TRANSCRIPT
Q1 2017 EARNINGS CALL

PHILLIPS 66 PARTNERS (NYSE: PSXP)
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PHILLIPS 66 PARTNERS PARTICIPANTS

Jeff Dietert, Vice President, Investor Relations

Tim Taylor, Director and President

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Tom Liberti, Vice President and Chief Operating Officer

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CALL PARTICIPANTS

Jeremy Tonet, *JP Morgan*

Brian Zarahn, *Mizuho Americas*

Tom Abrams, *Morgan Stanley*

Barrett Blaschke, *Mitsubishi UFJ Securities*

Justin Jenkins, *Raymond James*

Corey Goldman, *Jefferies*

Craig Shere, *Tuohy Brothers*

TRANSCRIPT

Operator

Welcome to the Second Quarter 2017 Phillips 66 Partners Earnings Conference Call. My name is Julie and I will be your Operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Jeff Dietert, Vice President, Investor Relations. Jeff, you may begin.

Jeff Dietert – Phillips 66 Partners – Vice President, Investor Relations

Good afternoon and welcome to the Phillips 66 Partners' Second Quarter Earnings Conference Call. Participants on today's call will include Tim Taylor, President of Phillips 66 Partners, Kevin Mitchell, Vice President and CFO, Bob Herman, Senior Vice President, Operations, and Tom Liberti, Vice President and Chief Operating Officer. The presentation materials we will be using during the call can be found on the Events section of the Phillips 66 Partners' website, along with supplemental financial and operating information.

Slide 2 contains our Safe Harbor statement. It is a reminder that we will be making forward-looking statements during the presentation and the Q&A session. Actual results may differ materially from what we present today. Factors that could cause actual results to differ are included here, as well as in our SEC filings.

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

Tim Taylor – Phillips 66 Partners – Director and President

Thanks, Jeff, and good afternoon, everyone. During the second quarter, earnings were $103 million and adjusted EBITDA was $170 million. This reflects strong operations and solid growth over the prior quarter. Our Board of Directors recently approved a second quarter distribution of 61.5 cents per unit, a 5% increase over the first quarter. Distribution coverage this quarter increased to 1.35x. Since our 2013 IPO, we've increased distributions for 15 consecutive quarters at a compound annual growth rate of 33%. We're on track to achieve a 30% compound annual growth rate on distributions from the fourth quarter of 2013 through 2018.

Let's move on to Slide 4 and talk about execution on our Organic Growth portfolio. The ongoing Sand Hills Pipeline capacity expansion from 280,000 to 365,000 barrels per day is expected to be completed by the end of 2017. In addition, during the second quarter, the operator, DCP Midstream, announced plans to further expand capacity to 450,000 barrels per day by the second half of 2018. This next phase of expansion is supported by volume growth coming from existing long-term plant and field dedications. Phillips 66 Partners owns a one-third interest in this joint venture.

The STACK joint venture in which we own a 50% interest is investing in a project to loop the existing pipeline and extend the pipeline further into the STACK play. We expect the project to increase capacity by 150,000 barrels per day and to be complete by the end of 2017.

Development continues on extension of the Bayou Bridge Pipeline. Once complete, the second leg of the pipeline will deliver crude from Lake Charles, Louisiana to St. James, Louisiana. We expect construction to begin this quarter, with commercial operations starting in the first quarter of 2018. Phillips 66 Partners owns a 40% interest in this joint venture project.

As announced last quarter, engineering work is underway on a 25,000 barrel per day isomerization unit to increase production of higher octane gasoline blend components at the Phillips 66 Lake Charles Refinery. Total capital for the project is expected to be about $200 million. A final investment decision is expected in the first half of 2018.

Now I'll turn the call over to Kevin Mitchell to provide both operational and financial updates for the quarter.

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

Thank you, Tim. Good afternoon, everyone. Looking at operations on Slide 5, volumes across the system were similar to the first quarter. Total pipeline throughput, excluding volumes from equity affiliates, was 1.9 million barrels per day, up slightly from the first quarter. This increase was due in part to higher throughput of several systems connected to our sponsors' refineries where utilization was higher than in the first quarter.

