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EDITED TRANSCRIPT

PSXP - Q1 2014 Phillips 66 Partners LP Earnings Conference Call

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Tim Taylor *Phillips 66 Partners LP - President*

Greg Maxwell *Phillips 66 Partners LP - VP and CFO*

Tom Liberti *Phillips 66 Partners LP - VP and COO*

CONFERENCE CALL PARTICIPANTS

Brian Zarahn *Barclays Capital - Analyst*

Richard Roberts *Howard Weil - Analyst*

Jeremy Tonet *JPMorgan - Analyst*

Faisal Khan *Citigroup - Analyst*

PRESENTATION

Operator

Welcome to the first-quarter 2014 Phillips 66 Partners earnings conference call. My name is Larissa, and I'll be your operator for today's call.

At this time all participants are in a listen-only mode. Later we'll conduct a question-and-answer session. Please note this conference is being recorded.

I'll now turn the call over to Rosy Zuklic, Manager of Investor Relations. Rosy, you may begin.

Rosy Zuklic - *Phillips 66 Partners LP - Manager of IR*

Thank you. Good afternoon and welcome to the Phillips 66 Partners first-quarter earnings conference call.

With me today are Tim Taylor, President of Phillips 66 Partners; Greg Maxwell, Vice President and CFO; and Tom Liberti, Vice President and Chief Operating Officer.

The presentation material we will be using this afternoon can be found on the Events section of the Phillips 66 Partners website, along with supplemental financial and operating information. We will have time for questions at the end of the presentation.

Slide 2 contains our Safe Harbor statement. It is a reminder that we will be making forward-looking statements during the presentation and the question-and-answer session about Phillips 66 and Phillips 66 Partners.

Actual results may differ materially from what we present here today. And factors that could cause actual results to differ are included here as well as in our filings with the SEC.

With that, I'll turn the call over with Tim Taylor for some opening remarks.

Tim Taylor - *Phillips 66 Partners LP - President*

Thanks, Rosy. Good afternoon everyone, and thank you for joining us today to discuss the first-quarter results for Phillips 66 Partners.

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I'd like to highlight several key takeaways from the quarter. March 31st marked the close of our second full quarter as a publicly-traded Company. Since our IPO in July of 2013, we've delivered on our commitment to safety and operating excellence and this has continued in the first quarter of 2014.

During the quarter, we announced and closed on our first post-IPO acquisition from Phillips 66. The partnership acquired the Gold Line product system and two newly constructed refinery grade propylene storage spheres for $700 million. This transaction integrates and adds connections between Phillips 66 Partners' portfolio and two additional key midcontinent refineries and was immediately accretive to unit holders.

The transaction closed March 1, so this quarter's results reflect only one month of operations for these assets. In addition to operating safely and efficiently, PSXP reported solid financial results for the quarter, and last week our Board of Directors approved a distribution increase of 22% over our prior quarterly distribution. This increase shows our strong commitment to growing distributions for unitholders and keeps us on track toward our goal of delivering high growth in our first year of operations.

PSXP fits well with the strategic plans of Phillips 66 to grow its midstream business. At our recent analyst meeting, we provided a detailed look at the existing midstream portfolio within Phillips 66. This portfolio, combined with the growth opportunities before it, is expected to generate about $1.5 billion in qualifying EBITDA by 2017.

The Partnership's growth through drop downs of certain of these assets will be supplemented by organic growth opportunities, as well as third party acquisitions. We believe that PSXP unitholders will benefit from its strong alignment with and sponsorship from Phillips 66.

Now I'll turn the call over to Greg Maxwell to provide a more detailed update on the financial results for the quarter.

Greg Maxwell - *Phillips 66 Partners LP - VP and CFO*

Thanks, Tim. Good afternoon, everyone.

Beginning on slide 4, Phillips 66 Partners had first-quarter adjusted revenues of $36 million. This is up $6 million from the fourth quarter of 2013. This increase primarily reflects the addition of one month of operations of the Gold Line system and the Medford spheres.

This is slightly offset by lower pipeline throughput and terminal volumes on the Sweeny to Pasadena product systems due to planned maintenance activities at Phillips 66's Sweeny Refinery. Total adjusted costs and expenses of $17.4 million were up $4.5 million from the prior quarter, driven by increased operating costs and one-time transaction costs related to the acquisition.

As Tim noted, the General Partner's board recently declared our first-quarter cash distribution of $0.2743 per limited partner unit and is payable on May 13th to unit holders of record on May 5th. This distribution is 22% higher than our previous quarter's distribution of $0.2248 per unit and is 29% higher than the partnership's minimum quarterly distribution of $0.2125 per unit.

Turning to slide 5. Adjusted EBITDA was $21.5 million, and distributable cash flow was $23.3 million for the quarter. During the quarter, we had adjustments related to minimum volume commitments of $2.3 million. These adjustments were triggered on the Gold Line product system, due to a planned turnaround activities at the Borger refinery.

