0.85 (the annualized minimum quarterly distribution), for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date.
- The adjusted operating surplus (as defined in the partnership agreement) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of $0.85 (the annualized minimum quarterly distribution) on all of the outstanding common units, subordinated units and general partner units during those periods on a fully diluted basis.
- There are no arrearages in payment of the minimum quarterly distribution on the common units.

Early Termination of the Subordination Period. Notwithstanding the foregoing, the subordination period will automatically terminate on the first business day following the distribution of available cash in respect of any quarter, beginning with the quarter ended September 30, 2014, that each of the following tests are met:

- Distributions of available cash from operating surplus on each of the outstanding common units, subordinated units and general partner units equaled or exceeded $1.275 (150 percent of the annualized minimum quarterly distribution) for the four-quarter period immediately preceding that date.
- The adjusted operating surplus generated during the four-quarter period immediately preceding that date equaled or exceeded the sum of (1) $1.275 (150 percent of the annualized minimum quarterly distribution) on all of the outstanding common units, subordinated units and general partner units during that period on a fully diluted basis and (2) the corresponding distributions on the incentive distribution rights.
- There are no arrearages in payment of the minimum quarterly distributions on the common units.

Expiration of the Subordination Period. When the subordination period ends, each outstanding subordinated unit will convert into one common unit and will thereafter participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our General Partner other than for cause:

- The subordinated units held by any person will immediately and automatically convert into common units on a one-for-one basis, provided (1) neither such person nor any of its affiliates voted any of its units in favor of the removal and (2) such person is not an affiliate of the successor general partner.
- If all of the subordinated units convert pursuant to the foregoing, all cumulative common unit arrearages on the common units will be extinguished and the subordination period will end.
- Our General Partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Unregistered Sale of Equity Securities

On December 10, 2014, we issued 13,129 common units representing limited partner interests to Phillips 66 Company and 268 general partner units to our General Partner, as part of the consideration paid for the acquisition of the Palermo Rail Terminal project. The issuance of the common units was completed in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 4(a)(2), as a transaction by an issuer not involving a public offering. See Note 4—Acquisitions, in the Notes to Consolidated Financial Statements for additional information.

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Item 6. SELECTED FINANCIAL DATA

See Items 1 and 2. Business and Properties—2014 Developments, for a description of our significant transactions in 2014. The acquisitions of the Gold Line, Medford, Bayway and Ferndale assets from Phillips 66 were transfers of businesses between entities under common control, which requires them 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. Accordingly, the accompanying financial information has been retrospectively adjusted to include the historical results and financial position of these acquired businesses prior to the effective date of each acquisition. The acquisitions of the Cross-Channel, Palermo and Eagle Ford projects represented transfers of assets. Accordingly, these assets are included in the financial statements prospectively from the effective date of each acquisition. See Note 4—Acquisitions, in the Notes to Consolidated Financial Statements, for additional information.

For periods prior to the Offering, the historical results of operations include our predecessor for accounting purposes. We refer to our pre-Offering predecessor and the operations of the Gold Line, Medford, Bayway and Ferndale assets prior to the effective date of each acquisition collectively as "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 financial information presented for the periods after the Offering represents the consolidated results of operations, financial position and cash flows of the Partnership giving retrospective effect to the combined results of operations, financial position and cash flows of the Gold Line, Medford, Bayway and Ferndale assets. Accordingly:

- The selected income statement data for the year ended December 31, 2014, consists of the consolidated results of the Partnership and the combined results of the Gold Line, Medford, Bayway and Ferndale assets prior to the effective date of each acquisition. The selected income statement data for the year ended December 31, 2013, consists of the consolidated results of the Partnership for the period from July 26, 2013, through December 31, 2013, the combined results of our pre-Offering predecessor for the period from January 1, 2013, through July 25, 2013, and the combined results of the Gold Line, Medford, Bayway and Ferndale assets for the entire year of 2013. The selected income statement data for the years ended December 31, 2012 and 2011, consists entirely of the combined results of our Predecessors.

- The selected balance sheet data at December 31, 2014, consists of the consolidated balances of the Partnership. The selected balance sheet data at December 31, 2013, consists of the consolidated balances of the Partnership and the combined balances of the Gold Line, Medford, Bayway and Ferndale assets, while the selected balance sheet data at December 31, 2012 and 2011, consists of the combined balances of our Predecessors.

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

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	Millions of Dollars Except Per Unit Amounts			
	2014	2013(1)	2012(1)	2011(1)
Transportation and terminaling services revenue—related parties	$222.9	181.9	141.8	134.6
Transportation and terminaling services revenue—third parties	6.1	5.1	3.5	5.2
Net income	124.4	96.7	59.1	63.2
Net income attributable to the Partnership	116.0	28.9	**	**
Limited partners' interest in net income attributable to the Partnership	107.7	28.3	**	**
Net income attributable to the Partnership per limited partner unit (basic and diluted)(2)				
Common units	1.48	0.40	**	**
Subordinated units	1.45	0.40		