The increase was partially offset by lower volumes on our pipelines connected to the Billings Refinery, which had major turnaround in the second quarter. Total terminal throughput was 1.3 million barrels per day, down from 1.4 million barrels per day in the prior quarter. This decrease was primarily due to lower volumes on the Gold Line system. Average pipeline revenue decreased $0.02 per barrel in the second quarter to $0.61 due to volume mix. Average terminal revenue was slightly higher at $0.42 per barrel. Both of these rates exclude equity affiliates.

Slide 6 shows the change in adjusted EBITDA from the previous quarter. Second quarter adjusted EBITDA was $170 million, up $15 million from the first quarter. Distributions from our equity affiliates increased adjusted EBITDA by $16 million over the prior quarter. The higher distributions were mostly attributable to the Sand Hills, Southern Hills, and STACK pipelines. Variances on other assets increased adjusted EBITDA by $6 million. This included the positive impact of reduced turnaround activity at several Phillips 66 refineries and higher earnings on the River Parish NGL system. These items were partially offset by the impact of the turnaround at the Billings Refinery on Seminoe and Glacier Pipeline volumes. These positive variances were partially offset by a $7 million make-whole payment received in the first quarter.

Slide 7 walks through the DCF calculation. During the quarter, we had deferred revenue impacts related to the Gold Line, Seminoe, and Glacier systems which increased distributable cash flow by $4 million. Net interest expense was $24 million and maintenance capital expenditures were $10 million. Distributable cash flow for the quarter was $140 million. Total cash distributions of $104 million will result in the distribution coverage ratio of 1.35x.
The recently approved second quarter cash distribution was 61.5 cents per limited partner unit will be payable on August 11, 2017.

Slide 8 highlights the growth that we have achieved over the last year. Our second quarter distribution per unit represents a 22% increase over second quarter 2016. Adjusted EBITDA increased by 75% and distributable cash flow by 67% year-over-year. We continue to progress toward our goal of $1.1 billion of run-rate EBITDA by the end of 2018. At the end of the second quarter, annualized run-rate EBITDA for the Partnership was $675 million.

Slide 9 shows our financial position at the end of the second quarter. We ended the quarter with $1 million of cash and $50 million of outstanding borrowings under our $750 million revolving credit facility. During the quarter we raised $131 million from equity issuances under our ATM program. We finished the quarter with a debt-to-EBITDA ratio of 3.5x on a revolver covenant basis. Long term, we expect leverage to be around this level.

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

Operator

Thank you. We will now begin the question-and-answer session. If you have a question, please press star, then one on your touchtone phone. If you wish to be removed from the queue, please press the pound key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star, then one on your touchtone phone.

Your first question comes from Jeremy Tonet with JP Morgan. Please go ahead. Your line is open.

Jeremy Tonet – JP Morgan

Good afternoon.

Tim Taylor – Phillips 66 Partners – Director and President

Hey, Jeremy.

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

Hey, Jeremy.

Jeremy Tonet – JP Morgan

Hi. Just wanted to touch base on the JV distributions in excess of equity earnings. That stepped up a bit this quarter and I was just wondering if you could talk about some of the drivers there and if you see this as kind of a steady-state rate, or could this even increase as Sand Hills continues to ramp up? Thanks.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

Yes. Jeremy, this is Tom. The increase from an equity earnings standpoint really came from Sand Hills and a little bit from Explorer. From a cash standpoint, which obviously is a bit different, had a little bit more seasonality in it, and that cash increase came from Sand Hills, Southern Hills, and the STACK JV that we have.

So, if you look going forward, if you add the two, if you add the equity earnings and the excess cash, the second quarter looks more like what we think the third quarter will look like and is obviously higher than what the first quarter was. So, if you go forward, yes, if you combine those two, from an earnings standpoint from an excess cash, they kind of offset each other, but going forward, the third quarter will look more like the second quarter.

