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EDITED TRANSCRIPT

MPC - Q2 2015 Marathon Petroleum Corp Earnings Call

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OVERVIEW:

Co. reported 2Q15 earnings of $826m or $1.51 per diluted share.

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Marathon Petroleum second-quarter 2015 earnings conference call. My name is Adrian, and I will be your operator for today's call. (Operator Instructions) Please note, this conference is being recorded. I'll now turn the call over to Geri Ewing, Director of Investor Relations. Geri Ewing, you may begin.

Geri Ewing - *Marathon Petroleum Corporation - IR*

Thank you, Adrian. Welcome to Marathon Petroleum Corporation's second-quarter 2015 earnings webcast and conference call. The synchronized slides that accompany this call can be found on our website at MarathonPetroleum.com under the investor center tab.

On the call today are Gary Heminger, President and CEO; Don Templin, Executive Vice President of Supply, Transportation and Marketing; Tim Griffith, Senior Vice President and Chief Financial Officer; Mike Palmer, Senior Vice President of Supply, Distribution and Planning; Pam Beall, President of MPLX; and Tony Kenney, President of Speedway.

We invite you to read the Safe Harbor statements on slide 2. It's a reminder that we will be making forward-looking statements during the call and during the question-and-answer session. Actual results may differ materially from what we expect today. Factors that could cause actual results to differ are included there as well as in our filings with the SEC.

Now, I will turn the call over to Gary Heminger for opening remarks and highlights. Gary?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Thank you, Geri. Good morning, and thank you for joining our call. We are pleased to report second-quarter earnings of $826 million, reflecting a strong performance across our operating platform.

Refining performance was solid, with $1.2 billion of income for the quarter as our refineries benefited from the combination of high utilization and favorable market conditions. Crack spreads were strong throughout the quarter, reflecting increased refined products demand in the US. We expect demand to continue to be strong in the near-term due to the strengthening in the US economy and lower fuel prices, which should continue to benefit our refining and marketing business.

The new condensate splitter at our Catlettsburg, Kentucky, refinery went online during the second quarter. Along with a splitter recently completed in Canton, we have increased our system's refining capacity by over 40,000 barrels per day as well as our ability to process condensate production from the region's emerging shale plays. These two splitters further enhance MPC's extensive, high-complexity system.

Turning to our midstream business, we are pleased to highlight MPLX and MarkWest's recently announced merger agreement. This strategic combination complements our operations and expands MPC's commercial opportunities. It represents a significant step in executing our strategy to grow our higher-valued and stable cash flow businesses.

The combination enables us to increase our participation in the US energy infrastructure buildout and transforms MPLX into a diversified, large-cap MLP.

MPC's strong balance sheet and liquidity will enable MarkWest to accelerate organic growth in some of the nation's most economic and prolific liquids-rich natural gas resource plays. We expect the combination of these projects and MPC's inventory of MLP-eligible assets to support a strong distribution growth profile over an extended period of time for the combined partnership. It also defers the need for the recently proposed MPLX acquisition of MPC's marine transportation assets in 2015, with this drop being indefinitely postponed and the estimated $115 million of EBITDA to be returned to the $1.6 billion backlog.

As part of the transaction, MPLX affirmed its anticipated distribution growth guidance of 29% in 2015. In addition, it expects a 25% compounded annual limited partnership distribution growth rate for the combined entity through 2017, with an annual distribution growth profile of approximately 20% in 2018 and 2019. This transaction also enhances the cash flow profile of MPC's general partner interest in MPLX.

You may recall that MPLX's first-quarter distribution put MPC's general-partner interest in the highest tier of the incentive distribution rights, and the partnership just declared an additional 7.3% increase in LP distributions to $0.44 per unit for the second quarter.

Speedway performed well during the quarter and continues to make tremendous progress integrating the East Coast and Southeast retail locations acquired last year. Over 650 of the retail sites have been converted to the Speedway brand since the acquisition last September, and we are on pace to achieve the anticipated synergies for 2015 from light products supplied as well as from operating and administrative expense savings.

Additionally, the accelerated progress of store conversions and subsequent remodels has allowed us to more rapidly implement Speedway's industry-leading Speedy Rewards loyalty program. This program and other marketing enhancements are expected to drive the synergies anticipated over the next couple years.

MPC continues to balance investments to grow the business with returning capital to shareholders. During the second quarter, MPC returned $544 million of capital to shareholders, including $408 million in share purchases and $136 million in dividends. This brings our total return of capital to shareholders to $8.7 billion since becoming an independent Company four years ago.

To further underscore this commitment, our Board increased MPC's dividend by $0.07 per share to $0.32 per share and authorized up to an additional $2 billion in share repurchases over the next two years. This authorization is on top of the $1.1 billion still available for repurchases at the end of the quarter and brings total repurchase authorizations to $10 billion since 2011.

The Company maintains a strong financial position and continues to execute its strategy to create value through new investments in the business and continued strong operating performance.

With that, let me turn the call over to Tim to talk through the financial results for the second quarter. Tim?

