

PHILLIPS 66 PARTNERS LP  
Form S-3/A  
November 20, 2017

As filed with the Securities and Exchange Commission on November 20, 2017

Registration No. 333-221353

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

AMENDMENT NO. 1 TO  
FORM S-3

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**Phillips 66 Partners LP**

(Exact name of registrant as specified in its charter)

**2331 CityWest Boulevard  
Houston, Texas 77042  
(855) 283-9237**

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

(Address, including zip code, and telephone number, including area code, of each  
registrant's principal executive offices)

**38-389943**  
(I.R.S. Em  
Identificat

**Paula A. Johnson**  
**Vice President, General Counsel and Secretary**  
**2331 CityWest Boulevard**  
**Houston, Texas 77042**  
**(855) 283-9237**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copy to:**

**William N. Finnegan IV**

**Thomas G. Brandt**  
**Latham & Watkins LLP**  
**811 Main Street, Suite 3700**  
**Houston, Texas 77002**  
**(713) 546-5400**

Approximate date of commencement of proposed sale to the public:  
**From time to time after the effective date of this Registration Statement.**

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same

offering. "

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. "

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted**

**SUBJECT TO COMPLETION, DATED NOVEMBER 20, 2017**

**PROSPECTUS**

**Phillips 66 Partners LP**

**15,201,775 Series A Perpetual Convertible Preferred Units**

**6,304,204 Common Units Representing Limited Partner Interests**

This prospectus relates to up to 15,201,775 Series A perpetual convertible preferred units representing limited partner interests in Phillips 66 Partners LP (the “Series A preferred units”), including 13,819,791 Series A preferred units initially issued to the selling unitholders listed herein and up to 1,381,984 Series A preferred units that may be issued as payment in kind with respect to the Series A preferred units in lieu of quarterly cash distributions (the “Series A PIK Units”), and up to 6,304,204 common units representing limited partner interests in Phillips 66 Partners LP initially issued to the selling unitholders, that may be offered and sold from time to time in one or more offerings by the selling unitholders named in this prospectus or any supplement to this prospectus. The Series A preferred units and the common units were initially issued to the selling unitholders in connection with a private placement that closed on October 6, 2017. We refer to the common units and the Series A preferred units collectively as the “units” in this prospectus.

**We are not selling any units under this prospectus and will not receive any proceeds from the sale of units owned by the selling unitholders. For more information relating to the selling unitholders, please read “Selling Unitholders.”**

The units to which this prospectus relates may be offered and sold from time to time directly by the selling unitholders in the open market or through negotiated transactions or, alternatively, through underwriters or broker-dealers or agents, or a combination of these methods. The units may be sold in one or more transactions, at fixed prices, at prevailing market prices at the time of sale or at negotiated prices. Please refer to “Plan of Distribution.” The selling unitholders will be responsible for underwriting commissions, discounts and fees, if any, and any transfer taxes applicable to the units. We will be responsible for all other offering expenses, other than the fees and expenses of legal counsel that are incurred by any selling unitholder.

You should carefully read this prospectus, any prospectus supplement, and the documents incorporated by reference herein and therein before you invest in any of our securities. You should also read the documents we refer to in the “Where You Can Find More Information” section of this prospectus for information on us and our financial statements.

Our common units are traded on the New York Stock Exchange, or the NYSE, under the symbol “PSXP.” On November 17, 2017, the last reported sale price of our common units on the NYSE was \$47.32 per common unit. The Series A preferred units have not been, and will not be, listed for trading on the NYSE or any other national securities exchange.

**Investing in our units involves risks. You should carefully consider the factors described under “*Risk Factors*” beginning on page 2 of this prospectus and any similar section contained in the applicable prospectus supplement before you make an investment in our units.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is \_\_\_\_\_, 2017.**



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Neither we nor any of the selling unitholders have authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus, any amendment or supplement to this prospectus or any free writing prospectus prepared by us or on our behalf. Neither we nor any of the selling unitholders take any responsibility for, or can provide any assurance as to the reliability of, any information other than the information

contained or incorporated by reference in this prospectus, any amendment or supplement to this prospectus or any free writing prospectus prepared by us or on our behalf.



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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement on Form S-3 that we have filed with the Securities and Exchange Commission, or the SEC, under the Securities Act of 1933, as amended, or the Securities Act, utilizing a “shelf” registration process. We have filed the registration statement for this shelf registration process pursuant to a registration rights agreement dated October 6, 2017 among us and the selling unitholders. Under this shelf registration process, the selling unitholders may, from time to time, offer and sell any combination of the units described in this prospectus in one or more offerings.

This prospectus provides you with a general description of Phillips 66 Partners LP and the units that are registered hereunder that may be offered by the selling unitholders. Each time any selling unitholder sells units offered by this prospectus, such selling unitholder is required to provide you with this prospectus and any related prospectus supplement containing specific information about the terms of that offering. A prospectus supplement may also add to, update or change information in this prospectus. To the extent information in this prospectus is inconsistent with the information contained in a prospectus supplement, you should rely on the information in the prospectus supplement.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by reference to the actual documents. Copies of some of the documents referred to herein have been filed or will be filed or incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described under the heading “Where You Can Find More Information.”

Unless the context otherwise requires, references in this prospectus to “Phillips 66 Partners LP,” “the Partnership,” “we,” “our,” “us,” or like terms refer to Phillips 66 Partners LP and our subsidiaries. “Phillips 66” refers to Phillips 66 and its consolidated subsidiaries, other than Phillips 66 Partners LP, our subsidiaries and our general partner. References to “our general partner” refer to Phillips 66 Partners GP LLC.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement with the SEC under the Securities Act that registers the units offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this prospectus.

The SEC allows us to “incorporate by reference” the information we have filed with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. These other documents contain important information about us, our financial condition and our results of operations. The information incorporated by reference is an important part of this prospectus. Information that we file later with the SEC will automatically update and may replace information in this prospectus and information previously filed with the SEC.

We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including any such filings that are made after the date of the filing of the registration statement of which this prospectus is a part and prior to the effectiveness of the registration statement, but excluding any information in those documents that is deemed by the rules of the SEC to be furnished not filed, until the termination of the registration statement:

our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 17, 2017;

our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017 which were filed with the SEC on May 5, 2017, August 1, 2017 and October 27, 2017, respectively;

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our Current Reports on Form 8-K as filed with the SEC on January 18, 2017, February 3, 2017, April 19, 2017, April 28, 2017, July 19, 2017, September 25, 2017, October 10, 2017, October 13, 2017, October 18, 2017 and November 20, 2017 (excluding any information furnished pursuant to Items 2.02 or 7.01 of any such Current Report on Form 8-K); and

the description of our common units contained in our registration statement on Form 8-A (File No. 001-36011) filed with the SEC on July 18, 2013, and including any other amendments or reports filed for the purpose of updating such description.

Our principal executive offices are located at 2331 CityWest Boulevard, Houston, Texas 77042, and our telephone number is (855) 283-9237. Our common units trade on the New York Stock Exchange under the symbol "PSXP." We file annual, quarterly and other reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public on the SEC's website at <http://www.sec.gov>. We also make available, free of charge on our website at <http://www.phillips66partners.com>, all materials that we electronically file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports, and amendments to these reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website, however, is not, and should not be deemed to be, a part of this prospectus. You may request a copy of any document incorporated by reference in this prospectus (including exhibits to those documents specifically incorporated by reference in this prospectus), free of charge by contacting us at

Phillips 66 Partners LP

Attention: Investor Relations

2331 CityWest Boulevard

Houston, Texas 77042

(855) 283-9237

[investorrelations@p66partners.com](mailto:investorrelations@p66partners.com).

We also post on our website our governance guidelines, code of business ethics and conduct, and the charter for the audit committee of our general partner's board of directors.

**FORWARD-LOOKING STATEMENTS**

Some of the statements and information included in this prospectus, any prospectus supplement and the information incorporated by reference in this prospectus or any prospectus supplement may contain forward-looking statements. You can identify our forward-looking statements by the words “anticipate,” “estimate,” “believe,” “budget,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “seek,” “should,” “will,” “would,” “expect,” “objective,” “projection,” “forecast,” “outlook,” “effort,” “target” and similar expressions.

We based the forward-looking statements on our current expectations, estimates and projections about us and the industries in which we operate in general. We caution you these statements are not guarantees of future performance as they involve assumptions that, while made in good faith, may prove to be incorrect, and involve risks and uncertainties we cannot predict. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

- The continued ability of Phillips 66 to satisfy its obligations under our commercial and other agreements.

The volume of crude oil, natural gas liquids (“NGL”) and refined petroleum products we transport, fractionate, process, terminal and store.

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The tariff rates with respect to volumes that we transport through our regulated assets, which rates are subject to review and possible adjustment by federal and state regulators.

Changes in revenue we realize under the loss allowance provisions of our regulated tariffs resulting from changes in underlying commodity prices.

Fluctuations in the prices for crude oil, NGL and refined petroleum products.

Changes in global economic conditions and the effects of a global economic downturn on the business of Phillips 66 and the business of its suppliers, customers, business partners and credit lenders.

Liabilities associated with the risks and operational hazards inherent in transporting, fractionating, processing, terminaling and storing crude oil, NGL and refined petroleum products.

Curtailed operations due to severe weather disruption; riots, strikes, lockouts or other industrial disturbances; or failure of information technology systems due to various causes, including unauthorized access or attack.

Inability to obtain or maintain permits in a timely manner, if at all, including those necessary for capital projects, or the revocation or modification of existing permits.

Inability to comply with government regulations or make capital expenditures required to maintain compliance.

Failure to timely complete construction of announced and future capital projects.

The operation, financing and distribution decisions of our joint ventures.

Costs or liabilities associated with federal, state, and local laws and regulations relating to environmental protection and safety, including spills, releases and pipeline integrity.

Costs associated with compliance with evolving environmental laws and regulations on climate change.

Costs associated with compliance with safety regulations, including pipeline integrity management program testing and related repairs.

Changes in the cost or availability of third-party vessels, pipelines, railcars and other means of delivering and transporting crude oil, NGL and refined petroleum products.

- Direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in this prospectus and any prospectus supplement, as well as other written and oral statements made or incorporated by reference from time to time by us in other reports and filings with the SEC. All forward-looking statements included in this prospectus, any prospectus supplement and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made, other than as required by law, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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**ABOUT PHILLIPS 66 PARTNERS LP**

We are a growth-oriented master limited partnership formed to own, operate, develop and acquire primarily fee-based crude oil, refined petroleum product and NGL pipelines and terminals, as well as other midstream assets. We are managed and operated by the executive officers of our general partner, with oversight provided by its board of directors. Neither we nor our subsidiaries have any employees. Our general partner has the sole responsibility for providing the employees and other personnel necessary to conduct our operations.

We primarily generate revenue by providing fee-based transportation, processing, terminaling, storage and NGL fractionation services to Phillips 66 and other customers. Our equity affiliates primarily generate revenue from transporting and terminaling NGL, refined petroleum products and crude oil. Since we do not own any of the NGL, crude oil and refined petroleum products we handle and do not engage in the trading of NGL, crude oil and refined petroleum products, we have limited direct exposure to risks associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations over the long term.

We have multiple commercial agreements with Phillips 66, including transportation services agreements, terminal services agreements, storage services agreements, stevedoring services agreements, a fractionation services agreement, a tolling services agreement, and rail terminal services agreements. Under many of these agreements, Phillips 66 commits to provide us with minimum quarterly throughput volumes or minimum monthly capacity or service fees. We believe these agreements promote stable and predictable cash flows and they are the source of a substantial portion of our revenue.

Our general partner, Phillips 66 Partners GP LLC, is a Delaware limited liability company. We are managed and controlled by our general partner.

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**RISK FACTORS**

An investment in the units involves risks. Before you invest in the units, you should carefully consider the risk factors below, as well as the risk factors included in our most recent annual report on Form 10-K, subsequent quarterly reports on Form 10-Q, current reports on Form 8-K and those that may be included in or incorporated by reference in any applicable prospectus supplement, as well as risks described in “Management's Discussion and Analysis of Financial Condition and Results of Operations” and cautionary notes regarding forward-looking statements included or incorporated by reference in this prospectus, together with all of the other information included or incorporated by reference in this prospectus, any prospectus supplement and the documents we incorporate by reference.

If any of these risks were to materialize, our business, results of operations, cash flows and financial condition could be materially adversely affected. In that case, our ability to make distributions to our unitholders may be reduced, the trading price of our securities could decline and you could lose all or part of your investment.

**Risks Related to the Series A preferred units and this offering**

*The Series A preferred units are subordinated to our existing and future debt obligations, and your interests could be diluted by the issuance of additional units, including additional Series A preferred units, and by other transactions.*

The Series A preferred units are subordinated to all of our existing and future indebtedness (including indebtedness outstanding under our revolving credit facility and our outstanding senior notes). As of November 17, 2017, we had approximately \$2.9 billion of consolidated indebtedness. We may incur additional debt under our revolving credit facility. The payment of principal and interest on our debt reduces cash available for distribution to us and on our units, including the Series A preferred units.

The issuance of additional units *pari passu* with or senior to the Series A preferred units would dilute the interests of the holders of the Series A preferred units with the requisite approval of the holders of Series A preferred units, and any issuance of such securities or additional indebtedness could affect our ability to pay distributions on, redeem or pay the liquidation preference on, the Series A preferred units.

*The Series A preferred units do not have an established trading market and will not be listed on a national securities exchange.*



The Series A preferred units do not have an established trading market, which may negatively affect their market value and your ability to transfer or sell your units. Further, the Series A preferred units are not listed for trading on the NYSE or any other national securities exchange and we have no intention of listing the Series A preferred units on any national securities exchange in the future.

***The Internal Revenue Service could challenge our treatment of the holders of Series A preferred units as partners for tax purposes, and if such challenge were sustained, certain holders of Series A preferred units could be adversely impacted.***

The IRS may disagree with our treatment of the Series A preferred units as equity for federal income tax purposes, and no assurance can be given that our treatment will be sustained. If the IRS were to successfully characterize the Series A preferred units as indebtedness for tax purposes, certain holders of Series A preferred units may be subject to additional withholding and reporting requirements (please read “Material U.S. Federal Income Tax Consequences—Administrative Matters—Additional Withholding Requirements”). Further, if the Series A preferred units were treated as indebtedness for federal income tax purposes, rather than equity, distributions likely would be treated as payments of interest by us to the holders of Series A preferred units. Holders of Series A preferred units are encouraged to consult their tax advisors regarding the tax consequences applicable to the recharacterization of the Series A preferred units as indebtedness for tax purposes.

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*Sales by the selling unitholders of common units that are covered by this prospectus could adversely affect the trading price of our common units.*

We are registering for resale an aggregate of 6,304,204 common units that may be held by the selling unitholders, which represent approximately 5% of our currently outstanding common units as of November 20, 2017. Subject to certain exceptions, we are obligated to keep this prospectus current so that the common units can be sold in the public market at any time. The resale of all or a substantial portion of the common units in the public market, or the perception that these sales might occur, could cause the market price of our common units to decrease and may make it more difficult for us to sell our equity securities in the future at a time and upon terms that we deem appropriate.