Jeremy Tonet – JP Morgan

That's helpful. Thanks. I noticed that the ATM issuance had stepped up a bit over what it had been historically and I was just wondering if there was anything that kind of was different this quarter or do you guys expect to kind of be able to maintain a higher access to quarterly ATM issuance than maybe what you have been able to achieve in the past?

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

Yes. Jeremy, it's Kevin. I mean, obviously we did issue more on the ATM this quarter. We had some opportunistic block rates through that and so that's out there. To the extent that there's interests for that in future periods, then we certainly may do more of that, but it certainly reflects some kind of one-time activity relative to previous run rates. But I'd also say, as we've talked about in the past, expect the ATM to be part of our ongoing sort of funding needs, a portion of that when you look at the overall equity needs. The ATM will be a component there.

Jeremy Tonet – JP Morgan

Great. Then just one to turn quickly to the Rodeo project that had been discussed within the Phillips family; I was wondering if there's any updates there that you could talk about or other opportunities for organic growth in general at PSXP now that the entity is larger. Just want to think through how that could look going forward.

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

Yes. Jeremy, it's Bob. I think PSX's Rodeo project, we continue to talk to the producers out in the Permian where this would be a trunk lining gathering system kind of in the heart of the Permian out there. Still a lot of interest in that line. There's competing projects. We feel really good about our project and the ability to capture some of that growth that's occurring out there, so with the different oil prices, I would say people were a little more cautious with taking commitments, but we continue to work that one and feel good about growing our crude opportunities out there.

I think if you look around our system and organic, either at PSX or PSXP, we've got a lot of opportunities around our existing assets, particularly the Beaumont system is, as we're calling it now, has really got quite a bit of opportunities. You look at Dakota Access and ETCOP starting up in the last quarter, those volumes are showing up now in Beaumont. Beaumont we've seen an uptick on PSXP's Bayou Bridge Line over to the Lake Charles area. That whole system has come together quite nicely for us in how we've envisioned it then. We continue to build out additional crude tankage at PSX's Beaumont, but that all becomes part of that big crude gathering system at Beaumont. We're well-positioned over there for both crude and product exports going forward. I think you'll see that play a big part in the PSX/PSXP family of organic opportunities.

Tim Taylor – Phillips 66 Partners – Director and President

Jeremy, too, when you we asked the question about how much project organic work can we take on at PSXP; you've seen us increase that. In fact, some of the earnings increase that you're seeing now is a result of the growth in our organic investments in Sand Hills, and so I think that component continues to grow. There is a size limit just based on the size MLP, but clearly we've been taking on more and more of that capital opportunity around the PSXP system where we can, yet the sponsor, as Bob just talked about with PSX level, also continues to develop, and there's a way that I think that we've worked that together. But we continue to really focus at PSXP about what we can do internally in the proper size. So, over time, we would still expect that to grow in terms of our capability to execute bigger projects organically at PSXP.

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

I think you'll see us, as we go forward, right, our first job out there is identifying commercialized opportunities and then we look at the family and say, where does this project fit best, and you'll see us, I think, be as aggressive as we can about doing projects down at PSXP. It often makes sense to do them down there, but the bigger projects that have got two- and three-year carries to get it up and running, you'd probably still continue to see those up top at PSX.

Jeremy Tonet – JP Morgan

Great. Thanks. Then maybe just one last one building off of that. As you move from the $675 million EBITDA run-rate to the $1.1 billion EBITDA run-rate by the end of next year, how do you envision kind of the mix-shift there between these organic growth projects you're talking about and dropdowns? Any thoughts on how that could shape up?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

Well, I think there will continue to be organic growth throughout the rest of this year and throughout 2018, so a piece of that remaining EBITDA does come from expansion of our existing assets at PSXP. The rest will have to come through other means with drop-downs and other opportunities. It could be small bolt-ons that come up opportunistically. We've got a clear path on how to get to the $1.1 billion by the end of next year and we feel good about that, so we don't see any problems there, and there may be opportunities that pop up along the way that help our plans.

Tim Taylor – Phillips 66 Partners – Director and President

Yes. I think we've demonstrated organic investment, M&A or acquisitions of assets at PSXP, and then looking at our sponsor, looking at attractive ways to add. So it's going to be the combination of all those things as we look at PSXP as the way to ultimately grow, hit our targets and continue to grow.

