

MPLX LP
Form 10-K
February 28, 2019
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

For the transition period from _____ to _____

Commission file number 001-35714

MPLX LP

(Exact name of registrant as specified in its charter)

Delaware

27-0005456

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

200 E. Hardin Street, Findlay, Ohio 45840

(Address of principal executive offices)

(419) 421-2414

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Units Representing Limited Partnership Interests New York Stock Exchange

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

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

Yes x No “

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes “ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No “

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No “

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one): Large accelerated filer x Accelerated filer “ Non-accelerated filer “ 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 13(a) of the Exchange Act. “

Edgar Filing: MPLX LP - Form 10-K

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

The aggregate market value of common units held by non-affiliates as of June 30, 2018 was approximately \$9.8 billion. This amount is based on the closing price of the registrant's common units on the New York Stock Exchange on June 29, 2018. Common units held by executive officers and directors of the registrant and its affiliates are not included in the computation. The registrant, solely for the purpose of this required presentation, has deemed its directors and executive officers and those of its affiliates to be affiliates.

MPLX LP had 794,158,848 common units outstanding at February 15, 2019.

DOCUMENTS INCORPORATED BY REFERENCE: None

Table of Contents

Table of Contents

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	27
Item 1B. <u>Unresolved Staff Comments</u>	50
Item 2. <u>Properties</u>	51
Item 3. <u>Legal Proceedings</u>	61
Item 4. <u>Mine Safety Disclosures</u>	62
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	63
Item 6. <u>Selected Financial Data</u>	64
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	67
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	94
Item 8. <u>Financial Statements and Supplementary Data</u>	97
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	155
Item 9A. <u>Controls and Procedures</u>	155
Item 9B. <u>Other Information</u>	156
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	157
Item 11. <u>Executive Compensation</u>	166
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	194
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	196
Item 14. <u>Principal Accountant Fees and Services</u>	198
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	199
Item 16. Form 10-K Summary	212
Signatures	213

Unless the context otherwise requires, references in this report to “MPLX LP,” “MPLX,” “the Partnership,” “we,” “our,” “us,” like terms refer to MPLX LP and its subsidiaries. Additionally, throughout this Annual Report on Form 10-K, we have used terms in our discussion of the business and operating results that have been defined in our Glossary of Terms.

Table of Contents

Glossary of Terms

The abbreviations, acronyms and industry terminology used in this report are defined as follows:

ARO	Asset retirement obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM Program	An at-the-market program for the issuance of common units
Barrel	One stock tank barrel, or 42 United States gallons of liquid volume, used in reference to crude oil or other liquid hydrocarbons.
Bbl	Barrels
Bcf/d	One billion cubic feet per day
Btu	One British thermal unit, an energy measurement
Class A Reorganization	On September 1, 2016, a series of reorganization transactions were initiated in order to simplify our ownership structure and its financial and tax reporting requirements, resulting in the elimination of all previously issued and outstanding MPLX LP Class A units
Condensate	A natural gas liquid with a low vapor pressure mainly composed of propane, butane, pentane and heavier hydrocarbon fractions
DCF (a non-GAAP financial measure)	Distributable Cash Flow
DOT	United States Department of Transportation
Dth/d	Dekatherms per day
EBITDA (a non-GAAP financial measure)	Earnings Before Interest, Taxes, Depreciation and Amortization
EIA	United States Energy Information Administration
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Accounting principles generally accepted in the United States of America
Gal	Gallon
Gal/d	Gallons per day
IDR	Incentive Distribution Right
Initial Offering	Initial public offering on October 31, 2012
IRS	Internal Revenue Service
Joint-Interest Acquisition	On September 1, 2017, MPLX acquired certain ownership interests in joint venture entities indirectly held by MPC, collectively: - Illinois Extension Pipeline Company, L.L.C. (“Illinois Extension”) - LOOP LLC (“LOOP”) - LOCAP LLC (“LOCAP”) - Explorer Pipeline Company (“Explorer”)
LIBOR	London Interbank Offered Rate
MarkWest Merger	On December 4, 2015, a wholly-owned subsidiary of MPLX merged with MarkWest Energy Partners, L.P. (“MarkWest”)
mmbbls	Thousands of barrels
mbspd	Thousand barrels per day
mcf	One thousand cubic feet
MMBtu	One million British thermal units, an energy measurement
MMcf/d	One million cubic feet per day
Net operating margin (a non-GAAP financial measure)	Segment revenues, less purchased product costs, less derivative gains (losses) related to purchased product costs

Edgar Filing: MPLX LP - Form 10-K

NGL	Natural gas liquids, such as ethane, propane, butanes and natural gasoline
NYSE	New York Stock Exchange
OTC	Over-the-Counter
Partnership Agreement	Fourth Amended and Restated Agreement of Limited Partnership of MPLX LP, dated as of February 1, 2018
PHMSA	Pipeline and Hazardous Materials Safety Administration