Table of Contents**RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED UNIT DISTRIBUTIONS**

The following table sets forth our ratio of earnings to fixed charges for the periods indicated on a consolidated historical basis. For purposes of computing the ratio of earnings to fixed charges, “earnings” are defined as income before taxes adjusted for undistributed equity earnings, plus fixed charges less capitalized interest. “Fixed charges” consist of interest expensed and capitalized, amortization of deferred loan costs and an estimate of interest within rent expense.

|   | Nine<br>Months<br>Ended<br>September<br>30<br>2017 | Years Ended December 31 |      |       |      |      |
|---|--|-------------------------|------|-------|------|------|
|   |  | 2016                    | 2015 | 2014  | 2013 | 2012 |
| Ratio of Earnings to Fixed Charges  | 5.2x   | 8.0x                    | 5.1x | 20.9x | N/A  | N/A  |
| Ratio of Earnings to Combined Fixed Charges<br>and Preferred Unit Distributions (1) |  |                         |      |       |      |      |

(1) No preferred units were outstanding during any of the periods presented and therefore, no historical ratio of earnings to combined fixed charges and preferred unit distributions are presented for these periods.

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**USE OF PROCEEDS**

The units to be offered and sold pursuant to this prospectus or any applicable prospectus supplement will be offered and sold by the selling unitholders. We will not receive any proceeds from the sale of units by the selling unitholders. We have agreed to pay certain expenses of the selling unitholders in connection with the sale of the units offered by this prospectus. Please read “Plan of Distribution.”

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**DESCRIPTION OF OUR COMMON UNITS**

The following description of our common units is not complete and may not contain all of the information you should consider before investing in our common units. This description is summarized from, and qualified in its entirety by reference to, our Second Amended and Restated Agreement of Limited Partnership, which we refer to herein as the “partnership agreement.” We urge you to read the full text of the partnership agreement, which has been publicly filed with the SEC, as the partnership agreement, and not this prospectus, governs the Partnership, the common units and the Series A preferred units.

**General**

The common units represent limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. The holders of Series A preferred units have rights, preferences and privileges that are not held by, and are preferential to, the rights of holders of common units. For a description of the relative rights and preferences of holders of common units in and to partnership distributions, please read this section and “Provisions of Our Partnership Agreement Relating to Cash Distributions.” For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please read “Our Partnership Agreement.” Our outstanding common units are listed on the NYSE under the symbol “PSXP” and any additional common units we issue will also be listed on the NYSE under such symbol. As of November 20, 2017, 121,571,959 common units were outstanding.

**Transfer Agent and Registrar**

***Duties***

American Stock Transfer & Trust Company, LLC serves as registrar and transfer agent for our common units. We pay all fees charged by the transfer agent for transfers of common units, except for the following, which must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, or to cover related taxes and other governmental charges;
- special charges for services requested by a holder of a common unit; and



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· other similar fees or charges.

There is no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

***Resignation or Removal***

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

**Transfer of Common Units**

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

· automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement;

· represents and warrants that the transferee has the right, power, authority, and capacity to enter into our partnership agreement; and

· gives the consents, waivers and approvals contained in our partnership agreement.

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

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

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

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



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**DESCRIPTION OF OUR SERIES A PREFERRED UNITS**

The following description of our Series A preferred units is not complete and may not contain all of the information you should consider before investing in our Series A preferred units. This description is summarized from, and qualified in its entirety by reference to, our partnership agreement. For a description of our partnership agreement, please read “Our Partnership Agreement.” We urge you to read the full text of the partnership agreement, which has been publicly filed with the SEC, as the partnership agreement, and not this prospectus, governs the Partnership and the Series A preferred units. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in our partnership agreement.

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**General**

As of the date of this prospectus, we have 13,819,791 Series A preferred units issued and outstanding. These Series A preferred units were sold by us to the selling unitholders in a private placement on October 6, 2017 at a price of \$54.27 per Series A preferred unit (the “Series A Issue Price”).

The Series A preferred units represent limited partner interests in us and, unlike our indebtedness, will not give rise to a claim for payment of a principal amount at a particular date. As such, the Series A preferred units rank junior to all of our current and future indebtedness (including indebtedness outstanding under our revolving credit facility and our outstanding senior notes) and other liabilities with respect to assets available to satisfy claims against us.

The Series A preferred units rank senior to our common units with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up. For a description of the relative rights and preferences of holders of our Series A preferred units and common units, please read this section and “Provisions of our Partnership Agreement Relating to Cash Distributions.”

The holders of Series A preferred units are entitled to receive cumulative quarterly distributions equal to \$0.678375 per Series A preferred unit for any quarter ending on or before September 30, 2020, and thereafter the quarterly distributions on each Series A preferred unit will equal the greater of (1) \$0.678375 per unit and (2) the amount that such Series A preferred unit would have otherwise received if it had been converted into common units immediately prior to the record date for the quarter in respect of which such distributions are being paid at the then applicable conversion rate (as defined below). We may not pay any distributions for any quarter on any junior securities, including any common units and the incentive distribution rights, unless the distribution payable to the Series A preferred units with respect to such quarter, together with any previously accrued but unpaid distributions to the Series A preferred units, have been paid in full.

**Ranking**

The Series A preferred units, with respect to anticipated quarterly distributions, rank:

senior to any class or series of partnership interests in us that, with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up, ranks junior to the Series A preferred units (“Series A Junior Securities”), including our common units and the incentive distribution rights;

*pari passu* with any class or series of partnership interests in us that, with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up, ranks *pari passu* with the Series A preferred units (“Series A Parity Securities”);

junior to all of our existing and future indebtedness (including indebtedness outstanding under our revolving credit facility and our outstanding senior notes) and other liabilities with respect to assets available to satisfy claims against us; and

junior to any class or series of partnership interests in us that, with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up, ranks senior to the Series A preferred units (“Series A Senior Securities”).

Under our partnership agreement, we may issue Series A Junior Securities from time to time in one or more series without the consent of the holders of the Series A preferred units. The board of directors of our general partner has the authority to determine the preferences, powers, qualifications, limitations, restrictions and special or relative rights or privileges, if any, of any such series before the issuance of any units of that series. The board of directors of our general partner will also determine the number of units constituting each series of Series A Junior Securities. Our ability to issue additional Series A Parity Securities in certain circumstances or Series A Senior Securities is limited as described under “Our Partnership Agreement—Voting Rights.”

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**Distributions**

Distributions on each Series A preferred unit will be cumulative and will accrue at the Series A Distribution Amount (as defined below) from October 6, 2017 until such time as the Series A preferred units are converted into common units in accordance with our partnership agreement, whether or not quarterly distributions with respect to Series A preferred units (the “Series A Quarterly Distributions”) shall have been declared, and distributions will accrue on the amount of Series A Quarterly Distributions in arrears. Holders of Series A preferred units will be entitled to receive Series A Quarterly Distributions from time to time when, as, and if declared by our general partner. Distributions, when, as and if declared by our general partner to be paid by us in accordance with our partnership agreement, will be paid quarterly on each Series A Distribution Payment Date (as defined below).

As used herein, “Series A Distribution Payment Date” means the date that is no later than the earlier of 60 days after the end of the applicable quarter and the payment date of distributions, if any, on any Series A Parity Securities and Series A Junior Securities.

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

With respect to any quarter ending on or before September 30, 2019 (the “Series A PIK Distribution Period”), distributions may be paid in cash, in-kind in the form of Series A PIK Units, or in a combination thereof, at the election of our general partner. If we elect to pay some or all of a Series A Distribution Amount in Series A PIK Units, we shall publicly announce that election on or before the record date for which such election has been made and shall state in the announcement the amount of Series A PIK Units or combination of cash and Series A PIK Units to be paid per Series A preferred unit in connection with the Series A Quarterly Distribution. Any issuance of Series A PIK Units as a distribution will be made in accordance with our partnership agreement (the date of issuance of such Series A PIK Units, the “Series A PIK Payment Date”). On the Series A PIK Payment Date, we will issue to holders of Series A preferred units a certificate or certificates for the number of Series A PIK Units to which such Series A preferred unitholders shall be entitled, or, at our option, a notation in book-entry form in the books of the transfer agent. With respect to any quarter distributions made after the Series A PIK Distribution Period shall be paid in cash.

For purposes of maintaining Capital Accounts (as defined in our partnership agreement), if we issue one or more Series A PIK Units with respect to a Series A preferred unit, (i) we shall be treated as distributing cash with respect to

such Series A preferred unit in an amount equal to the Series A Issue Price of the Series A PIK Units issued in payment of the Series A Quarterly Distribution and (ii) the holder of such Series A preferred unit shall be treated as having contributed to us in exchange for such newly issued Series A PIK Unit an amount of cash equal to the Series A Issue Price.

### **Conversion**

Each holder of Series A preferred units may elect to convert all or any portion of the Series A preferred units owned by such holder into common units initially on a one-for-one basis, subject to customary anti-dilution adjustments and an adjustment for any distributions that have accrued on such Series A preferred units but not been paid when due (which we refer to as the “conversion rate”), at any time (but not more often than once per quarter) after October 6, 2019 (or upon an earlier liquidation of the Partnership, in which case the conversion rate shall be the rate described in the first paragraph under “—Series A Change of Control” below), provided that any conversion involves an aggregate number of Series A preferred units with an underlying value of common units equal to or greater than \$50 million (calculated based on the Series A Issue Price) or such lesser amount if such conversion relates to all of a holder’s remaining Series A preferred units.

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We may elect to convert all or any portion of the Series A preferred units into common units at any time (but not more often than once per quarter) after October 6, 2020 if (i) the common units are listed or admitted for trading on a national securities exchange, (ii) the average volume weighted average price (“VWAP”) of the common units is greater than \$73.2645 for the preceding 20 trading days, (iii) the average daily trading volume of the common units exceeds 100,000 (as adjusted to reflect splits, combinations or similar events) for the preceding 20 trading days and (iv) we have an effective registration statement on file covering resales of the underlying common units to be received by the holders upon conversion of the Series A preferred units, however, we will not be able to make any such election unless the conversion involves an aggregate number of Series A preferred units with an underlying value of common units equal to or greater than \$50 million (calculated based on the Series A Issue Price) or a lesser amount if such conversion relates to all of the then outstanding Series A preferred units. The Series A preferred units will be converted at the conversion rate (adjusted to give the holders of such converted Series A preferred units the benefit of a Partial Period Distribution (as defined below)) if the VWAP of the common units for the 20 trading days preceding the notice of conversion (the “Conversion VWAP”) is equal or greater to \$74.62125, and at a ratio of one common unit for each 0.975 Series A preferred unit (subject to customary anti-dilution adjustments, an adjustment for any distributions that have accrued on such Series A preferred units but not been paid when due and a Partial Period Distribution) if the Conversion VWAP is less than \$74.62125. We also may elect, on and after October 6, 2020, rather than converting the Series A preferred units, to redeem the Series A preferred units at a redemption price equal to the Conversion VWAP plus any distributions that have accrued on such Series A preferred units but not been paid when due and a Partial Period Distribution if the conditions described in clauses (i) through (iv) above have been met.

No fractional common units will be issued upon conversion of Series A preferred units, and each fractional common unit otherwise issuable shall be rounded to the nearest whole common unit (and a 0.5 common unit shall be rounded to the next higher common unit).

With respect to Series A preferred units that are converted into common units, the holder thereof will not be entitled to receive a Series A Quarterly Distribution and a common unit distribution with respect to the same period, but will be entitled to receive only the distribution to be paid based upon the class of units held as of the close of business on the applicable record date, together with all accrued but unpaid distributions on the converted Series A preferred units.

Upon conversion, the rights of a holder of converted Series A preferred units as a Series A preferred unitholder shall cease with respect to such converted Series A preferred units, including any rights under our partnership agreement with respect to a Series A preferred unitholder, and such person shall continue to be a limited partner and have the rights of a holder of common units under our partnership agreement. Each Series A preferred unit shall, upon its conversion be deemed to be transferred to, and cancelled by, us in exchange for the issuance of the common units into which such Series A preferred unit is converted. Notwithstanding the foregoing, as a result of a conversion, a holder shall not lose or relinquish any claims or rights of action such holder may then or thereafter have as a result of such holder’s previous ownership of Series A preferred units.

If we:

- (1) make a distribution on our common units payable in common units or other partnership units,
- (2) subdivide or split our outstanding common units into a greater number of common units,
- (3) combine or reclassify our common units into a lesser number of common units,
- (4) issue by reclassification of our common units any partnership interests (including any reclassification in connection with a merger, consolidation or business combination in which we are the surviving person),

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- (5) effect a pro rata repurchase of common units (other than in connection with a Series A Change in Control (as defined in our partnership agreement)),
- (6) issue to common unitholders rights, options or warrants entitling them to subscribe for or purchase common units at less than the market value thereof,

distribute to common unitholders evidences of indebtedness, partnership interests (other than common units) or other assets (including securities, but excluding common units referred to in clause (1) above, rights or warrants referred to in clause (6) above, consideration payable in a tender offer or exchange offer made by the Partnership or any of its subsidiaries, and any class or series of partnership interests in the case of a spin-off described in clause (8) below), or

- (8) consummate a spin-off in which the Partnership makes a distribution to all common unitholders of units of any class or series, or similar equity interests of, or relating to, a subsidiary or other business unit of the Partnership,

then the applicable conversion rate and redemption rate in effect at the time of the record date for such distribution described in clause (1) above, or of the effective date of such subdivision, split, combination, or reclassification described in clauses (2) through (4) above, shall be proportionately adjusted so that the conversion of the Series A preferred units after such time shall entitle the holder to receive the aggregate number of common units (or shares of any partnership interests into which such common units would have been combined, consolidated, merged or reclassified) that such holder would have been entitled to receive if the Series A preferred units had been converted into common units immediately prior to such record date or effective date, as the case may be, and in the case of a merger, consolidation or business combination in which we are the surviving person, we shall provide effective provisions to ensure that the provisions of our partnership agreement relating to the Series A preferred units shall not be abridged or amended and that the Series A preferred units shall thereafter retain the same powers, preferences and relative participating, optional and other special rights, and the qualifications, limitations and restrictions thereon, that the Series A preferred units had immediately prior to such transaction or event. In the event of a repurchase, issuance, distribution or spin-off as described in clauses (5) through (8), above, our general partner, in its reasonable discretion, shall proportionately adjust the applicable conversion rate and redemption price to appropriately ensure that the Series A preferred units are convertible into an economically equivalent number of common units after taking into account the events described in those clauses. Any such adjustment made pursuant to our partnership agreement shall become effective immediately after the record date in the case of a distribution and shall become effective immediately after the effective date in the case of a subdivision, combination, reclassification (including any reclassification in connection with a merger, consolidation or business combination in which we are the surviving person) or split. Such adjustment shall be made successively whenever any event described above shall occur. No adjustment to any then applicable conversion rate shall be made upon cash distributions by us on our common units (unless made in breach of the prohibition in our partnership agreement on distributions to Series A Junior Securities prior to distributions to Series A preferred units).

**Series A Change of Control**



Upon certain events involving a Series A Change of Control in which more than 90% of the consideration payable to the holders of the common units is payable in cash, the Series A preferred units will automatically convert into common units at a conversion ratio equal to the higher of (a) the then applicable conversion rate and (b) the quotient of (i) the sum of (A) the Series A Issue Price (plus any accrued and unpaid distributions on the Series A preferred units) multiplied by a premium factor (ranging from 115% to 101% depending on when such transaction occurs) plus (B) a Partial Period Distribution for the quarter in which the conversion occurs, divided by (ii) the VWAP of the common units for the 30 trading days prior to the execution of definitive documentation relating to such Series A Change of Control.