Jeremy Tonet – JP Morgan

That's all helpful. Thank you.

Operator

Your next question comes from Brian Zarahn with Mizuho Securities. Please go ahead. Your line is open.

Brian Zarahn – Mizuho Americas

Good afternoon.

Tim Taylor – Phillips 66 Partners – Director and President

Hi, Brian.

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

Hi.

Brian Zarahn – Mizuho Americas

With Bayou Bridge being pushed back a quarter, any changes to your expected organic capex this year?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

Just have a little bit of an affect. Obviously, the spending shifts a little bit from '17 to '18 as that project, just a natural course of settlement on a project. It would think, though, it isn't material change to us, and with the number of organic opportunities that are coming up, there's always a little bit of give and take between years on our capital budget.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

Yes, Brian. This is Tom. It actually was—it's kind of a nice offset with the expansion that DCP was talking about with Sand Hills. The initial spend that we're making on that Phase 1 expansion kind of offsets what we were going to spend on Bayou Bridge, so we end up about equal this year so far.

Brian Zarahn – Mizuho Americas

Okay. So still about $380 million for organic expansion?

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

Of expansion capex, right.

Brian Zarahn – Mizuho Americas

Okay. Then can you remind us what average returns you're expecting on the capital budget?

Tim Taylor – Phillips 66 Partners – Director and President

Yes. I think we always say that—and we look at it—that typical midstream return of around seven times EBITDA of these assets, that's the expectation that we have. Some projects are better, but that's going to be an expectation that we'd have on the capital allocation standpoint from growth.

Brian Zarahn – Mizuho Americas

Then shifting from organic to acquisition, on the PSX call it sounded like maybe still anticipate a drop-down this year. With that on your plate, does that preclude any potential third-party M&A and any high-level thoughts on what you're seeing in the market right now for third-party assets?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

I don't think our forward drop plans really affect our ability to go out and do a bolt-on acquisition. It could have the effect of, if we did the acquisition maybe there are some assets that would get pushed out in our queue for dropping and they just stay there in the pretty significant backlog of droppable assets that we have.

We've been actively looking at the assets that have been out there. People are paying significant values for those and when we compare those to kind of the organic backlog that we've gotten, things we can do with our own assets and around our own assets and around PSX assets, we've decided to pass on most of those opportunity. It does not mean that there won't be one that comes up, particularly ones that are extensions of our current system or have a nice synergy with either a PSXP asset or a PSX refinery or something like that; you might see us act on that. But we're always looking, but we've got just a rich backlog of things to go do.

Tim Taylor – Phillips 66 Partners – Director and President

I think it's just safe to say if there's a great opportunity out there, we'll find a way to capture that.

Brian Zarahn – Mizuho Americas

Then last one for me, it's not—IDR is not an issue yet as distribution coverage and growth remain healthy, but as you hit your target for EBITDA and distribution growth in 2018, how are you thinking about the IDR structure? At what point do you think that could potentially change?

Tim Taylor – Phillips 66 Partners – Director and President

Let me just preface this by saying today we have a very competitive cost of capital. I don't think from the IDR perspective it's not to the point where that is something that we need to address today, but I think there comes a point in the future that what you say if I can't make the projects accretive and the IDR drag is really the issue, then that's the time to address that. But I think we're still a ways from that, but it's certainly something that we're mindful of right now in terms of the long-term capital structure. So, I think that just depends on the situation and kind of where the market is that we can make those calls. In the end, it has to be accretive to the LP.

Brian Zarahn – Mizuho Americas

Thank you.

Operator

Your next question is from Tom Abrams with Morgan Stanley. Please go ahead. Your line is open.

Tom Abrams – Morgan Stanley

Thank you. I was just wondering on the STACK joint venture, what could happen beyond that? Where could that take you?

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

Well, Tom, this is Tom. I think that there's possibilities. I mean, we could go deeper into the play a little bit. We could add to the looping that we're having, that we're currently constructing. We could probably add another 100,000 barrels a day with increased pumps. If the production was there, we would be able to add on for that line.