The total cash distribution for the period will be $21.1 million, resulting in a 1.1 coverage ratio, which is in line with our long-term target. On a quarterly basis, it's possible that you will see some slight variances in our coverage ratio due to seasonality in our EBITDA, as well as our spending.

Slide 6 shows that we ended the quarter with $21 million of cash and cash equivalents. We currently have outstanding debt of $160 million in the form of a note payable to Phillips 66. Additionally, we have access to a $250 million revolving credit facility that also has a $250 million accordion feature. This facility remains undrawn.

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Looking forward, we also intend to position PSXP to achieve an investment-grade credit rating to enhance PSXP's financial flexibility and facilitate low cost financing that will efficiently fund future growth plans.

This concludes our prepared remarks. We'll now open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We'll now begin the question-and-answer session.

(Operator Instructions)

Our first question is from Brian Zarahn from Barclays.

Brian Zarahn - *Barclays Capital - Analyst*

Good afternoon.

Tim Taylor - *Phillips 66 Partners LP - President*

Hi, Brian.

Brian Zarahn - *Barclays Capital - Analyst*

I guess looking at maintenance CapEx, what are your expectations for 2014?

Tom Liberti - *Phillips 66 Partners LP - VP and COO*

I think you'd see the second, third, and fourth quarters in line with what we have in the first quarter, including the drops, Brian.

Brian Zarahn - *Barclays Capital - Analyst*

Okay. And then, related to that on distribution coverage; 1.1 times is your target. Any thoughts of running a little higher to retain some cash or is 1.1 a good target for this year?

Tom Liberti - *Phillips 66 Partners LP - VP and COO*

That's our target for the year, but I think you'll find, as we get through into different quarters, that we may have situations where we would increase that, just for that purpose: to hold some cash.

Brian Zarahn - *Barclays Capital - Analyst*

On a broader topic, on crude by rail, how do you expect the new US safety regulations, when they come out, to impact PSX?

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Tim Taylor - *Phillips 66 Partners LP - President*

Brian, I think that certainly our new cars are compliant with what we anticipate the regulation will be. Clearly, if that were to change, then it might require some modification that became even more stringent. So we feel very good about the new crude fleet.

As you know, we're proceeding with the rail racks at Bayway and at Ferndale, and those would be qualifying EBITDA for the MLP. But we believe you can transport crude safely by rail and, of course, we'll continue to make sure that we're compliant with any regulation.

Brian Zarahn - *Barclays Capital - Analyst*

Okay, and the last one from me: We've had some other MLPs have different types of assets that are at the parent level -- petrochemical side. Any thoughts of, longer term, expanding the -- what assets you view that could end up in the MLP?

Tim Taylor - *Phillips 66 Partners LP - President*

Well, we have a strong backlog today of assets, and we've really focused on really pipelines and terminals and fee-based assets that fit that. So, yes, you could do that, but our chemicals assets specifically are within our CPChem joint venture, and that would require a partnership decision or an LLC decision.

So, I really think that that's something that's down the road, but not something that we've actively thought about in terms of our pool that we talked about at the analyst meeting that would be in qualifying EBITDA. We have a great runway in front of us with that. I think our view is: That's the most logical place to go. If it expands, then we can consider that's the right kind of structure to use or this would be the right partnership for that.

Brian Zarahn - *Barclays Capital - Analyst*

Thanks for the color.

Tim Taylor - *Phillips 66 Partners LP - President*

You bet.

Operator

Thank you. The next question comes from Richard Roberts from Howard Weil.

Richard Roberts - *Howard Weil - Analyst*

Good afternoon, guys. Couple from me around the drop-down strategy. On the first one: If you look at some of your peers, they've come out and said pretty explicitly that they're going to target a distribution growth range. They're going to target a coverage ratio, and essentially they'll drop down assets as they needed to meet those targets.

If we look at your first drop as any indication, you're probably taking somewhat of a different approach. I'm just curious if you can give us any color on how we should think about the pace and the size of future drops or distribution growth over the next couple years. Any color would be helpful. Thanks.

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Tim Taylor - *Phillips 66 Partners LP - President*

I think we've been very consistently saying that our long-term plan is that we will have top-quartile distribution growth over the first few years of the partnership. And clearly, our first drop was very strong in terms of the growth and distributions available. And so, I think that we haven't gotten to specific assets, but given our runway and our plan, looking out in the future, that's still our target.

And we've always said that, early on, we would expect to have significant growth because you're starting from such a small base. And we see PSXP as a way to achieve scale and financing and credit rating that we want to continue to increase that. That's a factor as well.