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In connection with other Series A Change of Control transactions that do not meet the 90% cash consideration threshold described above, each holder of the Series A preferred units may elect to (a) convert its Series A preferred units to common units at the then applicable conversion rate, (b) if we are not the surviving entity in such transaction (or if we are the surviving entity but our common units will cease to be listed on a national securities exchange), require us to use commercially reasonable efforts to cause the surviving entity in any such transaction to issue a substantially equivalent security (or if we are unable to cause such substantially equivalent securities to be issued, convert into common units at a premium based on a specified formula subject to aggregate return limitations, convert into common units in accordance with clause (a) above or be redeemed in accordance with clause (d) below), (c) if we are the surviving entity in such transaction, continue to hold the Series A preferred units or (d) require us to redeem the Series A preferred units at a price per unit equal to 101% of the sum of the Series A Issue Price, plus accrued and unpaid distributions on the applicable Series A preferred units plus a Partial Period Distribution for the quarter in which the redemption occurs, which may be payable in cash, in common units or in a combination thereof at the election of our general partner (and, if payable in common units, will be paid in common units issued at 95% of the VWAP for the 30 trading days ending on the fifth trading day preceding the consummation of the Series A Change of Control).

Upon conversion at our election or at the election of the holder of a Series A preferred unit, or conversion or redemption paid in common units in connection with a Series A Change of Control, the rights of a holder of the Series A preferred units shall cease with respect to such converted Series A preferred units and such person shall continue to be a partner and have the rights of a holder of common units under our partnership agreement. Each Series A preferred unit will, upon its applicable conversion or redemption date, be deemed to be transferred to, and cancelled by, us in exchange for the issuance of common units in respect of such Series A preferred unit. Notwithstanding the foregoing, as a result of a conversion, a holder shall not lose or relinquish any claims or rights of action such holder may then or thereafter have as a result of such holder's previous ownership of Series A preferred units.

All common units delivered upon any conversion or redemption of the Series A preferred units will be duly authorized, validly issued, fully paid and non-assessable limited partner interests in us, except as such non-assessability may be affected by Section 17-303, 17-607 or 17-804 of the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act"), and shall be free and clear of any liens, claims, rights or encumbrances, other than those arising under the Delaware Act or our partnership agreement.

We will comply with all applicable securities laws regulating the offer and delivery of any common units upon conversion of Series A preferred units and, if the common units are then listed or quoted on a national securities exchange or other market, shall list or cause to have quoted and keep listed and quoted the common units issued upon conversion of the Series A preferred units to the extent permitted or required by the rules of such exchange or market.

## **Voting Rights**

In addition to the voting rights provided below, the Series A preferred units will have voting rights that are identical to the voting rights of the common units and will vote with the common units as a single class, so that each Series A preferred unit will be entitled to one vote for each common unit into which such Series A preferred unit would be converted at the then applicable conversion rate (regardless of whether the Series A preferred units are then convertible) on each matter with respect to which each common unit is entitled to vote. Please read “Our Partnership Agreement – Voting Rights.”

The affirmative vote or consent of 66 2/3% of the outstanding Series A preferred units, voting separately as a class with one vote per Series A preferred unit (the “Series A Required Voting Percentage”), will be necessary for any amendments to our partnership agreement or our certificate of limited partnership that are adverse (other than in a *de minimis* manner) to the rights, preferences and privileges of the Series A preferred units. Without limiting the generality of the foregoing, any amendment shall be deemed to have an adverse impact that is not *de minimis* if such amendment would:

reduce the Series A Distribution Amount, change the form of payment of distributions on the Series A preferred units, defer the date from which distributions on the Series A preferred units will accrue, cancel any accrued and (1) unpaid distributions on the Series A preferred units (including any Partial Period Distributions or Series A PIK Units), or change the seniority rights of the Series A preferred unitholders as to the payment of distributions in relation to the holders of any other class or series of partnership interests in us;

reduce the amount payable or change the form of payment to the holders of the Series A preferred units upon the voluntary or involuntary liquidation, dissolution or winding up, or sale of all or substantially all of the assets, of the (2) partnership, or change the seniority of the liquidation preferences of the holders of the Series A preferred units in relation to the rights of the holders of any other class or series of partnership interests in us upon our liquidation, dissolution and winding up; or

(3) make the Series A preferred units redeemable or convertible at our option other than as set forth in our partnership agreement.

The affirmative vote or consent of the Series A Required Voting Percentage will be necessary for the Partnership to declare or pay any distribution from Capital Surplus (as defined in our partnership agreement).

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**Liquidation Rights**

We will liquidate in accordance with capital accounts. A holder of outstanding Series A preferred units will be specially allocated items of our gross income and gain in a manner designed to achieve, in the event of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, a liquidation preference equal to the Series A Issue Price plus all unpaid distributions on such Series A preferred units as of such date. If the amount of our gross income and gain available to be specially allocated to the Series A preferred units is not sufficient to cause the capital account of a Series A preferred unit to equal the liquidation preference of a Series A preferred unit, then the amount that a holder of Series A preferred units would receive upon liquidation may be less than the Series A preferred unit liquidation preference. Any accumulated and unpaid distributions on the Series A preferred units will be paid prior to any distributions in liquidation made in accordance with capital accounts.

**Restrictions on Transfers of Series A Preferred Units**

Subject to certain restrictions in our partnership agreement, each holder of Series A preferred units shall be permitted to transfer its Series A preferred units to any of its affiliates or to any other holder of Series A preferred units. With limited exceptions, without the prior written consent of our general partner, each holder of Series A preferred units shall not (i) prior to October 6, 2018, offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any of its Series A preferred units; (ii) prior to October 6, 2019, directly or indirectly engage in any short sales or other derivative or hedging transactions with respect to the Series A preferred units or the common units that are designed to, or that might reasonably be expected to, result in the transfer to another person, in whole or in part, any of the economic consequences of ownership of any Series A preferred units; (iii) transfer any Series A preferred units to any non-U.S. resident individual, non-U.S. corporation or partnership, or any other non-U.S. entity, including any foreign governmental entity, including by means of any swap or other transaction or arrangement that transfers or that is designed to, or that might reasonably be expected to, result in the transfer to another, in whole or in part, any of the economic consequences of ownership of any Series A preferred units (subject to certain exceptions in our partnership agreement); or (iv) effect any transfer of Series A preferred units or any common units received by such holder in respect of Series A preferred units in a manner that violates the terms of our partnership agreement; provided, however, that any holder of Series A preferred units may at any time pledge all or any portion of its Series A preferred units to any holders of obligations owed by such holder. Any transferee receiving any Series A preferred units shall be obligated to agree to the transfer restrictions above as a condition to such transfer.

At any time after October 6, 2018, holders of Series A preferred units may freely transfer their Series A preferred units (subject to the restrictions contained in clauses (ii) through (iv) above), provided that each such transfer involves an aggregate number of Series A preferred units with an underlying value of common units equal to or greater than \$50 million (based on the Series A Issue Price) or a lesser underlying value if such transfer (1) will result in the transfer of all of the Series A preferred units held by such holder and its affiliates or (2) has been approved by our general partner.

**No Sinking Fund**

The Series A preferred units will not have the benefit of any sinking fund.

**Book-Entry System**

The Series A preferred units have been directly registered with the transfer agent and are expected to continue to be held in direct registration.

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**PROVISIONS OF OUR PARTNERSHIP AGREEMENT RELATING TO CASH DISTRIBUTIONS**

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

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**Distributions of Available Cash**

***General***

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash to unitholders of record on the applicable record date.

***Definition of available cash***

Available cash generally means, for any quarter, all cash and cash equivalents on hand at the end of that quarter:

*less*, the amount of cash reserves established by our general partner to:

provide for the proper conduct of our business (including reserves for our future capital expenditures, future acquisitions, anticipated future debt service requirements and refunds of collected rates reasonably likely to be refunded as a result of a settlement or hearing related to FERC rate proceedings or rate proceedings under applicable law subsequent to that quarter);

comply with applicable law, any of our or our subsidiaries' debt instruments or other agreements; or

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters (provided that our general partner may not establish cash reserves for distributions if the effect of the establishment of such reserves will prevent us from distributing 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.

The purpose and effect of the last bullet point above is to allow our general partner, if it so decides, to use cash from working capital borrowings made after the end of the quarter but on or before the date of determination of available cash for that quarter to pay distributions to unitholders. Under our partnership agreement, working capital borrowings are generally borrowings that are made under a credit facility, commercial paper facility or similar financing

arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within 12 months with funds other than from additional working capital borrowings.

***Intent to distribute the minimum quarterly distribution***

We intend to make at least the minimum quarterly distribution to the holders of our common units of \$0.2125 per unit, or \$0.85 per unit on an annualized basis, to the extent we have sufficient available cash after the establishment of cash reserves. Our most recent quarterly distribution declared by the board of directors of our general partner, which was for the three months ended September 30, 2017, was \$0.646 per unit, or \$2.584 per unit on an annualized basis. 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, in accordance with the terms of our partnership agreement.

***General partner interest and incentive distribution rights***

As of the date of this prospectus, our general partner is entitled to approximately 2% of all quarterly distributions that we make prior to our liquidation, other than with respect to any distributions we make on our Series A preferred units. 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 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% general partner interest.



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Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 48%, of the available cash we distribute from operating surplus (as defined below) in excess of \$0.244375 per unit per quarter. The maximum distribution of 48% does not include any distributions that our general partner or its affiliates may receive on common units or general partner units that they own. Please read “—General Partner Interest and Incentive Distribution Rights” for additional information.

*Series A preferred unit distributions*

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

**Operating Surplus and Capital Surplus**

*General*

All cash distributed to unitholders will be characterized as either being paid from “operating surplus” or “capital surplus.” We treat distributions of available cash from operating surplus differently than distributions of available cash from capital surplus.

*Operating surplus*

We define operating surplus as:

\$60.0 million (as described below); *plus*

all of our cash receipts, excluding cash from interim capital transactions (as defined below), and the termination of commodity hedge or interest rate hedge contracts, provided that cash receipts from the termination of a commodity hedge or interest rate hedge prior to its specified termination date shall be included in operating surplus in equal quarterly installments over the remaining scheduled life of such commodity hedge or interest rate hedge; *plus*

working capital borrowings made after the end of a quarter but on or before the date of determination of operating surplus for that quarter; *plus*

cash distributions (including incremental distributions on incentive distribution rights) paid in respect of equity issued to finance all or a portion of expansion capital expenditures in respect of the period from the date that we enter into a binding obligation to commence the construction, development, replacement, improvement or expansion of a capital asset and ending on the earlier to occur of the date the capital asset commences commercial service and the date that it is abandoned or disposed of; *less*

all of our operating expenditures (as defined below); *less*

the amount of cash reserves established by our general partner to provide funds for future operating expenditures; *less*

all working capital borrowings not repaid within twelve months after having been incurred, or repaid within such 12-month period with the proceeds of additional working capital borrowings.

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As described above, operating surplus does not reflect actual cash on hand that is available for distribution to our unitholders and is not limited to cash generated by operations. For example, it includes a provision that will enable us, if we choose, to distribute as operating surplus up to \$60.0 million of cash we receive in the future from non-operating sources such as asset sales, issuances of securities and long-term borrowings that would otherwise be distributed as capital surplus. In addition, the effect of including, as described above, certain cash distributions on equity interests in operating surplus will be to increase operating surplus by the amount of any such cash distributions. As a result, we may also distribute as operating surplus up to the amount of any such cash that we receive from non-operating sources.

The proceeds of working capital borrowings increase operating surplus and repayments of working capital borrowings are generally operating expenditures (as described below) and thus reduce operating surplus when repayments are made. However, if working capital borrowings, which increase operating surplus, are not repaid during the twelve-month period following the borrowing, they will be deemed repaid at the end of such period, thus decreasing operating surplus at such time. When such working capital borrowings are in fact repaid, they will not be treated as a further reduction in operating surplus because operating surplus will have been previously reduced by the deemed repayment.

We define interim capital transactions as (1) borrowings, refinancings or refundings of indebtedness (other than working capital borrowings and items purchased on open account or for a deferred purchase price in the ordinary course of business) and sales of debt securities, (2) sales of equity securities, and (3) sales or other dispositions of assets, other than sales or other dispositions of inventory, accounts receivable and other assets in the ordinary course of business and sales or other dispositions of assets as part of normal asset retirements or replacements.

We define operating expenditures as all of our cash expenditures, including, but not limited to, taxes, reimbursements of expenses of our general partner and its affiliates, officer, director and employee compensation, debt service payments, payments made in the ordinary course of business under interest rate hedge contracts and commodity hedge contracts (provided that payments made in connection with the termination of any interest rate hedge contract or commodity hedge contract prior to the expiration of its settlement or termination date specified therein will be included in operating expenditures in equal quarterly installments over the remaining scheduled life of such interest rate hedge contract or commodity hedge contract and amounts paid in connection with the initial purchase of an interest rate hedge contract or a commodity hedge contract will be amortized over the life of such interest rate hedge contract or commodity hedge contract), maintenance capital expenditures (as discussed in further detail below), and repayment of working capital borrowings; provided, however, that operating expenditures will not include:

repayments of working capital borrowings where such borrowings have previously been deemed to have been repaid (as described above);

payments (including prepayments and prepayment penalties) of principal of and premium on indebtedness other than working capital borrowings;

· expansion capital expenditures;

· payment of transaction expenses (including taxes) relating to interim capital transactions;

· distributions to our partners; or

· repurchases of partnership interests (excluding repurchases we make to satisfy obligations under employee benefit plans).

***Capital surplus***

Capital surplus is defined in our partnership agreement as any distribution of available cash in excess of our cumulative operating surplus. Accordingly, except as described above, capital surplus would generally be generated by:

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borrowings other than working capital borrowings;

sales of our equity and debt securities;

sales or other dispositions of assets, other than inventory, accounts receivable and other assets sold in the ordinary course of business or as part of ordinary course retirement or replacement of assets; and

capital contributions received.

*Characterization of cash distributions*

All available cash distributed by us on any date from any source will be treated as distributed from operating surplus until the sum of all available cash distributed equals our cumulative operating surplus. We anticipate that distributions from operating surplus will generally not represent a return of capital. However, operating surplus, as defined in our partnership agreement, includes certain components, including a \$60.0 million cash basket, that represent non-operating sources of cash. Consequently, it is possible that all or a portion of specific distributions from operating surplus may represent a return of capital. Any available cash distributed by us in excess of our cumulative operating surplus will be deemed to be capital surplus under our partnership agreement. Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from our initial public offering and as a return of capital. We do not anticipate that we will make any distributions from capital surplus.

**Capital Expenditures**

Maintenance capital expenditures are cash expenditures (including expenditures for the construction or development of new capital assets or the replacement, improvement or expansion of existing capital assets) made to maintain, over the long term, our operating capacity or operating income. Examples of maintenance capital expenditures are expenditures to repair, refurbish and replace pipelines and storage facilities, to maintain equipment reliability, integrity and safety and to address environmental laws and regulations.

Expansion capital expenditures are cash expenditures incurred for acquisitions or capital improvements that we expect will increase our operating capacity or operating income over the long term. Examples of expansion capital expenditures include the acquisition of equipment, or the construction, development or acquisition of additional pipeline or storage capacity, to the extent such capital expenditures are expected to expand our long-term operating capacity or operating income. Expansion capital expenditures include interest payments (and related fees) on debt incurred to finance all or a portion of expansion capital expenditures in respect of the period from the date that we

enter into a binding obligation to commence the construction, development, replacement, improvement or expansion of a capital asset and ending on the earlier to occur of the date that such capital improvement commences commercial service and the date that such capital improvement is abandoned or disposed of.

Capital expenditures that are made in part for maintenance capital purposes and in part for expansion capital purposes will be allocated as maintenance capital expenditures or expansion capital expenditures by our general partner.