Tom Abrams – Morgan Stanley

Okay. All right. Thanks. I'll have to check a map out. A lot of activity up there.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

There is.

Tim Taylor – Phillips 66 Partners – Director and President

It's an active basin.

Tom Abrams – Morgan Stanley

Thank you.

Operator

Your next question is from Barrett Blaschke with Mitsubishi UFJ Securities. Please go ahead. Your line is open.

Barrett Blaschke– Mitsubishi UFJ Securities

Hi. Just a couple of quick ones. First, can you give us a little color on the Sand Hills newly announced expansion, just what percentage of that is already contracted? Then a follow-up to that would be shifting over the terminal existence. It looked like the volumes are still running a little weaker than fourth quarter and even last quarter on the refined products side, if you could give us a little color around that.

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

Yes. I think on the Sand Hills, as far as contracting goes, the backing for the Sand Hills expansion and, quite frankly, some of the base volumes are field dedications or plant dedications in the Permian and in the Eagle Ford along the route over there. That would be consistent going forward where Sand Hills, the laterals will tie into a specific field or gas line out there, and we'll catch those volumes. So, the expansion you're seeing today, especially the first line, right, the fact that DCP has gone and stepped out and announced their second one after that, we're feeling pretty good about the volume growth that we see on the plants in the fields that are attached to the Sand Hills venture. That'll continue.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

Yes. Barry, you've seen that volume on Sand Hills ramping up and things. So, through this expansion to 365 [thousand barrels a day] this year, we think we'll, as the capacity increases, the volume will follow it. Then into the announced expansion of another 85,000 barrels a day, we just think it'll continue to increase. As far as the throughputs of the terminals go, most of that was in the Gold Line system where the volumes were down a little bit. Some of that is butane blending that goes off from the second quarter compared to the first quarter and some of that is just a little bit of some problems that have been had at the Borger Refinery. But we would think that those throughput volumes would continue to come up and look more like they did in third quarter last year.

Barrett Blaschke– Mitsubishi UFJ Securities

Okay. All right. I think just on Sand Hills, so basically it's just a slow ramp or should it be fairly lumpy as you bring on additional capacity here?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

Well, yes, I think you'll—I think there's really two pieces out there. It's a little hard to say that you've got existing gas buying infrastructure out there that is ramping up with volumes that are coming on in the field, so that's kind of a slow ramp and that's what you've really seen year-to-date out there as volumes have grown. Some of the expansion work that we're spending now is to put out new laterals to new gas lines, so you'll see kind of lumps of volumes come on when those assets are complete.

Barrett Blaschke– Mitsubishi UFJ Securities

Okay. All right. Thank you.

Operator

Your next question is from Justin Jenkins with Raymond James. Please go ahead. Your line is open.

Justin Jenkins – Raymond James

Great. Thanks. Hello again, everybody. I guess I think we've covered most of what I had on the PSX call in here, but maybe thinking about what we've seen from crude price differentials, I guess Greg alluded to some crude slate changes on the PSX call, but am I right to think that as the PSX crude slate does get a little bit lighter here, that, if anything, it might be a slight benefit to PSXP in terms of volumes on the system?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

I go back to my previous discussion around Beaumont in particular. Beaumont was set up as a crude gathering terminal. You're seeing the DAPL volumes; we are the southern terminus for DAPL/EPCOP. We're connected to seven other crude gathering lines, so as you see volumes in those lines come up, and there's volume—we've seen great interest in taking out tankage and storage requirements from third parties at the Beaumont Terminal, we've got three docks there capable of exports, so I think that's really our asset where we would see some benefit coming from increased shale crudes in the U.S.

Then when you look up in the STACK, that really feeds PSX's Ponca City Refinery and they like those barrels. So, some of what you've seen us do is, it's not only the STACK/SCOOP in that expansion, but PSX/PSXP at Cushing developing additional storage there and the ability to tight-line the barrels, basically from the wellhead through our own assets into PSX's Ponca City Refinery. So you'll see some opportunities like that pop up around the system.