Table of Contents

PPI	Producer Price Index
	Collectively:
	- The related assets, liabilities and results of operations of Hardin Street Marine LLC (“HSM”) prior to the date of the acquisition, March 31, 2016, effective January 1, 2015
Predecessor	- The related assets, liabilities and results of operations of Hardin Street Transportation LLC (“HST”), Woodhaven Cavern LLC (“WHC”) and MPLX Terminals LLC (“MPLXT”) prior to the date of the acquisition, March 1, 2017, effective January 1, 2015 for HST and WHC and April 1, 2016 for MPLXT
Realized derivative gains/losses	The gain or loss recognized when a derivative matures or is settled
SEC	United States Securities and Exchange Commission
SMR	Steam methane reformer, operated by a third party and located at the Javelina gas processing and fractionation complex in Corpus Christi, Texas
Unrealized derivative gains/losses	The gain or loss recognized on a derivative due to changes in fair value prior to the instrument maturing or settling
USCG	United States Coast Guard
VIE	Variable interest entity
WTI	West Texas Intermediate

Table of Contents

Disclosures Regarding Forward-Looking Statements

This Annual Report on Form 10-K, particularly Item 1. Business, Item 1A. Risk Factors, Item 3. Legal Proceedings, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures about Market Risk, includes forward-looking statements. You can identify our forward-looking statements by words such as “anticipate,” “believe,” “could,” “design,” “estimate,” “expect,” “forecast,” “guidance,” “imply,” “intend,” “may,” “objective,” “opportunity,” “outlook,” “plan,” “position,” “potential,” “predict,” “project,” “pursue,” “seek,” “should,” “strategy,” “target,” “will,” “would” or other similar expressions that convey the uncertainty of future events or outcomes. In accordance with “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

- the potential merger, consolidation or combination of MPLX with ANDX;
- future levels of revenues and other income, income from operations, net income attributable to MPLX LP, earnings per unit, Adjusted EBITDA or DCF (please read Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Information for the definitions of Adjusted EBITDA and DCF);
- the regional, national and worldwide availability and pricing of refined products, crude oil, natural gas, NGLs and other feedstocks;
- consumer demand for refined products;
- our ability to manage disruptions in credit markets or changes to our credit rating;
- anticipated levels of drilling activity, production rates and volumes of throughput of crude oil, natural gas, NGLs, refined products or other hydrocarbon-based products;
- future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses;
- the success or timing of completion of ongoing or anticipated capital or maintenance projects;
- the reliability of processing units and other equipment;
- expectations regarding joint venture arrangements and other acquisitions, including the dropdowns completed by Marathon Petroleum Corporation (“MPC”), or divestitures of assets;
- business strategies, growth opportunities and expected investment;
- the adequacy of our capital resources and liquidity, including but not limited to, availability of sufficient cash flow to execute our business plan and to pay distributions;
- the effect of restructuring or reorganization of business components;
- the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows;
- the potential effects of changes in tariff rates on our business, financial condition, results of operations and cash flows;
- continued or further volatility in and/or degradation of general economic, market, industry or business conditions;
- compliance with federal and state environmental, economic, health and safety, energy and other policies and regulations;
- our ability to successfully implement our business plans, growth strategy and self-funding model;
- capital market conditions, including the cost of capital, and our ability to raise adequate capital to execute our business plan and implement our growth strategy; and
- the anticipated effects of actions of third parties such as competitors; or federal, foreign, state or local regulatory authorities; or plaintiffs in litigation.

Table of Contents

Our forward-looking statements are not guarantees of future performance and you should not rely unduly on them, as they involve risks, uncertainties and assumptions that we cannot predict. Material differences between actual results and any future performance suggested in our forward-looking statements could result from a variety of factors, including the following:

- volatility or degradation in general economic, market, industry or business conditions;
- risks and uncertainties associated with intangible assets, including any future goodwill or intangible assets impairment charges;
- availability and pricing of domestic and foreign supplies of natural gas, NGLs and crude oil and other feedstocks;
- availability and pricing of domestic and foreign supplies of refined products such as gasoline, diesel fuel, jet fuel, home heating oil and petrochemicals;
- foreign imports and exports of crude oil, refined products, natural gas and NGLs;
- completion of midstream infrastructure by competitors;
- midstream and refining industry overcapacity or under capacity;
- changes in the cost or availability of third-party vessels, pipelines, railcars and other means of transportation for crude oil, natural gas, NGLs, feedstocks and refined products;
- the price, availability and acceptance of alternative fuels and alternative-fuel vehicles and laws mandating such fuels or vehicles;
- fluctuations in consumer demand for refined products, natural gas and NGLs, including seasonal fluctuations;
- changes to the expected construction costs and timing of projects and planned investments, and our ability to obtain regulatory and other approvals with respect thereto;
- political and economic conditions in nations that consume refined products, natural gas and NGLs, including the United States, and in crude oil producing regions, including the Middle East, Africa, Canada and South America;
- actions taken by our competitors, including pricing adjustments and the expansion and retirement of pipeline capacity, processing, fractionation and treating facilities in response to market conditions;
- changes in fuel and utility costs for our facilities;
- failure to realize the benefits projected for capital projects, or cost overruns associated with such projects;
- the ability to successfully implement growth opportunities, including strategic initiatives and actions;
- the ability to realize the strategic benefits of joint venture opportunities;
 - accidents or other unscheduled shutdowns affecting our machinery, pipelines, processing, fractionation and treating facilities or equipment, or those of our suppliers or customers;
- unusual weather conditions and natural disasters;
- disruptions due to equipment interruption or failure, including electrical shortages and power grid failures;
- acts of war, terrorism or civil unrest that could impair our ability to gather, process, fractionate or transport crude oil, natural gas, NGLs or refined products;
- state and federal environmental, economic, health and safety, energy and other policies and regulations, including the cost of compliance;
- adverse changes in laws including with respect to tax and regulatory matters;
- modifications to earnings and distribution growth objectives;
- rulings, judgments or settlements and related expenses in litigation or other legal, tax or regulatory matters, including unexpected environmental remediation costs, in excess of any reserves or insurance coverage;
- the suspension, reduction or termination of MPC's obligations under MPLX's commercial agreements;
- political pressure and influence of environmental groups upon policies and decisions related to the production, gathering, refining, processing, fractionation, transportation and marketing of crude oil or other feedstocks, refined products, natural gas, NGLs or other hydrocarbon-based products;
- labor and material shortages;

Table of Contents

- the ability and willingness of parties with whom we have material relationships to perform their obligations to us;
- capital market conditions, including an increase of the current yield on MPLX LP common units, adversely affecting MPLX LP's ability to meet its distribution growth guidance;
- changes in the credit ratings assigned to our debt securities and trade credit, changes in the availability of unsecured credit, changes affecting the credit markets generally and our ability to manage such changes; and
- the other factors described in Item 1A. Risk Factors.

We undertake no obligation to update any forward-looking statements except to the extent required by applicable law.

Table of Contents

Part I

Item 1. Business

OVERVIEW

We are a diversified, large-cap master limited partnership (“MLP”) formed in 2012 by MPC (as our sponsor) that owns and operates midstream energy infrastructure and logistics assets, and provides fuels distribution services. We are engaged in the transportation, storage and distribution of crude oil and refined petroleum products; gathering, processing and transportation of natural gas; and the gathering, transportation, fractionation, storage and marketing of NGLs. Our operations are conducted in the following operating segments: Logistics and Storage (“L&S”) and Gathering and Processing (“G&P”). Our L&S assets are primarily located in the Midwest and Gulf Coast regions of the United States while our G&P assets are primarily located in the Northeast and Southwest regions of the United States. For more information on these segments, see Our Operating Segments discussion below. The map below and Item 2. Properties detail our assets as of December 31, 2018:

We have a strategic relationship with MPC, which is a large source of our revenues, where we have executed multiple transportation and storage services agreements which are long-term, fee-based agreements with minimum volume commitments which provide us with a stable and predictable revenue stream and source of cash flows. MPC’s significant interest in us and its stated intent to grow its midstream business has been evidenced by the completion of various dropdowns of MLP-qualifying midstream assets throughout 2017 and 2018. In addition, immediately following the completion of the dropdowns in 2018, our general partner’s IDR’s were eliminated and its two percent economic general partner interest in MPLX LP was converted into a non-economic general partner interest, all in exchange for 275 million newly-issued MPLX LP common units (the “GP IDR Exchange”). This exchange eliminated the general partner cash distribution requirements of MPLX. As of December 31, 2018, MPC owned approximately 64 percent of our outstanding common units. MPC will continue to be an important source of our revenues and cash flows for the foreseeable future. We also have long-term relationships with a

Table of Contents

diverse set of producer customers in many natural gas resource plays, including the Marcellus Shale, Utica Shale, STACK Shale and Permian Basin among others.

The growth of our business has provided us with the financial flexibility to maintain an investment grade credit profile and fund our organic growth capital plan with operating cash and debt. We have significant opportunities to develop, expand and participate in projects which complement our existing assets. We continue to evaluate our non-organic growth opportunities through third-party midstream acquisitions to enhance our existing geographic footprint or expand our activities into new areas.

2018 RESULTS

The following table summarizes the operating performance for each segment for the year ended December 31, 2018. For further discussion of our segments and a reconciliation to our Consolidated Statements of Income, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations as well as Item 8. Financial Statements and Supplementary Data – Note 10.

(In millions)	2018		
	L&S	G&P	Total
Segment revenues and other income	\$3,240	\$3,185	\$6,425
Segment cost of revenues and purchases	1,086	1,707	2,793
Segment income from operations	1,736	767	2,503
Segment Adjusted EBITDA	\$2,057	\$1,418	\$3,475

RECENT DEVELOPMENTS

On January 25, 2019, we annou