### **Distributions on Series A Preferred Units**

We have outstanding Series A preferred units that have the right to receive cumulative distributions prior to any other distributions made in respect of any other partnership interests in us in the amounts described herein. Commencing with the quarter ending on December 31, 2017 and continuing through the applicable Series A conversion date, the record holder of each Series A preferred unit as of an applicable record date for each quarter will be entitled to receive cumulative distributions in respect of such quarter equal to the sum of (1) the Series A Distribution Amount for such quarter and (2) any previously accrued but unpaid distributions with respect to such Series A preferred unit. With respect to any quarter during the Series A PIK Distribution Period, our general partner has the option to pay such distribution in cash, in-kind in the form of Series A PIK Units, or in a combination thereof. Distributions made after the Series A PIK Distribution Period shall be paid in cash. If we fail to pay in full the Series A Distribution Amount during the Series A PIK Distribution Period, the unitholders entitled to such unpaid portion of the Series A Distribution Amount shall be deemed to have nonetheless received the amount of such unpaid portion in the form of Series A PIK units. If we fail to pay in full the Series A Distribution Amount after the Series A PIK Distribution Period, the amount of the unpaid portion of the Series A Distribution Amount will continue to accrue and accumulate until such amount is paid in full, and shall be paid to the Series A preferred unitholders before any distribution can be made to holders of Series A Junior Securities or Series A Parity Securities, including our general partner (with respect to the incentive distribution rights) or common unitholders (with respect to the common units).

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**Distributions of Available Cash from Operating Surplus**

After payment of the cumulative quarterly distributions on the Series A preferred units, assuming our general partner maintains its 2% general partner interest and we do not issue additional classes of equity securities, we will make distributions of available cash from operating surplus for any quarter in the following manner:

*first*, 98% to all common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; and

· *thereafter*, in the manner described in “—General Partner Interest and Incentive Distribution Rights” below.

**General Partner Interest and Incentive Distribution Rights**

Our partnership agreement provides that, after paying the full Series A Quarterly Distribution and any previously accrued and unpaid distributions with respect to the Series A preferred units, our general partner initially will be entitled to 2% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us in order to maintain its 2% general partner interest if we issue additional units. Our general partner's 2% interest, and the percentage of our cash distributions to which it is entitled from such 2% interest, will be proportionately reduced if we issue additional units in the future (other than the issuance of common units upon a reset of the incentive distribution rights) and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 2% general partner interest. Our partnership agreement does not require that our general partner fund its capital contribution with cash. Our general partner may instead fund its capital contribution by the contribution to us of common units or other property.

Incentive distribution rights represent the right to receive an increasing percentage (13%, 23% and 48%) of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest.

The following discussion assumes that our general partner maintains its 2% general partner interest, and that our general partner continues to own the incentive distribution rights.

If for any quarter we have:

paid the full Series A Distribution Amount and any previously accrued and unpaid distributions with respect to the Series A preferred units;

distributed available cash from operating surplus to the common unitholders in an amount equal to the minimum quarterly distribution; and

distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

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then, we will distribute any additional available cash from operating surplus for that quarter among the common unitholders and our general partner in the following manner:

*first*, 98% to all common unitholders, pro rata, and 2% to our general partner, until each common unitholder receives a total of \$0.244375 per common unit for that quarter (the “first target distribution”);

*second*, 85% to all common unitholders, pro rata, and 15% to our general partner, until each common unitholder receives a total of \$0.265625 per common unit for that quarter (the “second target distribution”);

*third*, 75% to all common unitholders, pro rata, and 25% to our general partner, until each common unitholder receives a total of \$0.318750 per common unit for that quarter (the “third target distribution”); and

*thereafter*, 50% to all common unitholders, pro rata, and 50% to our general partner.

**Percentage Allocations of Available Cash from Operating Surplus**

The following table illustrates the percentage allocations of available cash from operating surplus between the common unitholders and our general partner based on the specified target distribution levels. 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 common 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% general partner interest and assume that our general partner has contributed any additional capital necessary to maintain its 2% general partner interest, our general partner has not transferred its incentive distribution rights and that there are no arrearages on common units.

|                                | Total quarterly distribution per unit target amount | Marginal percentage interest in distributions |                 |
|--------------------------------|---|---|-----------------|
|                                |   | Common 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   %

### **General Partner's Right to Reset Incentive Distribution Levels**

Our general partner, as the initial holder of our incentive distribution rights, has the right under our partnership agreement, subject to certain conditions, to elect to relinquish the right to receive incentive distribution payments based on the initial target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount and target distribution levels upon which the incentive distribution payments to our general partner would be set. If our general partner transfers all or a portion of the incentive distribution rights in the future, then the holder or holders of a majority of our incentive distribution rights will be entitled to exercise this right. The following discussion assumes that our general partner holds all of the incentive distribution rights at the time that a reset election is made. Our general partner's right to reset the minimum quarterly distribution amount and the target distribution levels upon which the incentive distributions payable to our general partner are based may be exercised, without approval of our unitholders or the conflicts committee, at any time when we have made cash distributions to the holders of the incentive distribution rights at the highest level of incentive distributions for each of the four consecutive fiscal quarters immediately preceding such time and the amount of each such distribution did not exceed adjusted operating surplus for such quarter. If our general partner and its affiliates are not the holders of a majority of the incentive distribution rights at the time an election is made to reset the minimum quarterly distribution amount and the target distribution levels, then the proposed reset will be subject to the prior written concurrence of our general partner that the conditions described above have been satisfied. The reset minimum quarterly distribution amount and target distribution levels will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset such that the holder of the incentive distribution rights will not receive any incentive distributions under the reset target distribution levels until cash distributions per unit following this event increase as described below. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distribution payments being made to our general partner.

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In connection with the resetting of the minimum quarterly distribution amount and the target distribution levels and the corresponding relinquishment by our general partner of incentive distribution payments based on the target distributions prior to the reset, our general partner will be entitled to receive a number of newly issued common units based on a predetermined formula described below that takes into account the “cash parity” value of the average cash distributions related to the incentive distribution rights received by our general partner for the two quarters immediately preceding the reset event as compared to the average cash distributions per common unit during that two-quarter period. In addition, our general partner will be issued the number of general partner units necessary to maintain our general partner's interest in us immediately prior to the reset election.

The number of common units that our general partner (or the then-holder of the incentive distribution rights, if other than our general partner) would be entitled to receive from us in connection with a resetting of the minimum quarterly distribution amount and the target distribution levels then in effect would be equal to the quotient determined by dividing (x) the average aggregate amount of cash distributions received by our general partner in respect of its incentive distribution rights during the two consecutive fiscal quarters ended immediately prior to the date of such reset election by (y) the average of the aggregate amount of cash distributed per common unit during each of these two quarters.

Following a reset election, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (which amount we refer to as the “reset minimum quarterly distribution”) and the target distribution levels will be reset to be correspondingly higher such that, following payment of the full Series A Distribution Amount and any previously accrued and unpaid distributions with respect to the Series A preferred units, we would distribute all of our available cash from operating surplus for each quarter thereafter as follows:

*first*, 98% to all common unitholders, pro rata, and 2% to our general partner, until each common unitholder receives an amount equal to 115% of the reset minimum quarterly distribution for that quarter;

*second*, 85% to all common unitholders, pro rata, and 15% to our general partner, until each common unitholder receives an amount per unit equal to 125% of the reset minimum quarterly distribution for the quarter;

*third*, 75% to all common unitholders, pro rata, and 25% to our general partner, until each common unitholder receives an amount per unit equal to 150% of the reset minimum quarterly distribution for the quarter; and

*thereafter*, 50% to all common unitholders, pro rata, and 50% to our general partner.

Our general partner will be entitled to cause the minimum quarterly distribution amount and the target distribution levels to be reset on more than one occasion, provided that it may not make a reset election except at a time when it

has received incentive distributions for the immediately preceding four consecutive fiscal quarters based on the highest level of incentive distributions that it is entitled to receive under our partnership agreement.

### **Distributions from Capital Surplus**

#### *How distributions from capital surplus will be made*

Assuming our general partner maintains its 2% general partner interest and we do not issue additional classes of equity securities, following payment of the full Series A Distribution Amount and any previously accrued and unpaid distributions with respect to the Series A preferred units, we will make distributions of available cash from capital surplus, if any, in the following manner:

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*first*, 98% to all common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit that was issued in our initial public offering, an amount of available cash from capital surplus equal to the initial public offering price;

*second*, 98% to all common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the outstanding common units; and

*thereafter*, as if they were from operating surplus.

***Effect of a distribution from capital surplus***

Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from our initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the “unrecovered initial unit price.” Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution after any of these distributions are made, the effects of distributions of capital surplus may make it easier for our general partner to receive incentive distributions. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in our initial public offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero. Then, after distributing an amount of capital surplus for each common unit equal to any unpaid arrearages of the minimum quarterly distributions on outstanding common units and paying the full Series A Distribution Amount and any previously accrued and unpaid distributions with respect to the Series A preferred units, we will make all future distributions from operating surplus, with 50% being paid to the common unitholders, pro rata, and 2% to our general partner and 48% to the holder of our incentive distribution rights.

**Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels**

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

- the minimum quarterly distribution;
- target distribution levels;
- the unrecovered initial unit price;
- the number of general partner units comprising our general partner interest; and
- the arrearages per common unit in payment of the minimum quarterly distribution on the common units.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level, and each general partner unit would be split into two units. We will not make any adjustment by reason of the issuance of additional units for cash or property (including additional common units issued under any compensation or benefit plans).

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In addition, if legislation is enacted or if the official interpretation of existing law is modified by a governmental authority, so that we become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels for each quarter may be reduced by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter (reduced by the amount of the estimated tax liability for such quarter payable by reason of such legislation or interpretation) and the denominator of which is the sum of available cash for that quarter (reduced by the amount of the estimated tax liability for such quarter payable by reason of such legislation or interpretation) plus our general partner's estimate of our aggregate liability for the quarter for such income taxes payable by reason of such legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference may be accounted for in subsequent quarters.

**Distributions of Cash upon Liquidation**

*General*

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

The allocations of gain and loss upon liquidation are intended, to the extent possible, to cause the capital accounts of the holders to reflect the different distributions intended for the different classes of units, and, in particular, to implement any intended preference in liquidation to the holders of Series A preferred units over the capital accounts of holders of common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units or other partnership units to fully recover these amounts, even though there may be cash available for distribution. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

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

*Manner of adjustments for gain*

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

*first*, to our general partner to the extent of any negative balance in its capital account;

*second*, to the Series A preferred unitholders, pro rata, until the capital accounts for each Series A preferred unit is equal to the Series A Issue Price of \$54.27, plus any arrearages per Series A preferred unit in payment of the quarterly distributions on the Series A preferred unit or, if greater, the product of (a) the per unit capital account with respect to an initial common unit then outstanding and (b) the then applicable conversion rate;

*third*, 98% to the common unitholders, pro rata, and 2% to our general partner, until the capital account for each common unit is equal to the sum of:

(1) the unrecovered initial unit price; and

(2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;



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*fourth*, 98% to the common unitholders, pro rata, and 2% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; *less*

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the (2) minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to our general partner, for each quarter of our existence;

*fifth*, 85% to the common unitholders, pro rata, and 15% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; *less*

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first (2) target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to our general partner for each quarter of our existence;

*sixth*, 75% to the common unitholders, pro rata, and 25% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; *less*

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the (2) second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to our general partner for each quarter of our existence; and

*thereafter*, 50% to the common unitholders, pro rata, and 50% to our general partner.

The percentages set forth above are based on the assumption that our general partner maintains its 2% general partner interest and has not transferred its incentive distribution rights and that we do not issue additional classes of equity securities.

*Manner of adjustments for losses*

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

*first*, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to our general partner, until the capital accounts of the common unitholders have been reduced to zero;

*second*, to the Series A preferred unitholders, to the extent of and in proportion to the positive balances in their capital accounts; and

*thereafter*, 100% to our general partner.

The percentages set forth above are based on the assumption that our general partner maintains its 2% general partner interest and has not transferred its incentive distribution rights and that we do not issue additional classes of equity securities.

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*Adjustments to capital accounts*

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

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**OUR PARTNERSHIP AGREEMENT**

The following is a summary of the material provisions of our partnership agreement. We will provide prospective investors with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

with regard to distributions of available cash, please read “Provisions of Our Partnership Agreement Relating to Cash Distributions;”

with regard to the transfer of common units, please read “Description of Our Common Units—Transfer of Common Units;” and

with regard to allocations of taxable income and taxable loss, please read “Material U.S. Federal Income Tax Consequences.”

**Organization and Duration**

We were organized on February 20, 2013, and will have a perpetual existence unless terminated pursuant to the terms of our partnership agreement.

**Purpose**

Our purpose under the partnership agreement is limited to any business activity that is approved by our general partner and that lawfully may be conducted by a limited partnership organized under Delaware law; provided that our general partner shall not cause us to engage, directly or indirectly, in any business activity that our general partner determines would be reasonably likely to cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes.

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the business of owning, operating, developing and acquiring crude oil, refined petroleum product and NGL pipelines and

other midstream assets, our general partner has no current plans to do so and may decline to do so free of any duty or obligation whatsoever to us or the limited partners, including any duty to act in the best interests of our partnership or our limited partners, other than the implied contractual covenant of good faith and fair dealing. Our general partner is authorized in general to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

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**Capital Contributions**

Unitholders are not obligated to make additional capital contributions, except as described below under “—Limited Liability.” For a discussion of our general partner's right to contribute capital to maintain its 2% general partner interest if we issue additional units, please read “—Issuance of Additional Securities.”

**Voting Rights**

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

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

|  |   |
|--|---|
| Issuance of additional units           | No common unitholder approval rights. The Series A Required Voting Percentage is required for issuances of additional Series A Senior Securities, Series A Parity Securities (with certain limited exceptions) or additional Series A preferred units (other than Series A PIK Units).  |
| Amendment of our partnership agreement | Certain amendments may be made by our general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. Amendments that would be adverse (other than in a <i>de minimis</i> manner) to any of the rights, preferences and privileges of the Series A preferred units require the approval of the Series A Required Voting Percentage. Please read “—Amendment of Our Partnership Agreement.” |

|   |  |
|---|--|
| Merger of our partnership or the sale of all or substantially all of our assets | Unit majority. Please read “—Merger, Consolidation, Conversion, Sale or Other Disposition of Assets.”  |
| Dissolution of our partnership  | Unit majority. Please read “—Termination and Dissolution.”   |
| Continuation of our business upon dissolution                                   | Unit majority. Please read “—Termination and Dissolution.”   |
| Withdrawal of our general partner   | Under most circumstances, the approval of unitholders holding at least a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, excluding units held by our general partner and its affiliates, is required for the withdrawal of our general partner prior to September 30, 2023, in a manner that would cause a dissolution of our partnership. Please read “—Withdrawal or Removal of Our General Partner.” |

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|--|--|
| Removal of our general partner                         | Not less than 66 2/3% of the outstanding common and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, including units held by our general partner and its affiliates. Please read “—Withdrawal or Removal of Our General Partner.”   |
| Transfer of our general partner interest               | Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets to, such person. The approval of a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting as a single class, excluding units held by our general partner and its affiliates, is required in other circumstances for a transfer of our general partner interest to a third party prior to September 30, 2023. Please read “—Transfer of General Partner Interest.” |
| Transfer of incentive distribution rights              | Our general partner may transfer any or all of its incentive distribution rights to an affiliate or another person without a vote of our unitholders. Please read “—Transfer of Incentive Distribution Rights.”  |
| Reset of incentive distribution levels                 | No approval right.   |
| Transfer of ownership interests in our general partner | No approval right. Please read “—Transfer of Ownership Interests in Our General Partner.”  |

**Limited Liability**

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

to remove or replace our general partner;

to approve some amendments to our partnership agreement; or



to take other action under our partnership agreement;

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

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

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

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

**Issuance of Additional Securities**

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

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

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

Upon issuance of additional limited partner interests (other than the issuance of common units in connection with a reset of the incentive distribution target levels or the issuance of common units upon conversion of outstanding partnership interests), our general partner will be entitled, but not required, to make additional capital contributions to the extent necessary to maintain its 2% general partner interest in us. Our general partner's 2% interest in us 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% general partner interest. Moreover, our general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other partnership interests whenever, and on the same terms that, we issue those interests to persons other than our general partner and its affiliates, to the extent necessary to maintain the percentage interest of our general partner and its affiliates, including such interest represented by common units, that existed immediately prior to each issuance. The other holders of common units will not have preemptive rights to acquire additional common units or other partnership interests.