Tim Taylor – Phillips 66 Partners – Director and President

Bayou Bridge is a beneficiary for Lake Charles, so I think you're right; as the crude slate continues to look more U.S.-based, you create opportunity to move more volume or create new connections that are needed to get your crude slate optimized. So we look at this as a real opportunity from a total complex standpoint.

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

Just to clarify, Beaumont is a PSX asset.

Tim Taylor – Phillips 66 Partners – Director and President

Correct.

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

But, clearly structured in a way that at some point we could see it in the MLP.

Justin Jenkins – Raymond James

Perfect. Thanks for that response, guys. I'm guessing the answer is no here, but any potential impact on PSXP, if we were to see oil sanctions on Venezuela?

Tim Taylor – Phillips 66 Partners – Director and President

No. I think that that would be fairly minimal on PSXP at Clifton Ridge or the Gulf Coast assets were the—that's the likely market and there would be other options on those assets to fill that or you switch to in-land. So we look at that from a PSXP standpoint and just say it's part of our optimization around our system, but we don't anticipate any big structural impact on our business.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

We actually have a number of optional crudes that come in over the dock to supply Lake Charles, but then too, since Bayou Bridge now comes in to Clifton Ridge and goes through, it's kind of an offset if we use some more domestic crudes on that line.

Justin Jenkins – Raymond James

Perfect. Thanks, guys.

Tim Taylor – Phillips 66 Partners – Director and President

You bet.

Operator
Your next question comes from Corey Goldman with Jefferies. Please go ahead. Your line is open.

Corey Goldman – Jefferies
Hey, guys. Since May you raised your annualized run-rate EBITDA by about $50 million. I think the STACK and the Sand Hills projects were already announced by May, so any color you could provide on what's driving this increase just over the last few months?

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer
Well, those projects were announced, but we really have been ramping up the volumes and so we've been a bit conservative in putting them in the run-rate until we actually see it and get through, so some of that is organic, some of the other increase is just assets running the way we had planned them to run coming online. The Eagle drop brought a lot of assets in and some of those have increased also.

Corey Goldman – Jefferies
Got you. But I guess just to confirm then, baseline shouldn't be viewed as a floor, right, or can we view it kind of as one in the same?

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer
I think the run-rate would be the anticipation that we would have, so I don't know whether you're looking at the floor or just what we would anticipate.

Tim Taylor – Phillips 66 Partners – Director and President
Well, let me maybe catch that(inaudible). I think that's our expected normal run-rate and operational upsets can affect that, but at the same time you've got continued growth in Sand Hills, you've got Bayou Bridge expansions coming, so there's organic opportunities SCOOP/STACK that will continue to build over those existing assets and add additional run-rate. But there is always some type of operational impact, but it's fairly small in this kind of system.

Corey Goldman – Jefferies
Got you. Okay. Just then—sorry, just to confirm then, in the Sand Hills expansion for year-end '17 it's being built at that two times cash spend, that's included in the 170-ish a quarter; is that right?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations
No. That's—no. I think you have to look at it. One-seventy is what we did this quarter.

Corey Goldman – Jefferies
Sorry, the 650 per year, sorry.

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations
Yes, $675 million is kind of where we're at today and we'll continue to grow that number organically and through acquisition of assets throughout the year and throughout next year. So, $675 [million] run-rate is today. It's the kind of snapshot in time second quarter.

Corey Goldman – Jefferies

Got you. Okay. Thank you.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

I think our growth has been so rapid. I mean, that run rate is going to basically change almost every quarter with the growth profile that we've had and are going to have in the future.

Corey Goldman – Jefferies

Perfect. Thanks, guys.

Operator

Your next question is from Craig Shere with Tuohy Brothers. Please go ahead, your line is open.

Craig Shere – Tuohy Brothers

Good afternoon. Trying to think about funding for both drops and organic growth. If you're at $675 [million] run-rate now and maybe the organic growth you've got in the pipeline might be another $100 million, $105 million, that leaves maybe $320 for drops, to reach your target by year-end '18. But on the PSX call, the comment was made around potential for $1.5 billion and assumed debt with drop-downs. I'm trying to understand, are we to—given your robust coverage, are we to assume that you might be levering up the drop-downs more than how you're funding the organic growth?

