

Phillips 66: Governing the Refining Project Portfolio

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Industry: Oil & Gas Refining & Marketing

Source: Strategy & Finance

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Decision scope: How to govern and sequence execution within the disclosed 2024 Refining project program and set evidence gates

Case convention: This is a hypothetical program-execution review. Company disclosures are historical; no private deliberations are represented.

The decision

On March 1, 2024, Phillips 66's Refining leadership team is preparing to review execution within its 2024 project program. The company says it is implementing 10-15 projects annually to improve reliability and market capture and has a target to increase market capture by 5% by 2025. The team must propose how to govern and sequence execution across reliability, market capture, product yield and cost improvements-and what evidence should trigger acceleration, redesign or deferral.

The public record does not provide a candidate-level project list, binding capital pool or conflict among specific projects. The task is therefore to create a program-governance and learning process, not to calculate returns for projects whose costs and operating effects are not reported.

Refining in a broader company

Phillips 66 reports four operating segments: Midstream, Chemicals, Refining, and Marketing and Specialties (M&S). Refining processes crude and other feedstocks into petroleum products and renewable fuels. Refining results, Midstream logistics and M&S marketing are distinct activities; Rodeo's renewable-fuels conversion is included in the reported Refining growth-capital category but should not be confused with conventional refinery reliability work. [P1]

The company describes its Refining strategy as optimizing utilization and product yield through safe, reliable operations, then capturing market value. It says its focus is on low-capital, higher-return projects to improve reliability, market capture and cost. Worldwide crude-capacity utilization was 92% in 2023, versus 90% in 2022; clean-product yield was 85%, versus 84%. These are annual company-reported figures and do not establish that projects alone caused the change. [P1]

Market capture and the 2024 budget

Phillips 66 said that 2023 projects added more than 1% to market capture “based on mid-cycle pricing.” It described a target to increase market capture by 5% by 2025. The release does not provide project-level attribution, benchmark calculations or a counterfactual. Preserve the company’s wording; do not translate these claims into percentage points or independently verified results. [P2]

The company’s 2024 capital budget was \$2.2 billion, including \$923 million in sustaining and \$1.3 billion in growth capital. The reported Refining budget was \$1.1 billion: \$412 million sustaining and \$654 million growth. Refining growth capital includes completion of the Rodeo conversion and low-capital projects to enhance market capture. These categories describe company budgets; they do not identify a discretionary pool or show that any line can be redirected. [P1]

Over the three years ended December 31, 2023, Refining capital spending totaled \$3.1 billion. The filing says it primarily supported higher-value product yield, renewable fuels, reliability and safety. Named investments included facilities at Ponca City, Sweeny, Lake Charles, and jointly owned Wood River and Borger. The filing does not report project-level spend, realized returns or contribution to the market-capture measure. [P1]

Different quarters, different conditions

In Q4 2023, Refining crude utilization was 92%, clean-product yield 87%, and company-reported market capture 107%, compared with 66% in Q3. Q4 adjusted pre-tax income was \$797 million, down from \$1.740 billion in Q3; realized refining margin was \$14.41 per barrel, down from \$18.96. Phillips 66 attributed the sequential margin decline primarily to lower market crack spreads, partly offset by inventory-hedge impacts, higher Gulf Coast clean-product realizations and strong commercial results. Q4 turnaround expense was \$100 million, including \$14 million for Rodeo. These period and company-defined measures do not show the causal contribution of any project. [P2]

For full-year 2023, Refining segment income before tax was \$5.266 billion, compared with \$7.816 billion in 2022. Management attributed the decline primarily to lower realized margins, partly offset by lower utility costs; it said lower market crack spreads were the primary margin driver, partly offset by feedstock advantage and crude-optimization benefits. The company’s composite 3:2:1 market crack spread averaged \$28.37 per barrel in 2023, versus \$34.26 in 2022. [P1]

Evidence and open questions

Evidence at the cutoff	What it shows	What remains unknown
10-15 Refining projects per year; target to increase market capture by 5% by 2025. [P2]	Management's stated program and target.	How market capture is calculated, project-level contributions, variability and attribution.
2024 Refining budget of \$1.1bn, including \$412m sustaining and \$654m growth. [P1]	The reported segment budget categories; growth includes Rodeo completion and market-capture projects.	Which individual projects are approved, committed, adjustable or have remaining cost.
2023 utilization 92% and clean-product yield 85%; Q4 market capture 107%. [P1] [P2]	Annual and quarterly operating indicators, with different periods and definitions.	Unit-level reliability, yield, throughput, outage exposure and project effects.
Refining income before tax declined \$2.55bn year over year as crack spreads fell. [P1]	Market conditions materially affected segment performance.	Project-level margins and how a candidate investment performs through market cycles.

A project screen could request plant/unit, capital and timing, baseline outage/safety/environmental exposure, expected throughput/yield/flexibility effects, market-capture definition, execution risk, and post-completion measurement. These are evidence needs, not facts disclosed about candidate projects.

The choice

How should Phillips 66 govern and sequence execution within the 2024 Refining project program across reliability, market capture, product-yield improvements and cost? What evidence should cause the team to accelerate, redesign or defer an individual workstream? Address the strongest counterargument and distinguish company budgets from available discretionary capital, management targets from realized results, and market conditions from project effects. Do not rank specific undisclosed projects or calculate unsupported returns.

Sources and conventions

All information is limited to material public by March 1, 2024. Phillips 66's FY2023 Form 10-K was filed February 21, 2024; the Q4/FY2023 release was issued January 31. Company targets and causal explanations are attributed. Adjusted results and market-capture measures are company-defined; "based on mid-cycle pricing" is the company's stated basis for its 2023 project contribution. No post-cutoff outcomes are included.

- **P1:** Phillips 66 FY2023 Form 10-K, filed Feb. 21, 2024; Item 1 pp. 12-16; Item 7 pp. 42, 44, 51-53, 64-65.
- **P2:** Phillips 66 Q4/FY2023 results release, Jan. 31, 2024; refining table and discussion, PDF pp. 2-4; strategic targets and market-capture statement, PDF p. 4.
- **P3:** Phillips 66 2023 capital-program release, Dec. 9, 2022; historical ex-ante budget context only.
- **A1:** Chesnes (2014), FTC Bureau of Economics Working Paper 322, later published in *Energy Economics* 50 (2015), 324-336; the author's full FTC working-paper version was directly read.