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**Amendment of Our Partnership Agreement**

***General***

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

***Prohibited amendments***

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

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

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

The provisions of our partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting together as a single class (including units owned by our general partner and its affiliates). As of the date of this prospectus, our general partner and its affiliates own approximately 56.6% of our total outstanding common units and approximately 50.8% of the combined number of outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate).

*No unitholder approval*

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

- a change in our name, the location of our principal office, our registered agent or our registered office;
- the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;

a change that our general partner determines to be necessary or appropriate to qualify or continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we nor any of our subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

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an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents or trustees from, in any manner, being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or “plan asset” regulations adopted under the Employee Retirement Income Security Act of 1974 (“ERISA”), each as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the U.S. Department of Labor;

an amendment that our general partner determines to be necessary or appropriate in connection with the authorization or issuance of additional partnership interests;

any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;

an amendment effected, necessitated or contemplated by a merger agreement or plan of conversion that has been approved under the terms of our partnership agreement;

any amendment that our general partner determines to be necessary or appropriate to reflect and account for the formation by us of, or our investment in, any corporation, partnership or other entity, in connection with our conduct of activities permitted by our partnership agreement;

a change in our fiscal year or taxable year and any other changes that our general partner determines to be necessary or appropriate as a result of such change;

mergers with, conveyances to or conversions into another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the merger, conveyance or conversion other than those it receives by way of the merger, conveyance or conversion; or

any other amendments substantially similar to any of the matters described in the clauses above.

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

do not adversely affect in any material respect the limited partners considered as a whole or any particular class of partnership interests as compared to other classes of partnership interests;

are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed or admitted to trading;

are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units under the provisions of our partnership agreement; or

are required to effect the intent expressed in this prospectus or the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

***Opinion of counsel and unitholder approval***

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

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

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

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

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

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



agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets or any other similar transaction or event.

### **Termination and Dissolution**

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

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the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or withdrawal or removal followed by approval and admission of a successor;

the election of our general partner to dissolve us, if approved by the holders of units representing a unit majority;

the entry of a decree of judicial dissolution of our partnership; or

there being no limited partners, unless we are continued without dissolution in accordance with the Delaware Act.

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

the action would not result in the loss of limited liability of any limited partner; and

neither our partnership nor any of our subsidiaries would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

**Liquidation and Distribution of Proceeds**

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

**Withdrawal or Removal of Our General Partner**

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to September 30, 2023, without obtaining the approval of the holders of at least a unit majority, excluding units held by

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

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

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Our general partner may not be removed unless that removal is approved by the vote of the holders of at least 66 <sup>2</sup>/<sub>3</sub>% of our outstanding common and Series A preferred units (on an as-converted basis at the then applicable conversion rate), voting together as a single class, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate). The ownership of more than 33 <sup>1</sup>/<sub>3</sub>% of the outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate) by our general partner and its affiliates would give them the practical ability to prevent our general partner's removal. As of the date of this prospectus, our general partner and its affiliates own approximately 50.8% of our total outstanding common units and Series A preferred units (on an as-converted basis at the then applicable conversion rate).

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal:

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

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 based on the fair market value of those interests as of the effective date of its removal.

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

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner will become a limited partner and its general partner interest and its incentive distribution rights will automatically convert into common units pursuant to a valuation of those interests as

determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

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

### **Transfer of General Partner Interest**

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

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

### **Transfer of Ownership Interests in Our General Partner**

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

### **Transfer of Incentive Distribution Rights**

At any time, our general partner may sell or transfer its incentive distribution rights to an affiliate or third party without the approval of the unitholders.

### **Change of Management Provisions**

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

### **Limited Call Right**

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

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

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

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

As a result of our general partner's right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at a price that may be lower than market prices at various times prior to such purchase or lower than a unitholder may anticipate the market price to be in the future. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. Please read "Material U.S. Federal Income Tax Consequences—Disposition of Common Units."

### **Conversion and Redemption of Series A Preferred Units**

The Series A preferred units are convertible in whole or part into common units at the holder's election at the earlier of (i) October 6, 2019 and (ii) immediately prior to our liquidation. Beginning on October 6, 2020, subject to the satisfaction of certain conditions, the Series A preferred units are convertible at our election into common units on a one-for-one basis, subject to certain adjustments. We may also elect, on or after October 6, 2020, in lieu of converting the Series A preferred units, to redeem the Series A preferred units at a redemption price calculated as described in our partnership agreement, provided that the redemption involves an aggregate number of Series A preferred units with an underlying value of common units equal to or greater than \$50 million (calculated based on the Series A Issue Price) or such lesser amount if such redemption relates to all of the then outstanding Series A preferred units. Upon certain events involving a Series A Change of Control in which more than 90% of the consideration payable to the holders of the common units is payable in cash, the Series A preferred units will automatically convert into common units at a conversion ratio calculated as described in our partnership agreement. For more information regarding the conversion and redemption of the Series A preferred units, please read "Description of Series A Preferred Units."

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**Redemption of Ineligible Holders**

In order to avoid any material adverse effect on the maximum applicable rates that can be charged to customers by our subsidiaries on assets that are subject to rate regulation by FERC or analogous regulatory body, our general partner at any time can request a transferee or a unitholder to certify or re-certify:

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

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

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

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

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

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



**Meetings; Voting**

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

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

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

## **Status as Limited Partner**

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

**Indemnification**

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

- our general partner;

- any departing general partner;

- any person who is or was an affiliate of our general partner or any departing general partner;

- any person who is or was a director, officer, managing member, manager, general partner, fiduciary or trustee of us or our subsidiaries, an affiliate of us or our subsidiaries or any entity set forth in the preceding three bullet points;

- any person who is or was serving as director, officer, managing member, manager, general partner, fiduciary or trustee of another person owing a fiduciary duty to us or any of our subsidiaries at the request of our general partner or any departing general partner or any of their affiliates, excluding any such person providing, on a fee-for-service basis, trustee, fiduciary or custodial services; and

- any person designated by our general partner because such person's status, service or relationship expose such person to potential claims or suits relating to our or our subsidiaries' business and affairs.

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

**Reimbursement of Expenses**

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

**Books and Reports**

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

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

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

**Right to Inspect Our Books and Records**

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

- a current list of the name and last known address of each record holder;
- copies of our partnership agreement and our certificate of limited partnership and all amendments thereto; and
- certain information regarding the status of our business and financial condition.

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

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**Registration Rights**

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

**Exclusive Forum**

Our partnership agreement provides that the Court of Chancery of the State of Delaware shall be the exclusive forum for any claims, suits, actions or proceedings (1) arising out of or relating in any way to our partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of our partnership agreement or the duties, obligations or liabilities among our partners, or obligations or liabilities of our partners to us, or the rights or powers of, or restrictions on, our partners or us), (2) brought in a derivative manner on our behalf, (3) asserting a claim of breach of a duty owed by any of our, or our general partner's, directors, officers, or other employees, or owed by our general partner, to us or our partners, (4) asserting a claim against us arising pursuant to any provision of the Delaware Act or (5) asserting a claim against us governed by the internal affairs doctrine. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation or similar governing documents have been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the choice of forum provisions contained in our partnership agreement to be inapplicable or unenforceable in such action.

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**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES**

This section is a summary of the material U.S. federal income tax consequences that may be relevant to prospective holders of Series A preferred units and prospective holders of common units who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Latham & Watkins LLP, counsel to our general partner and us, insofar as it relates to legal conclusions with respect to matters of U.S. federal income tax law. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), existing and proposed Treasury regulations promulgated under the Internal Revenue Code (the "Treasury Regulations") and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" or "we" are references to Phillips 66 Partners LP and our operating subsidiaries.

The following discussion does not comment on all federal income tax matters affecting us, holders of our Series A preferred units or holders of our common units and does not describe the application of the alternative minimum tax that may be applicable to certain unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, entities treated as partnerships for U.S. federal income tax purposes, trusts, nonresident aliens, U.S. expatriates and former citizens or long-term residents of the United States or other unitholders subject to specialized tax treatment, such as banks, insurance companies and other financial institutions, tax-exempt institutions, foreign persons (including, without limitation, controlled foreign corporations, passive foreign investment companies and foreign persons eligible for the benefits of an applicable income tax treaty with the United States), individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds, dealers in securities or currencies, traders in securities, U.S. persons whose "functional currency" is not the U.S. dollar, persons holding their units as part of a "straddle," "hedge," "conversion transaction" or other risk reduction transaction, and persons deemed to sell their units under the constructive sale provisions of the Internal Revenue Code. In addition, the discussion only comments, to a limited extent, on state, local, and foreign tax consequences. Accordingly, we encourage each prospective holder of Series A preferred units and each prospective holder of common units to consult his own tax advisor in analyzing the state, local and foreign tax consequences particular to him of the ownership or disposition of Series A preferred units or common units and potential changes in applicable laws.

No ruling has been requested from the Internal Revenue Service (the "IRS") regarding our characterization as a partnership for tax purposes. Instead, we will rely on opinions of Latham & Watkins LLP. Unlike a ruling, an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made herein may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for our units, including the prices at which such units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will result in a reduction in cash available for distribution to our unitholders and our general partner and thus will be borne indirectly by our unitholders and our general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

All statements as to matters of U.S. federal income tax law and legal conclusions with respect thereto, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Latham & Watkins LLP and are based on the accuracy of the representations made by us and our general partner.

Notwithstanding the above, and for the reasons described below, Latham & Watkins LLP has not rendered an opinion with respect to the following specific federal income tax issues: (i) the treatment of a unitholder whose units are loaned to a short seller to cover a short sale of units (please read "[—Tax Consequences of Unit Ownership—Treatment of Short Sales](#)"); (ii) whether all aspects of our monthly method for allocating taxable income and losses is permitted by existing Treasury Regulations (please read "[—Disposition of Units—Allocations Between Transferors and Transferees](#)"); and (iii) whether our method for taking into account Section 743 adjustments is sustainable in certain cases (please read "[—Tax Consequences of Unit Ownership—Section 754 Election](#)" and "[—Uniformity of Units](#)").



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**Partnership Status**

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable to the partnership or the partner unless the amount of cash distributed to him is in excess of the partner's adjusted basis in his partnership interest. Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "Qualifying Income Exception," exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes income and gains derived from the transportation, processing, storage and marketing of certain minerals and natural resources, including crude oil, natural gas and other products of a type that are produced in a petroleum refinery or natural gas processing plant, the retail and wholesale marketing of propane, the transportation of propane and natural gas liquids, certain related hedging activities, certain activities that are intrinsic to other qualifying activities, and our allocable share of our subsidiaries' income from these sources. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 3% of our current gross income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and our general partner and a review of the applicable legal authorities, Latham & Watkins LLP is of the opinion that at least 90% of our current gross income constitutes qualifying income. The portion of our income that is qualifying income may change from time to time.

The IRS has made no determination as to our status or the status of our operating subsidiaries for federal income tax purposes. Instead, we will rely on the opinion of Latham & Watkins LLP on such matters. It is the opinion of Latham & Watkins LLP that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below that:

we will be classified as a partnership for federal income tax purposes; and

each of our subsidiaries, other than Phillips 66 Partners Finance Corporation, will be treated as a partnership or will be disregarded as an entity separate from us for federal income tax purposes.

In rendering its opinion, Latham & Watkins LLP has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which Latham & Watkins LLP has relied include:

neither we nor any of our subsidiaries, other than Phillips 66 Partners Finance Corporation, have elected or will elect to be treated, or is otherwise treated, as a corporation for federal income tax purposes; and

for each taxable year, more than 90% of our gross income has been and will be income of the type that Latham & Watkins LLP has opined or will opine is "qualifying income" within the meaning of Section 7704(d) of the Internal Revenue Code.

We believe that these representations have been true in the past, are true as of the date hereof and expect that these representations will continue to be true in the future.

If we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery (in which case the IRS may also require us to make adjustments with respect to our unitholders or pay other amounts), we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This deemed contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

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If we were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to our unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as taxable dividend income, to the extent of our current and accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his units, or taxable capital gain, after the unitholder's tax basis in his units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

**The discussion below is based on Latham & Watkins LLP's opinion that we will be classified as a partnership for federal income tax purposes.**

**Limited Partner Status**

Common unitholders of Phillips 66 Partners LP will be treated as partners of Phillips 66 Partners LP for federal income tax purposes. Also, unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units will be treated as partners of Phillips 66 Partners LP for federal income tax purposes.

We will treat holders of our Series A preferred units as partners for federal income tax purposes entitled to receive allocations of items of income, gain, loss and deduction of the partnership and of net loss. If the Series A preferred units are not partnership interests, they would likely constitute indebtedness for federal income tax purposes and distributions on the Series A preferred units would constitute ordinary interest income to the holders of such units. The remainder of this discussion assumes that our Series A preferred units are partnership interests and holders of Series A preferred units are unitholders for federal income tax purposes.

A beneficial owner of Series A preferred units or of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read "—Tax Consequences of Unit Ownership—Treatment of Short Sales."

Income, gains, losses or deductions would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore appear to be fully taxable as ordinary income. These holders are urged to consult their tax advisors with respect to the tax consequences to them of holding units in Phillips 66 Partners LP. The references to

"unitholders" in the discussion that follows are to persons who are treated as partners in Phillips 66 Partners LP for federal income tax purposes.

## **Tax Consequences of Unit Ownership**

### *Flow-Through of Taxable Income*

Subject to the discussion below under "—Entity-Level Collections," we will not pay any federal income tax. Instead, each common unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether we make cash distributions to him. Consequently, we may allocate income to a common unitholder even if he has not received a cash distribution. Each common unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

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For each calendar year in which the Series A preferred units are outstanding, unitholders holding a Series A preferred unit will be allocated items of gross income and gain of the partnership until the aggregate of such items allocated for the current and all previous taxable periods since issuance of the Series A preferred units is equal to the sum of (i) the aggregate amount of cash distributed with respect to such Series A preferred units for the current and previous taxable periods and (ii) the aggregate net loss allocated to the unitholders in respect of Series A preferred units for the current and all previous taxable periods. Because we cannot match transferors and transferees of our common units, we must maintain uniformity of the economic and tax characteristics of our common units. Thus, at the Series A Conversion Date, each unitholder holding a common unit converted from a Series A preferred unit will receive a special allocation of book and taxable income, gain, loss or deduction so that the per unit capital account with respect to each common unit converted from a Series A preferred unit is equal to the per unit capital account with respect to the common units (other than such common units converted from Series A preferred units) then outstanding.

### *Treatment of Distributions*

Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes, except to the extent the amount of any such cash distribution exceeds his tax basis in his units immediately before the distribution. For these purposes, the IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all of those interests. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the units, taxable in accordance with the rules described under "—Disposition of Units." Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities," will be treated as a distribution by us of cash to that unitholder. We will not allocate any share of our nonrecourse liabilities to the holders of Series A preferred units in respect of such units. To the extent our distributions cause a unitholder's "at-risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read "—Limitations on Deductibility of Losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. This deemed distribution may constitute a non-pro rata distribution. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his units, if the distribution reduces the unitholder's share of our "unrealized receivables," including depreciation, recapture and/or substantially appreciated "inventory items," each as defined in the Internal Revenue Code, and collectively, "Section 751 Assets." To that extent, the unitholder will be treated as having been distributed his proportionate share of the Section 751 Assets and then having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income, which will equal the excess of (i) the non-pro rata portion of that distribution over (ii) the unitholder's tax basis (often zero) for the share of Section 751 Assets deemed relinquished in the exchange.