We still have the right of first offer on two long-haul NGL pipes that we jointly own with DCP and Spectra. So, that's still in place. So, I think you just look at the pool of assets that we have in our plan, we're going to continue down that path to achieve that scale and hit our targets for high distribution growths in the top quartile of these kinds of MLPs going forward. So, we feel very good about our profile on that.

Richard Roberts - *Howard Weil - Analyst*

Okay. Great. Thanks.

And then, a follow-up I guess on that. So, PSX is pretty vocal about their plans for midstream investments over the next couple of years. You've talked about additional fractionators at Sweeny, some condensate splitter potential, and there's a lot more projects over what's been announced so far.

Assuming these projects get approved over the next couple of years, that would just increase your drop-down potential even further. If that's the case, should we think about, on the one hand, you could just do larger drops faster because you have so much more potential at your fingertips, and keep a higher growth rate going? Or would you just stretch out that backlog of dropdowns further, so you maintain a somewhat lower growth rate, but for a longer period of time?

Tim Taylor - *Phillips 66 Partners LP - President*

Well, I think we've got a great backlog today to hit that growth rate over time, and that's been a part of our thinking and our plans. So, as we add to that, I think that you could expect that we'd probably increase our scale and scope to match that. So, I think it only strengthens that growth potential, and we'll adjust accordingly. But this, to us, needs to continue to be a multi-year plan for growth for the MLP.

Richard Roberts - *Howard Weil - Analyst*

Great. Thanks a lot.

Operator

Thank you. The next question comes from Jeremy Tonet from JPMorgan.

Jeremy Tonet - *JPMorgan - Analyst*

Good afternoon. Maybe just one additional question on the topic of drop-downs, if I could, without beating a dead horse. But I was just curious, as far as you know, as we're trying to think about drop-downs, the timing thereof, there's $1.5 billion of EBITDA identified in the analyst day that could be midstream or refining logistics EBITDA by 2017. Is there any thoughts as far as what type of time frame could that find its way all into the MLP -- 3, 5, 10 years, or do you have any thoughts on what that timeline could be?

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Tom Liberti - *Phillips 66 Partners LP - VP and COO*

Jeremy, this is Tom. You know, we don't give specific guidance on the timing of growth. There's a number of things that are dependent. New assets coming online; the time that they come online; when third-party offerings, for example, are on the market; some of the things we look at organically and the timing for that; and then the growth objectives. So, we don't have a specific timeline for where the growth is, but we'll look at everything and evaluate everything at the time we look at an asset.

Jeremy Tonet - *JPMorgan - Analyst*

That makes sense. Always good to have something left on the shelf. Appreciate that.

Tim Taylor - *Phillips 66 Partners LP - President*

Thank you.

Tom Liberti - *Phillips 66 Partners LP - VP and COO*

Thanks.

Operator

Thank you. The next question comes from Faisal Khan from Citigroup.

Faisal Khan - *Citigroup - Analyst*

Thanks. Good afternoon. On the Gold Line system, I just want to understand the MVCs on that. You talked about a 5- to 10-year commitment. What's the upside if there's more volumes delivered above and beyond the MVC? And is that at a similar tariff as the current volumes on the MVC?

Tom Liberti - *Phillips 66 Partners LP - VP and COO*

Yes, the MVC is about -- we've said we've kept them in the 80%, 85% kind of range and things. So, that's what we hit with the minimum. So, there's a little bit more upside than what you saw in the first month. So, if you take it out and really look at what our guidance was on the drop of EBITDA between $65 million and $70 million, that's a good projection out for the rest of 2014.

Faisal Khan - *Citigroup - Analyst*

Okay. If you go above and beyond that, is there any upside to the EBITDA numbers, in terms of volumes?

Tom Liberti - *Phillips 66 Partners LP - VP and COO*

Yes, there is. If we go above it, we can actually pay off some of the MVC for the next four quarters, and then there's some room above that.

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Faisal Khan - *Citigroup - Analyst*

Okay. Okay. Understood. And then, just in terms of the note payable to Phillips 66 -- does that get eventually termed out, in terms of permanent debt? Or how are you guys looking at that?

Greg Maxwell - *Phillips 66 Partners LP - VP and CFO*

This is Greg. We would certainly -- we certainly look at that. One of the things that we did do [the sponsor loan] early on is we want to achieve investment grade credit rating before we actually look at terming out any debt. And so, once we achieve the investment grade credit rating, we will take that into consideration.

Faisal Khan - *Citigroup - Analyst*

Okay. Great. Thanks a lot. Appreciate it.

Operator

We have no further questions at this time. Rosy, I'll now turn the call back over to you for final remarks.

Rosy Zuklic - *Phillips 66 Partners LP - Manager of IR*

Okay, well, thank you very much. Thank you for joining the call this afternoon, and for your interest with Phillips 66 Partners. If you have any questions, please feel free to give myself a call, or William. Thanks again. Bye.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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