Tim Taylor – Phillips 66 Partners – Director and President

No. I think we're still on our coverage target or under four times debt-to-EBITDA, and that target range around 3.5. I think it's just the management of the total capital structure and so each drop can do that, but within that constraint of where we try to be in terms of really solid investment-grade rating and very consistent with the guidance we've always given around that. So, it just creates an option. If you do a drop-down asset, if we purchased those to be a way to manage that at the total value level. Kevin?

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

Yes. No. That's exactly right. The $1.5 billion that we talked about in the PSX call, that's structured such that we can drop it with assets, but that doesn't define necessarily exactly how much debt financing we do at PSXP. We could do more or less than that depending on the overall, what we drop, how we fund it, the extent to which we do equity, whether it's public or take-back, however we look at that. So that just gives us good optionality around it.

Craig Shere – Tuohy Brothers

Fair enough. As far as units taken back with drops, are you still trying to minimize that to emphasize other debt assumption or the upstream cash?

Tim Taylor – Phillips 66 Partners – Director and President

I think we think about take-back, if there's an angle there, from efficiency that when we look at our sponsor's assets, sometimes that's an attractive way for them to realize value in the transaction, so that's an important piece. Then, of course, there's always the flexibility that we can have on our capital

structure at PSXP that if our sponsor's willing to do that, then that can be an optimization of our capital structure between public equity, private equity, or take-back units.

Craig Shere – Tuohy Brothers

Got it. Last question, coverage is still pretty robust. I know the industry's kind of more comfortable today with higher coverage than it was maybe a couple of years ago. As you envision achieving your $1.1 billion run rate at the end of next year, do you have any thoughts in mind about how your coverage may trend down and how low it could go?

Robert Herman – Phillips 66 Partners – Senior Vice President, Operations

I think we've always said, Tim just mentioned, on the debt side we've always targeted 3.5x debt-to-EBITDA with kind of a cap around 4x. Along the same lines, we've always said kind of a 1.1x coverage ratio was our target, and, quite frankly, we've had good organic growth in the assets we own that it really added to our coverage ratio, maybe above our expectations as the year began, and so we don't feel bad about our 1.35x coverage ratio, but we would target kind of a normalized 1.1x and that leaves you room on either side of that for either really good operations or above normal volumes on some of our systems, or some of the operational downtime that comes as part of this business.

Tim Taylor – Phillips 66 Partners – Director and President

You know, too, you think about coverage ratio in today's market and it creates additional options for how you structure purchases, and so I think right now we can always go back to our target. But, there's also an element that helps us do more organic, and it just depends on the market conditions whether I think as we adjust, it creates more options for us to use that cash effectively, either for distribution growth or for great ways to grow the partnership.

Craig Shere – Tuohy Brothers

So if you do have continued better than expected organic growth opportunities over a couple of years, could the trend down from 1.35x to 1.1x be elongated so we aren't necessarily assuming that immediately post year-end '18 we're at 1.1x?

Kevin Mitchell – Phillips 66 Partners – Director, Vice President and Chief Financial Officer

Yes. I think that's right, Craig. You could definitely see it play out that way.

Tom Liberti – Phillips 66 Partners –Vice President and Chief Operating Officer

Yes. I think, Craig, more happens with the distribution growth that we've had, as we get to the 30% CAGR, that's really what drives each quarter, and overtime as we look at where that coverage ratio is. So, we'll still be in—at the end of '18 we'll still be in a growth profile and looking more at that 1.1x or whatever the quarter gives us.

Craig Shere – Tuohy Brothers

Great. Appreciate all the color.

Operator

We have no further questions at this time. I will now turn the call back over to Jeff.

Jeff Dietert – Phillips 66 Partners – Vice President, Investor Relations

All right. Thank you, Julie, and thank all of you for your interest in Phillips 66 Partners. If you have additional questions, please call Rosy, C.W., or me. Thank you.

Operator

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