### *Basis of Units*

A unitholder has a single, unified adjusted tax basis in his interests in us, which includes his common units and Series A preferred units. A unitholder's initial tax basis for his units will be the amount he paid for the (i) common units and (ii) Series A preferred units plus his share of our nonrecourse liabilities. We will not allocate any share of our nonrecourse liabilities to the holders of Series A preferred units in respect of such units. Such tax basis will be increased by the unitholder's share of our income and by any increases in his share of our nonrecourse liabilities. Such tax basis will be decreased, but not below zero, by distributions from us, by the unitholder's share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of our debt that is recourse to our general partner to the extent of the general partner's "net value" as defined in the Treasury Regulations promulgated under Section 752 of the Internal Revenue Code, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read "—Disposition of Units—Recognition of Gain or Loss."

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*Limitations on Deductibility of Losses*

The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder, estate, trust, or corporate unitholder (if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by or for five or fewer individuals or some tax-exempt organizations), to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than his tax basis. A unitholder subject to these limitations must recapture losses deducted in previous years to the extent that distributions cause his at-risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction to the extent that his at-risk amount is subsequently increased, provided such losses do not exceed such unitholder's tax basis in his units. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at-risk limitation but may not be offset by losses suspended by the basis limitation. Any loss previously suspended by the at-risk limitation in excess of that gain would no longer be utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by (i) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or other similar arrangement and (ii) any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at-risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

In addition to the basis and at-risk limitations on the deductibility of losses, the passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally trade or business activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or a unitholder's investments in other publicly traded partnerships, or the unitholder's salary, active business or other income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive loss limitations are applied after other applicable limitations on deductions, including the at-risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any of our suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly traded partnerships.

A holder of Series A preferred units will only be allocated net loss to the extent the capital accounts of the common unitholders have been reduced to zero. The deductibility of any such allocation may be limited by the rules above.

*Limitations on Interest Deductions*

The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." Investment interest expense includes:

- interest on indebtedness properly allocable to property held for investment;
- our interest expense attributed to portfolio income; and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.



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The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment or (if applicable) qualified dividend income. The IRS has indicated that the net passive income earned by a publicly traded partnership will be treated as investment income to its unitholders. In addition, the unitholder's share of our portfolio income will be treated as investment income.

### *Entity-Level Collections*

If we are required or elect under applicable law to pay any federal, state, local or foreign income tax on behalf of any unitholder or our general partner or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the unitholder on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under our partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual unitholder in which event the unitholder would be required to file a claim in order to obtain a credit or refund.

### *Allocation of Income, Gain, Loss and Deduction*

In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among our general partner and the common unitholders in accordance with their percentage interests in us. At any time that incentive distributions are made to our general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss, that loss will be allocated first to our general partner and the common unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts, as adjusted for certain items in accordance with applicable Treasury Regulations, second to holders of Series A preferred units to the extent of their positive capital accounts, and third to our general partner.

For each calendar year in which the Series A preferred units are outstanding, unitholders holding a Series A preferred unit will be allocated items of gross income and gain of the partnership until the aggregate of such items allocated for the current and all previous taxable periods since issuance of the Series A preferred units is equal to the sum of (i) the aggregate amount of cash distributed with respect to such Series A preferred units for the current and previous taxable periods and (ii) the aggregate net loss allocated to the unitholders in respect of Series A preferred units for the current

and all previous taxable periods. Because we cannot match transferors and transferees of our common units, we must maintain uniformity of the economic and tax characteristics of our common units. Thus, at the Series A Conversion Date, each unitholder holding a common unit converted from a Series A preferred unit will receive a special allocation of book and taxable income, gain, loss or deduction so that the per unit capital account with respect to each common unit converted from a Series A preferred unit is equal to the per unit capital account with respect to the common units (other than such common units converted from Series A preferred units) then outstanding.

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Specified items of our income, gain, loss and deduction will be allocated to account for any difference between the tax basis and fair market value of any property contributed to us that exists at the time of such contribution, referred to in this discussion as the "Contributed Property." The effect of these allocations, referred to as Section 704(c) Allocations, to a unitholder purchasing units from us in an offering will be essentially the same as if the tax bases of our assets were equal to their fair market values at the time of the offering. In the event we issue additional units or engage in certain other transactions in the future, "reverse Section 704(c) Allocations," similar to the Section 704(c) Allocations described above, will be made to the general partner and all of our unitholders immediately prior to such issuance or other transactions to account for the difference between the "book" basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of such issuance or future transaction. In addition, items of recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts (subject to certain adjustments), if negative capital accounts (subject to certain adjustments) nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate such negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the "Book-Tax Disparity," will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has "substantial economic effect." In any other case, a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

his relative contributions to us;  
the interests of all the partners in profits and losses;  
the interest of all the partners in cash flow; and  
the rights of all the partners to distributions of capital upon liquidation.

Latham & Watkins LLP is of the opinion that, with the exception of the issues described in "—Section 754 Election" and "—Disposition of Units—Allocations Between Transferors and Transferees," allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

*Treatment of Short Sales*

A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be treated for tax purposes as a partner with respect to those units

during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;
  - any cash distributions received by the unitholder as to those units would be fully taxable; and
  - while not entirely free from doubt, all of these distributions would appear to be ordinary income.

Because there is no direct or indirect controlling authority on the issue relating to partnership interests, Latham & Watkins LLP has not rendered an opinion regarding the tax treatment of a unitholder whose units are loaned to a short seller to cover a short sale of units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to consult a tax advisor to discuss whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from borrowing and loaning their units. The IRS has previously announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read "[Disposition of Units—Recognition of Gain or Loss.](#)"

#### *Tax Rates*

Currently, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 39.6% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than twelve months) of individuals is 20%. Such rates are subject to change by new legislation at any time.

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In addition, a 3.8% Medicare tax (NIIT) is imposed on certain net investment income earned by individuals, estates and trusts. For these purposes, net investment income generally includes a unitholder's allocable share of our income and gain realized by a unitholder from a sale of units. In the case of an individual, the tax will be imposed on the lesser of (i) the unitholder's net investment income or (ii) the amount by which the unitholder's modified adjusted gross income exceeds \$250,000 (if the unitholder is married and filing jointly or a surviving spouse), \$125,000 (if the unitholder is married and filing separately) or \$200,000 (in any other case). In the case of an estate or trust, the tax will be imposed on the lesser of (i) undistributed net investment income, or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins for such taxable year. The U.S. Department of the Treasury and the IRS have issued Treasury Regulations that provide guidance regarding the NIIT. Prospective unitholders are urged to consult with their tax advisors as to the impact of the NIIT on an investment in our units.

*Section 754 Election*

We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS unless there is a constructive termination of the partnership. Please read "*Disposition of Units—Constructive Termination.*" The election generally permits us to adjust a unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply with respect to a person who purchases units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, the inside basis in our assets with respect to a unitholder will be considered to have two components: (i) his share of our tax basis in our assets ("common basis") and (ii) his Section 743(b) adjustment to that basis.

We have adopted the remedial allocation method as to all our properties. Where the remedial allocation method is adopted, the Treasury Regulations under Section 743 of the Internal Revenue Code require a portion of the Section 743(b) adjustment that is attributable to recovery property that is subject to depreciation under Section 168 of the Internal Revenue Code and whose book basis is in excess of its tax basis to be depreciated over the remaining cost recovery period for the property's unamortized Book-Tax Disparity. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code, rather than cost recovery deductions under Section 168, is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, our general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these and any other Treasury Regulations. Please read "*Uniformity of Units.*"

We depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as non-amortizable to the extent attributable to property that is not amortizable. This method is consistent with the methods employed by other publicly traded partnerships but is

arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read "—Uniformity of Units." A unitholder's tax basis for his units is reduced by his share of our deductions (whether or not such deductions were claimed on an individual's income tax return) so that any position we take that understates deductions will overstate such unitholder's basis in his units, which may cause the unitholder to understate gain or overstate loss on any sale of such units. Please read "—Disposition of Units—Recognition of Gain or Loss." Latham & Watkins LLP is unable to opine as to whether our method for taking into account Section 743 adjustments is sustainable for property subject to depreciation under Section 167 of the Internal Revenue Code or if we use an aggregate approach as described above, as there is no direct or indirect controlling authority addressing the validity of these positions. Moreover, the IRS may challenge our position with respect to depreciating or amortizing the Section 743(b) adjustment we take to preserve the uniformity of the units. If such a challenge were sustained, the gain from the sale of units might be increased without the benefit of additional deductions.

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A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election. A basis adjustment is required regardless of whether a Section 754 election is made in the case of a transfer of an interest in us if we have a substantial built-in loss immediately after the transfer, or if we distribute property and have a substantial basis reduction. Generally, a built-in loss or a basis reduction is substantial if it exceeds \$250,000.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally nonamortizable or amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

**Tax Treatment of Operations**

*Accounting Method and Taxable Year*

We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than twelve months of our income, gain, loss and deduction. Please read "—Disposition of Units—Allocations Between Transferors and Transferees."

*Tax Basis, Depreciation and Amortization*

The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to an offering will be borne by our unitholders holding interests in us prior to any such offering. Please read "—Tax Consequences of Unit Ownership—Allocation of Income, Gain, Loss and Deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods, including bonus depreciation to the extent available, that will result in the largest deductions being taken in the early years after assets subject to these allowances are placed in service. Please read "—Uniformity of Units." Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.



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If we dispose of depreciable property by sale, foreclosure or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a unitholder who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read "—Tax Consequences of Unit Ownership—Allocation of Income, Gain, Loss and Deduction" and "—Disposition of Units—Recognition of Gain or Loss."

The costs we incur in selling our units (called "syndication expenses") must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized by us, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as syndication expenses.

### *Valuation and Tax Basis of Our Properties*

The U.S. federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

### **Disposition of Units**

#### *Recognition of Gain or Loss*

Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from us that in the aggregate were in excess of cumulative net taxable income for a unit and, therefore, decreased a unitholder's tax basis in that unit will, in effect, become taxable income if the unit is sold at a price greater than the unitholder's tax basis in that unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held for more than twelve months will generally be taxed at the U.S. federal income tax rate applicable to long-term capital gains. However, a portion of this gain or loss, which will likely be substantial, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to "unrealized receivables," including potential recapture items such as depreciation recapture, or to "inventory gains" we own. Ordinary income attributable to unrealized receivables and inventory items may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Capital losses may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations. Both ordinary income and capital gain recognized on a sale of units may be subject to the NIIT in certain circumstances. Please read "—Tax Consequences of Unit Ownership—Tax Rates."

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The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method, which generally means that the tax basis allocated to the interest sold equals an amount that bears the same relation to the partner's tax basis in his entire interest in the partnership as the value of the interest sold bears to the value of the partner's entire interest in the partnership. Treasury Regulations under Section 1223 of the Internal Revenue Code allow a selling unitholder who can identify units transferred with an ascertainable holding period to elect to use the actual holding period of the units transferred. Thus, according to the ruling discussed above, a unitholder will be unable to select high or low basis units to sell as would be the case with corporate stock, but, according to the Treasury Regulations, he may designate specific units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of units transferred must consistently use that identification method for all subsequent sales or exchanges of such units. A unitholder considering the purchase of additional units or a sale of units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and application of the Treasury Regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

- a short sale;
- an offsetting notional principal contract; or
- a futures or forward contract;

in each case, with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

*Allocations Between Transferors and Transferees*

In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis in proportion to the number of days in each month and will be subsequently apportioned among our unitholders in

proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month, which we refer to in this prospectus as the "Allocation Date." However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among our unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

The U.S. Department of Treasury and the IRS have issued Treasury Regulations that permit publicly traded partnerships to use a monthly simplifying convention that is similar to ours, but they do not specifically authorize all aspects of the proration method we have adopted. Accordingly, Latham & Watkins LLP is unable to opine on the validity of this method of allocating income and deductions between transferor and transferee unitholders. If this method is not allowed under the Treasury Regulations, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferor and transferee unitholders, as well as unitholders whose interests vary during a taxable year.

A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter through the month of disposition but will not be entitled to receive that cash distribution.

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### *Notification Requirements*

A unitholder who sells any of his units is generally required to notify us in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A purchaser of units who purchases units from another unitholder is also generally required to notify us in writing of that purchase within 30 days after the purchase. Upon receiving such notifications, we are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Failure to notify us of a purchase may, in some cases, lead to the imposition of penalties. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker who will satisfy such requirements.

### *Constructive Termination*

We will be considered to have technically terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50% 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 administers 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.

### **Conversion of Units**

We will adopt the principles of Treasury Regulations § 1.721-2 with respect to the conversion of Series A preferred units into common units. We expect that the conversion will be nontaxable to holders of Series A preferred units. At the time of conversion, we will revalue our assets and allocate book items of unrealized income, gain, loss and deduction to the extent necessary to reflect that partner's right to share in partnership capital under the partnership agreement. If available book items of income, gain, loss and deduction are unable to be allocated in a manner that reflects the converting partner's right to share in partnership capital under the partnership agreement, then we must

reallocate partnership capital between the existing partners and the converting partner. Corrective allocations will be made until such capital reallocations are eliminated. Corrective allocations may result in the allocation of a greater amount of income, gain, loss or deduction to a particular unitholder for tax purposes, as compared to book purposes, which could cause a unitholder to have taxable income in connection with a conversion.

Upon the conversion of Series A preferred units, a unitholder will receive a basis in the resulting common units equal to its existing basis in its Series A preferred units plus such unitholder's initial allocable share of our liabilities in its capacity as a common unitholder. As a common unitholder, that basis will be (i) increased by the unitholder's share of our income and any increases in such unitholder's share of our liabilities, and (ii) decreased, but not below zero, by the amount of all distributions to the common unitholder, the common unitholder's share of our losses, any decreases in the common unitholder's share of our liabilities, and certain other items. The holding period of such common units will also include the period that holder held the converted Series A preferred units.

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**Uniformity of Units**

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read "—Tax Consequences of Unit Ownership—Section 754 Election." We depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743 of the Internal Revenue Code, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. Please read "—Tax Consequences of Unit Ownership—Section 754 Election." To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. In either case, and as stated above under "—Tax Consequences of Unit Ownership—Section 754 Election," Latham & Watkins LLP has not rendered an opinion with respect to these methods. Moreover, the IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read "—Disposition of Units—Recognition of Gain or Loss."

**Tax-Exempt Organizations and Other Investors**

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations and other foreign persons raises issues unique to those investors and, as described below to a limited extent, may have substantially adverse tax consequences to them. If you are a tax-exempt entity or a foreign person, you should consult your tax advisor before investing in our units. Employee benefit plans and most other organizations exempt from federal income tax, including IRAs and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to it.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence, they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay U.S. federal income tax at regular rates on their share of our net income or gain. Moreover, under rules applicable to publicly traded partnerships, our quarterly distribution to foreign unitholders will be subject to withholding at the highest applicable effective tax rate. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8BEN, W-8BEN-E or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.



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In addition, because a foreign corporation that owns units will be treated as engaged in a U.S. trade or business, that corporation may be subject to the U.S. branch profits tax at a rate of 30%, in addition to regular U.S. federal income tax, on its share of our earnings and profits, as adjusted for changes in the foreign corporation's "U.S. net equity," that is effectively connected with the conduct of a U.S. trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

A foreign unitholder who sells or otherwise disposes of a unit will be subject to U.S. federal income tax on gain realized from the sale or disposition of that unit to the extent the gain is effectively connected with a U.S. trade or business of the foreign unitholder. Under a ruling published by the IRS, interpreting the scope of "effectively connected income," a foreign unitholder would be considered to be engaged in a trade or business in the United States by virtue of the U.S. activities of the partnership, and part or all of that unitholder's gain would be effectively connected with that unitholder's indirect U.S. trade or business. However, in a recent decision, the United States Tax Court declined to follow this ruling and held that such gain is not effectively connected with a foreign unitholder's United States trade or business and would only be taxable to the extent attributable to such unitholder's share of the partnership's United States real property interests. As this decision is still subject to appeal, its exact impact on foreign unitholders is uncertain. Prospective unitholders should consult their own tax advisors regarding the potential impact of this decision on their investment in our units. Moreover, under the Foreign Investment in Real Property Tax Act, a foreign unitholder (other than certain "qualified foreign pension funds" (or an entity all of the interests of which are held by such a qualified foreign pension fund), which generally are entities or arrangements that are established and regulated by foreign law to provide retirement or other pension benefits to employees, do not have a single participant or beneficiary that is entitled to more than 5% of the assets or income of the entity or arrangement and are subject to certain preferential tax treatment under the laws of the applicable foreign country) generally will be subject to U.S. federal income tax upon the sale or disposition of a unit if (i) he owned (directly or constructively applying certain attribution rules) more than 5% of our units at any time during the five-year period ending on the date of such disposition and (ii) 50% or more of the fair market value of all of our assets consisted of U.S. real property interests at any time during the shorter of the period during which such unitholder held the units or the five-year period ending on the date of disposition. Currently, more than 50% of our assets consist of U.S. real property interests and we do not expect that to change in the foreseeable future. Therefore, foreign unitholders may be subject to U.S. federal income tax on gain from the sale or disposition of their units. Recent changes in law may affect certain foreign unitholders. Please read "—Administrative Matters—Additional Withholding Requirements."

**Administrative Matters**

*Information Returns and Audit Procedures*

We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable

year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine each unitholder's share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury Regulations or administrative interpretations of the IRS. Neither we nor Latham & Watkins LLP can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the "Tax Matters Partner" for these purposes. Our partnership agreement names Phillips 66 Partners GP LLC as our Tax Matters Partner.

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The Tax Matters Partner has made and will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

Pursuant to the Bipartisan Budget Act of 2015, for taxable years beginning after December 31, 2017, if the IRS makes audit adjustments to our income tax returns, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us. Similarly, for such taxable years, if the IRS makes audit adjustments to income tax returns filed by an entity in which we are a member or partner, it may assess and collect any taxes (including penalties and interest) resulting from such audit adjustment directly from such entity. Generally, we expect to elect to have our general partner and its unitholders take any such audit adjustment into account in accordance with their interests in us during the taxable year under audit, but there can be no assurance that such election will be effective in all circumstances. With respect to audit adjustments as to an entity in which we are a member or partner, the Joint Committee on Taxation has stated that we would not be able to have our general partner and its unitholders take such audit adjustment into account. If we are unable to have our general partner and its unitholders take such audit adjustment into account in accordance with their interests in us during the taxable year under audit, our current unitholders may bear some or all of the tax liability resulting from such audit adjustment, even if such unitholders did not own our units during the taxable year under audit. If, as a result of any such audit adjustment, we are required to make payments of taxes, penalties and interest, our cash available for distribution to our unitholders might be substantially reduced. These rules are not applicable to us for taxable years beginning on or prior to December 31, 2017.

Additionally, pursuant to the Bipartisan Budget Act of 2015, the Internal Revenue Code will no longer require that we designate a Tax Matters Partner. Instead, for taxable years beginning after December 31, 2017, we will be required to designate a partner, or other person, with a substantial presence in the United States as the partnership representative ("Partnership Representative"). The Partnership Representative will have the sole authority to act on our behalf for purposes of, among other things, U.S. federal income tax audits and judicial review of administrative adjustments by the IRS. If we do not make such a designation, the IRS can select any person as the Partnership Representative. We currently anticipate that we will designate our general partner as the Partnership Representative. Further, any actions taken by us or by the Partnership Representative on our behalf with respect to, among other things, U.S. federal income tax audits and judicial review of administrative adjustments by the IRS, will be binding on us and all of the unitholders. These rules are not applicable to us for taxable years beginning on or prior to December 31, 2017.

*Additional Withholding Requirements*

Withholding taxes may apply to certain types of payments made to "foreign financial institutions" (as specially defined in the Internal Revenue Code) and certain other foreign entities. Specifically, a 30% withholding tax may be imposed on interest, dividends and other fixed or determinable annual or periodical gains, profits and income from sources within the United States ("FDAP Income"), or gross proceeds from the sale or other disposition of any property of a type that can produce interest or dividends from sources within the United States ("Gross Proceeds") paid to a foreign financial institution or to a "non-financial foreign entity" (as specially defined in the Internal Revenue Code), unless (i) the foreign financial institution undertakes certain diligence and reporting, (ii) the non-financial foreign entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner or (iii) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in clause (i) above, it must enter into an agreement with the U.S. Department of Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to noncompliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing these requirements may be subject to different rules.

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These rules generally apply to payments of FDAP Income currently and generally will apply to payments of relevant Gross Proceeds made on or after January 1, 2019. Thus, to the extent we have FDAP Income or have Gross Proceeds on or after January 1, 2019, that are not treated as effectively connected with a U.S. trade or business (please read "—Tax-Exempt Organizations and Other Investors"), unitholders who are foreign financial institutions or certain other foreign entities, or persons that hold their units through such foreign entities, may be subject to withholding on distributions they receive from us, or their distributive share of our income, pursuant to the rules described above.

Prospective unitholders should consult their own tax advisors regarding the potential application of these withholding provisions to their investment in our units.

*Nominee Reporting*

Persons who hold an interest in us as a nominee for another person are required to furnish to us:

- the name, address and taxpayer identification number of the beneficial owner and the nominee;
  - whether the beneficial owner is:
    - a person that is not a U.S. person;
    - a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing; or
    - a tax-exempt entity;
- the amount and description of units held, acquired or transferred for the beneficial owner; and
- specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from dispositions.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$250 per failure, up to a maximum of \$3,000,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

*Accuracy-Related Penalties*

Certain penalties may be imposed on taxpayers as a result of an underpayment of tax that is attributable to one or more specified causes, including: (i) negligence or disregard of rules or regulations, (ii) substantial understatements of

income tax, (iii) substantial valuation misstatements and (iv) the disallowance of claimed tax benefits by reason of a transaction lacking economic substance or failing to meet the requirements of any similar rule of law. Except with respect to the disallowance of claimed tax benefits by reason of a transaction lacking economic substance or failing to meet the requirements of any similar rule of law, however, no penalty will be imposed for any portion of any such underpayment if it is shown that there was a reasonable cause for the underpayment of that portion and that the taxpayer acted in good faith regarding the underpayment of that portion.

With respect to substantial understatements of income tax, the amount of any understatement subject to penalty generally is reduced by that portion of the understatement which is attributable to a position adopted on the return: (A) for which there is, or was, "substantial authority"; or (B) as to which there is a reasonable basis and the relevant facts of that position are adequately disclosed on the return. If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an "understatement" of income for which no "substantial authority" exists, we must adequately disclose the relevant facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns and to take other actions as may be appropriate to permit unitholders to avoid liability for this penalty.

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**Recent Legislative Developments**

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our units may be modified by administrative, legislative or judicial interpretation at any time. For example, from time to time, members of Congress and the President propose and consider substantive changes to the existing federal income tax laws that affect the tax treatment of 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. Please read "—Partnership Status." 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 units.

**State, Local, Foreign and Other Tax Considerations**

In addition to federal income taxes, you will likely be subject to other taxes, such as state, local and foreign income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. We currently own property or do business in many states. Several of these states impose a personal income tax on individuals; certain of these states also impose an income tax on corporations and other entities. We may also own property or do business in other jurisdictions in the future. Although you may not be required to file a return and pay taxes in some jurisdictions because your income from that jurisdiction falls below the filing and payment requirement, you will be required to file income tax returns and to pay income taxes in many of these jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some jurisdictions, tax losses may not produce a tax benefit in the year incurred and may not be available to offset income in subsequent taxable years. Some of the jurisdictions may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the jurisdiction. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the jurisdiction, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld will be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read "—Tax Consequences of Unit Ownership—Entity-Level Collections." Based on current law and our estimate of our future operations, our general partner anticipates that any amounts required to be withheld will not be material.

**It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states, localities and foreign jurisdictions, of his investment in us. Accordingly, each prospective unitholder is urged to consult his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state, local and foreign, as well as U.S. federal tax returns, that may be required of him. Latham & Watkins LLP has not rendered an opinion on the state tax, local tax, alternative minimum tax or foreign tax consequences of an investment in us.**





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**INVESTMENT IN PHILLIPS 66 PARTNERS LP BY EMPLOYEE BENEFIT PLANS**

An investment in us by an employee benefit plan is subject to additional considerations because the investments of these plans are subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and the restrictions imposed by Section 4975 of the Internal Revenue Code, and provisions under any federal, state, local, foreign or other laws or regulations that are similar to such provisions of the Internal Revenue Code or ERISA (collectively, “Similar Laws”). For these purposes, the term “employee benefit plan” includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or individual requirement accounts or annuities (“IRAs”) established or maintained by an employer or employee organization, and entities whose underlying assets are considered to include “plan assets” of such plans, accounts and arrangements. Among other things, consideration should be given to:

· whether the investment is prudent under Section 404(a)(1)(B) of ERISA;

· whether in making the investment, that plan will satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA; and

· whether the investment will result in recognition of unrelated business taxable income by the plan and, if so, the potential after-tax investment return. Please read “Material Federal Income Tax Consequences—Tax-Exempt Organizations and Other Investors”; and

· whether making such an investment will comply with the delegation of control and prohibited transaction provisions of ERISA, the Internal Revenue Code and any other applicable Similar Laws.

The person with investment discretion with respect to the assets of an employee benefit plan, often called a fiduciary, should determine whether an investment in us is authorized by the appropriate governing instrument and is a proper investment for the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit employee benefit plans, and IRAs that are not considered part of an employee benefit plan, from engaging in specified transactions involving “plan assets” with parties that, with respect to the plan, are “parties in interest” under ERISA or “disqualified persons” under the Internal Revenue Code unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Internal Revenue Code. In addition, the fiduciary of the ERISA plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Internal Revenue Code.

In addition to considering whether the purchase of common units is a prohibited transaction, a fiduciary should consider whether the plan will, by investing in us, be deemed to own an undivided interest in our assets, with the result that our general partner would be a fiduciary of such plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code, ERISA and any other applicable Similar Laws.

The Department of Labor regulations provide guidance with respect to whether, in certain circumstances, the assets of an entity in which employee benefit plans acquire equity interests would be deemed “plan assets”. Under these regulations, an entity's assets would not be considered to be “plan assets” if, among other things:

(a) the equity interests acquired by the employee benefit plan are publicly offered securities—i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, are freely transferable and are registered under certain provisions of the federal securities laws;

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(b) the entity is an “operating company,”—i.e., it is primarily engaged in the production or sale of a product or service, other than the investment of capital, either directly or through a majority-owned subsidiary or subsidiaries; or

(c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest is held by the employee benefit plans referred to above that are subject to ERISA and IRAs and other similar vehicles that are subject to Section 4975 of the Internal Revenue Code.

Our assets should not be considered “plan assets” under these regulations because it is expected that the investment will satisfy the requirements in (a) and (b) above.

In light of the serious penalties imposed on persons who engage in prohibited transactions or other violations, plan fiduciaries contemplating a purchase of common units should consult with their own counsel regarding the consequences under ERISA, the Internal Revenue Code and other Similar Laws.

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**SELLING UNITHOLDERS**

This prospectus relates to 6,304,204 common units and 13,819,791 Series A preferred units issued to the selling unitholders on October 6, 2017 and up to an additional 1,381,984 Series A preferred units that may be issued by us to the selling unitholders as payment in kind in lieu of cash distributions on the Series A preferred units they hold. For more information about our relationships with the selling unitholders and their affiliates, see the Current Report on Form 8-K we filed with the SEC on October 10, 2017.

The following table sets forth information about the maximum number of common units and Series A preferred units that may be offered from time to time by the selling unitholders under this prospectus. The selling unitholders may currently hold or acquire at any time common units or Series A preferred units in addition to those registered hereby. In addition, the selling unitholders may sell, transfer, assign or otherwise dispose of some or all of their common units or Series A preferred units in transactions exempt from or not subject to the registration requirements of the Securities Act. Accordingly, we cannot give an estimate as to the amount of common units or Series A preferred units that will be held by the selling unitholders upon termination of this offering. Information concerning the selling unitholders may change from time to time and, if necessary, we will supplement this prospectus accordingly.

In the purchase agreement pursuant to which each of the selling unitholders initially acquired the common units and Series A preferred units being registered hereby, each such selling unitholder represented to the Partnership that it was purchasing such common units and Series A preferred units for its own account and not with a view toward distribution in violation of any securities laws.

We have prepared the following table and the related notes based on information supplied to us by the selling unitholders on or prior to November 17, 2017. Other information about the selling unitholders may change over time.

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| Selling Unitholders                                     | Common Units Beneficially Owned Prior to the Offering | Maximum Number of Common Units to be Sold Pursuant to this Prospectus | Percentage of Common Units Owned Following the Offering (1) | Percentage of Series A Preferred Units Owned Following the Offering (1)(3) | Maximum Number of Series A Preferred Units to be Sold Pursuant to this Prospectus (2) | Percentage of Series A Preferred Units Owned Following the Offering (1)(3) |
|---|---|---|---|--|---|--|
| Stonepeak Screwdriver Holdings, LLC                     | 1,050,701   | 1,050,701   | —   | —  | —   | —  |
| Stonepeak Screwdriver SPV LLC                           | —   | —   | —   | 12,769,488   | 12,769,488  | —  |
| FR XIII Pantheon Holdings, L.L.C. (4)                   | 3,152,102   | 3,152,102   | —   | 2,026,903  | 2,026,903   | —  |
| Tortoise Direct Opportunities Fund, LP (5)              | —   | —   | —   | 405,384  | 405,384   | —  |
| Tortoise MLP & Pipeline Fund (6)                        | 1,346,626   | 852,407   | *   | —  | —   | —  |
| Tortoise VIP MLP & Pipeline Portfolio (6)               | 2,551   | 1,805   | *   | —  | —   | —  |
| Tortoise Energy Infrastructure Corporation (6)          | 1,530,570   | 583,711   | *   | —  | —   | —  |
| Tortoise MLP Fund, Inc. (6)                             | 848,518   | 537,734   | *   | —  | —   | —  |
| Tortoise Power and Energy Infrastructure Fund, Inc. (6) | 53,422  | 28,667  | *   | —  | —   | —  |
| Tortoise Pipeline & Energy Fund, Inc. (6)               | 73,200  | 37,151  | *   | —  | —   | —  |
| Tortoise Energy Independence Fund, Inc. (6)             | 85,677  | 32,400  | *   | —  | —   | —  |
| Texas Mutual Insurance Company (6)                      | 98,077  | 27,526  | *   | —  | —   | —  |

\*Less than 1%.

(1) Based on 121,571,959 common units outstanding as of November 20, 2017.

Includes Series A preferred units initially issued to the selling unitholders in a private placement and Series A PIK Units that may be issued to the selling unitholders as payment in kind in lieu of quarterly cash distributions, which may be offered by the selling unitholders as follows: (i) Stonepeak Screwdriver SPV LLC: 11,608,624 Series A preferred units and 1,160,864 Series A PIK Units; FR XIII Pantheon Holdings, L.L.C.: 1,842,639 Series A preferred units and 184,264 Series A PIK Units; and Tortoise Direct Opportunities Fund, LP: 368,528 Series A preferred units and 36,856 Series A PIK Units. The number of Series A PIK Units that may be issued to each (2) selling unitholder listed in this table was determined based on the number of Series A preferred units issued and outstanding as of the date hereof after giving effect to the receipt of Series A PIK Units in respect of such Series A preferred units for each quarter during the Series A PIK Distribution Period, but without giving effect to the receipt of additional Series A PIK Units received during any quarter as payment-in-kind distributions on issued and outstanding Series A PIK Units. Distributions may be paid in cash, in-kind in the form of Series A PIK Units, or in combination thereof, at the election of our general partner. Please read “Description of Our Series A Preferred Units – Distributions.”

(3)

Assumes that the selling unitholders will sell all of the common units and Series A preferred units offered pursuant to this prospectus. We cannot assure you that the selling unitholders will sell all or any of the units.

FR XIII Pantheon Holdings Parent, L.L.C. is the managing member of FR XIII Pantheon Holdings, L.L.C. FR XIII Charlie AIV, L.P. is the sole member of FR XIII Pantheon Holdings Parent, L.L.C. First Reserve GP XIII, L.P. is (4) the general partner of FR XIII Charlie AIV, L.P. First Reserve GP XIII Limited is the general partner of First Reserve GP XIII, L.P. William E. Macaulay is the Executive Chairman of First Reserve GP XIII Limited and has the right to appoint a majority of the board of directors of First Reserve GP XIII Limited.

The Investment Adviser currently has five investment professionals who are primarily responsible for the (5) origination and structuring of the Fund's portfolio and for voting proxies for securities held by the Fund: Brian A. Kessens, James R. Mick, Stephen Pang, Matthew G.P. Sallee and Robert J. Thummel Jr.

The Investment Committee of Tortoise Capital Advisors, L.L.C. has voting or dispositive power and is comprised (6) of H. Kevin Birzer, Terry Matlack, Kenneth P. Malvey, Zachary A. Hamel, Brian Kessens, James Mick, Matthew Sallee and Rob Thummel.

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**PLAN OF DISTRIBUTION**

As of the date of this prospectus, we have not been advised by the selling unitholders as to any plan of distribution. The selling unitholders may choose not to sell any of their Series A preferred units or common units. Distributions of the Series A preferred units and common units by the selling unitholders, or by their partners, pledgees, donees, transferees or other successors in interest, may from time to time be offered for sale either directly by the selling unitholders or other persons, or through underwriters, dealers or agents or on any exchange on which the units may from time to time be traded, in the over-the-counter market, or in independently negotiated transactions or otherwise. The methods by which the Series A preferred units and common units may be sold include:

a block trade (which may involve crosses) in which the broker or dealer so engaged will attempt to sell the securities as agent or as riskless principal but may position and resell a portion of the block as principal to facilitate the transaction;

through brokers or dealers, who may act as agents or principals;

exchange distributions and/or secondary distributions;

sales on any national securities exchange or quotation service on which the units may be listed or quoted at the time of the sale, including the NYSE, in the over-the-counter market or through a market maker or into an existing trading market (on an exchange or otherwise) for the units;

underwritten transactions;

short sales, whether through a broker-dealer or otherwise;

in transactions in which broker-dealers may agree with the selling unitholders to sell a specified number of such units at a stipulated price per unit;

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privately negotiated transactions;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling unitholders may also sell the Series A preferred units or common units pursuant to an exemption from registration requirements under the Securities Act (including pursuant to the safe harbor provided by Rule 144), if available, rather than under this prospectus.

The selling unitholders may effect such transactions by selling the Series A preferred units or common units to underwriters or to or through broker-dealers, and such underwriters or broker-dealers may receive compensation in the form of discounts or commissions from the selling unitholders and may receive commissions from the purchasers of the Series A preferred units or common units for whom they may act as agents. Such transactions may be effected by the selling unitholders at fixed prices, which may be changed, prevailing market prices at the time of sale, varying prices determined at the time of sale, or at negotiated prices. These prices will be determined by the holders of the securities or by agreement between the holders and any underwriters or broker-dealers who may receive fees or commissions in connection with the sale. The aggregate proceeds to the selling unitholders from the sale of the Series A preferred units or common units offered hereby will be the purchase price of the Series A preferred units or common units less discounts and commissions, if any. The selling unitholders may agree to indemnify any underwriter, broker-dealer or agent that participates in transactions involving sales of the units against certain liabilities, including liabilities arising under the Securities Act. In certain circumstances, we have agreed to register the units for sale under the Securities Act and to indemnify the selling unitholders and each person who participates as an underwriter in the offering of the units against certain liabilities, including certain liabilities under the Securities Act. We have agreed to pay all expenses of the registration of the Series A preferred units and common units offered by this prospectus, other than the fees and expenses of legal counsel that are incurred by the selling unitholders, but excluding underwriting discounts and commissions relating to the sale of the units.

Subject to certain limitations described in “Description of Series A Preferred Units —Restrictions on Transfers of Series A Preferred Units,” in connection with sales of the units under this prospectus, the selling unitholders may enter into derivative, hedging, forward sale, option or other types of transactions with broker-dealers or other financial institutions or third parties who may in turn engage in sales or short sales of the units in the course of hedging the positions they assume or other sales of the units.

Subject to certain limitations described in “Description of Series A Preferred Units —Restrictions on Transfers of Series A Preferred Units,” the selling unitholders also may sell the units offered hereby short and deliver them to close out the short positions, or loan or pledge the units to broker-dealers or other financial institutions or other third parties who may from time to time effect distributions of the units or other interests in the units.



The selling unitholders and any underwriters, broker-dealers or agents that participate in the distribution of the Series A preferred units or common units may be deemed to be “underwriters” within the meaning of the Securities Act. To the extent any of the selling unitholders are broker-dealers, they are, according to SEC interpretation, “underwriters” within the meaning of the Securities Act. Underwriters are subject to the prospectus delivery requirements under the Securities Act. If the selling unitholders are deemed to be underwriters, the selling unitholders may be subject to certain statutory liabilities under the Securities Act and the Exchange Act.

There can be no assurances that the selling unitholders will sell any or all of the securities offered under this prospectus.

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**LEGAL MATTERS**

The validity of the securities offered by this prospectus will be passed upon for us by Latham & Watkins LLP, Houston, Texas. Latham & Watkins LLP will also render an opinion on the material income tax consequences regarding such securities. Legal counsel to any underwriters may pass upon legal matters for such underwriters and will be named in the applicable prospectus supplement.

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**EXPERTS**

The consolidated financial statements of Phillips 66 Partners LP at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, and the effectiveness of Phillips 66 Partners LP's internal control over financial reporting as of December 31, 2016, appearing in Phillips 66 Partners LP's Annual Report on Form 10-K for the year ended December 31, 2016, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference, which as to the consolidated financial statements for the years ended December 31, 2016 and December 31, 2015, are based in part on the reports of Deloitte & Touche LLP, independent registered public accounting firm. The consolidated financial statements of DCP Sand Hills Pipeline, LLC (which Phillips 66 Partners LP accounts for using the equity method of accounting) as of December 31, 2016 and 2015, and for the year ended December 31, 2016 and the period from March 2, 2015 through December 31, 2015, and the consolidated financial statements of DCP Southern Hills Pipeline, LLC (which Phillips 66 Partners LP accounts for using the equity method of accounting) as of and for the years ended December 31, 2016 and 2015, have been audited by Deloitte & Touche LLP, as stated in their reports, which are incorporated herein by reference. The consolidated financial statements of Phillips 66 Partners LP, referred to above, are incorporated herein by reference in reliance upon such reports given on the authority of such firms as experts in accounting and auditing.

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INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution**

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby.

|                              | <b>Amount</b> |
|------------------------------|---------------|
| SEC registration fee         | \$ 142,498    |
| FINRA filing fee             | *             |
| Legal fees and expenses      | *             |
| Accounting fees and expenses | *             |
| Printing expenses            | *             |
| Transfer Agent fees          | *             |
| Miscellaneous                | *             |
| <b>Total</b>                 | <b>\$**</b>   |

\* These fees are calculated based on the number of issuances and amount of securities to be offered, and accordingly cannot be estimated at this time.

**Item 15. Indemnification of Officers and Members of Our Board of Directors*****Phillips 66 Partners LP***

Subject to any terms, conditions or restrictions set forth in the partnership agreement, Section 17-108 of the Delaware Revised Uniform Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever. The section of the prospectus entitled “Our Partnership Agreement—Indemnification” discloses that we will generally indemnify officers, directors and affiliates of our general partner to the fullest extent permitted by the law against all losses, claims,

damages or similar events and is incorporated herein by reference.

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

· our general partner;

· any departing general partner;

· any person who is or was an affiliate of our general partner or any departing general partner;

· any person who is or was a director, officer, managing member, manager, general partner, fiduciary or trustee of us or our subsidiaries, an affiliate of us or our subsidiaries or any entity set forth in the preceding three bullet points;

· any person who is or was serving as director, officer, managing member, manager, general partner, fiduciary or trustee of another person owing a fiduciary duty to us or any of our subsidiaries at the request of our general partner or any departing general partner or any of their affiliates, excluding any such person providing, on a fee-for-service basis, trustee, fiduciary or custodial services; and

· any person designated by our general partner because such person's status, service or relationship exposes such person to potential claims or suits relating to our or our subsidiaries' business and affairs.

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

We expect that any underwriting agreement to be entered into in connection with the sale of the securities offered pursuant to this registration statement will provide for indemnification by the underwriters of us, our general partner, the officers and directors of our general partner who sign the registration statement, and any person who controls us or our general partner, including indemnification for liabilities under the Securities Act.

***Phillips 66 Partners GP LLC***

Section 18-108 of the Delaware Limited Liability Company Act, or the Delaware LLC Act, provides that, subject to such standards and restrictions, if any, as are set forth in its limited liability company agreement, a Delaware limited liability company may, and shall have the power to, indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. Under the second amended and restated limited liability company agreement of our general partner, in most circumstances, our general partner will provide indemnification similar to that in our partnership agreement for each of the following: (i) Phillips 66 Company, as the initial member of our general partner, and any person later admitted as a member of our general partner; (ii) any person who is or was an affiliate of our general partner (other than the Partnership and our subsidiaries); (iii) any person who is or was a member, partner, director, officer, fiduciary or trustee of our general partner or its affiliates (other than the partnership and its subsidiaries); (iv) any person who is or was serving at the request of our general partner or its affiliates as an officer, director, member, manager, partner, fiduciary or trustee of another person; *provided, however*, that a person shall not be entitled to indemnification solely by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services; and (v) any person designated by the board of directors of our general partner.

Our general partner maintains directors and officers liability insurance for the benefit of its directors and officers covering liabilities asserted and expenses incurred in connection with their activities as officers and directors of our general partner or any of its direct or indirect subsidiaries.

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**Item 16. Exhibits**

1.1 ~~\*\*~~ ~~Form of Underwriting Agreement~~

4.1 ~~Registration Rights Agreement, dated as October 6, 2017 by and among Phillips 66 Partners LP and the Purchasers party thereto (incorporated by reference to Exhibit 4.1 to the Partnership's Current Report on Form 8-K filed on October 10, 2017 (File No. 001-36011))~~

4.2 ~~Indenture, dated February 23, 2015, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Partnership's Current Report on Form 8-K filed on February 23, 2015 (File No. 001-36011))~~

4.3 ~~First Supplemental Indenture, dated February 23, 2015, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Partnership's Current Report on Form 8-K filed on February 23, 2015 (File No. 001-36011))~~

4.4 ~~Second Supplemental Indenture, dated February 23, 2015, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.3 to the Partnership's Current Report on Form 8-K filed on February 23, 2015 (File No. 001-36011))~~

4.5 ~~Third Supplemental Indenture, dated February 23, 2015, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.4 to the Partnership's Current Report on Form 8-K filed on February 23, 2015 (File No. 001-36011))~~

4.6 ~~Fourth Supplemental Indenture, dated October 14, 2016, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Partnership's Current Report on Form 8-K filed on October 17, 2016 (File No. 001-36011))~~

4.7 ~~Fifth Supplemental Indenture, dated October 14, 2016, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.3 to the Partnership's Current Report on Form 8-K filed on October 17, 2016 (File No. 001-36011))~~

4.8 ~~Sixth Supplemental Indenture, dated October 13, 2017, between Phillips 66 Partners LP and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Partnership's Current Report on Form 8-K filed on October 13, 2017 (File No. 001-36011))~~

5.1 ~~\*~~ ~~Opinion of Latham & Watkins LLP as to the legality of the securities being registered~~

8.1 ~~†~~ ~~Opinion of Latham & Watkins LLP relating to tax matters~~

23.1 ~~\*~~ ~~Consent of Ernst & Young LLP, independent registered public accounting firm for Phillips 66 Partners LP~~

23.2 ~~\*~~ ~~Consent of Deloitte & Touche LLP, independent registered public accounting firm for DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC~~

23.3\* ~~Consents of Latham & Watkins LLP (contained in Exhibits 5.1 and 8.1)~~

24.1\* ~~Power of Attorney (included on the signature page hereof)~~

\* Filed herewith.

\*\* To be filed as an exhibit to a report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 or in a post-effective amendment to this registration statement.

† Previously filed.

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**Item 17. Undertakings**

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of the prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to the information in this registration statement;

*provided, however,* that paragraphs (i), (ii) and (iii) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act that are incorporated by reference in this registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each of the post-effective amendments shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser:

(i) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

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(5) That, for the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the registrant pursuant to the provisions described in Item 15 above, or otherwise, the registrant has been advised that, in the opinion of the SEC, indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against any liability (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by a director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

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(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, each of the signatories hereto certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Registration Statement on Form S-3 and has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on November 20, 2017.

**PHILLIPS 66 PARTNERS LP**

By: Phillips 66 Partners GP LLC, its general partner

November 20, 2017 /s/ Kevin J. Mitchell  
Kevin J. Mitchell  
*Vice President and Chief Financial Officer*

**POWER OF ATTORNEY**

Each person whose signature appears below appoints Paula A. Johnson and Kevin J. Mitchell, and each of them, either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any Registration Statement (including any amendment thereto) for this offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933 and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or would do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or their or his substitute and substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed below by the following persons in their indicated capacities, which are with our general partner of the registrant, on November 20, 2017.

**Signature**

**Title**

|                      |   |
|----------------------|---|
| *<br>Greg C. Garland | Chairman of the Board of Directors<br>and Chief Executive Officer |
|----------------------|---|

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(Principal executive officer)  
Phillips 66 Partners GP LLC

/s/ Kevin J. Mitchell  
Kevin J. Mitchell  
Vice President  
and Chief Financial Officer and  
Director  
(Principal financial officer)  
Phillips 66 Partners GP LLC

\*  
Chukwuemeka A. Oyolu  
Vice President and Controller  
(Principal accounting officer)  
Phillips 66 Partners GP LLC

\*  
P.D. (David) Bairrington  
Director  
Phillips 66 Partners GP LLC

\*  
Mark A. Haney  
Director  
Phillips 66 Partners GP LLC

\*  
Robert A. Herman  
Director  
Phillips 66 Partners GP LLC

\*  
Joseph W. O'Toole  
Director  
Phillips 66 Partners GP LLC

\*  
Timothy D. Roberts  
Director  
Phillips 66 Partners GP LLC

\*  
Tim G. Taylor  
Director  
Phillips 66 Partners GP LLC

\*/s/ Kevin J. Mitchell  
Attorney-in-Fact