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Thanks, Gary. Slide 4 provides earnings on both an absolute and per-share basis. As you can see in the yellow bars of the chart, our financial performance was strong once again in the second quarter of this year. MPC has earnings of $826 million, or $1.51 per diluted share, during the second quarter of 2015, compared to $855 million, or $1.48 per diluted share, in the second quarter of last year.

The chart on slide 5 shows by segment change in earnings from second quarter of last year. Earnings were fairly consistent period over period, with refining and marketing income from operations down $54 million partially offset by higher income from Speedway and lower income taxes resulting from lower overall taxable income.

Turning to slide 6, refining and marketing segment income from operations was $1.2 billion in the second quarter of 2015, compared to $1.3 billion in the same quarter last year. The slight decrease was primarily due to less favorable product price realizations compared to the LLS-based crack spreads, less favorable crude oil acquisition costs relative to our market indicators resulting from narrow crude differentials and lower dollar-based refinery volumetric gains resulting from overall lower commodity prices.

Segment results were also affected by a charge of $46 million to recognize increased estimated cost per compliance with the recently proposed renewable fuel standards. All of these unfavorable impacts are included in the $458 million of other gross margin on this slide.

These negative impacts were partially offset by $372 million favorable effect of contango in the crude oil market in the second quarter of 2015. This $1.90 per barrel of contribution in the second quarter compared to the detrimental impact of backwardation in the second quarter last year of $0.93 per barrel.

Additionally, direct operating costs were $130 million lower in the second quarter of 2015 compared to last year's second quarter, primarily due to lower energy and turn-around costs.

Other refining and marketing segment net expenses increased $149 million, compared to second-quarter 2014, as a result of a number of items including higher terminal and transportation costs and lower equity-affiliated income.

On slide 7, we provide the Speedway segment earnings walk for the second quarter. Speedway's income from operations was $33 million higher in the quarter as compared to the second quarter of 2014. Speedway's newly acquired locations contributed income of approximately $14 million to the quarter's results, or approximately $45 million of EBITDA. For the legacy Speedway sites, the merchandise gross margin was $23 million higher in the second quarter of 2015 compared to the same quarter last year, and the light-product gross margin was about $16 million higher.

Speedway's same-store gasoline sales volume was down 2/10 of a percent versus the same quarter last year, compared to estimates of US demand growth in the second quarter of approximately 3% higher. The primary reason for this difference is how Speedway continuously strives to optimize total gasoline contributions between volume and margin to ensure fuel margins remain adequate, as well as a substantial number of new locations and remodels during the quarter.

Overall, gasoline sales volumes for legacy Speedway locations were up 3% in the quarter, reflecting the impact of investments in new, rebuild and remodel locations.

Another key performance metric for our retail group is same-store merchandise sales, and we are continuing to see strong demand for our in-store offering, as our same-store merchandise sales quarter excluding cigarettes were up 4.6% versus same quarter last year.

So far in July, we've seen a 1.6% increase in same-store gasoline volumes compared to last July.

Slide 8 shows the changes for our pipeline transportation segment versus the second quarter last year. Income from operations was down $2 million to $79 million in the second quarter. This decrease was primarily due to lower equity-affiliated income and increase in various operating expenses, partially offset by higher transportation revenue in the quarter reflecting higher crude and light-product throughput across the system.

Slide 9 presents significant elements of changes in our cash position in the quarter. Cash at the end of the quarter was almost $1.9 billion. Core operating cash flow was a $1.2 billion source of cash. The $237 million use of working capital noted on this slide primarily relates to an increase in receivables and inventory partially offset by higher accounts payable and other crude expenses.

The increases in receivables and payables were primarily due to higher refined products and crude oil prices during the quarter along with slightly higher inventory levels at the end of the quarter.

We continue delivering on our commitment to balance investments in the business with return of capital to our shareholders. We repurchased $408 million of shares and paid $136 million of dividends in the second quarter. Share count at the end of the quarter was 537 million shares on a split-adjusted basis, reflecting share repurchase activity since the spend of 26% of shares outstanding at that time.

Slide 10 shows that our balance sheet continues to be strong, with a gross debt right at one times the $6.5 billion of LTM EBITDA and a debt-to-total-capital ratio of 35%.

Slide 11 provides updated outlook information on key operating metrics for MPC for the third quarter of 2015. We are expecting third-quarter throughput volumes to be down slightly compared to the third quarter of 2014 due to more planned maintenance in the quarter. Since we have no comparable 2014 data that includes the newly acquired Hess locations, we're continuing to provide Speedway outlook information by quarter for 2015.

For the third quarter 2015, we expect Speedway's light-product sales volume will be approximately 1.5 billion gallons.

With that, let me turn the call back over to Geri.

Geri Ewing - *Marathon Petroleum Corporation - IR*

Thanks, Tim. As we open for questions, we ask that you limit yourself to one question plus a follow-up. You may reprompt for additional questions as time permits.

With that, we will now open the call for questions. Adrian?

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Congratulations again on the strategic tie-up in the midstream. I guess people are concerned that, given the MPLX price response and the fact that obviously the implied price for MWE has faded, that given the strength of the assets that MWE has that you might be forced to defend the bid at perhaps a higher price or sweeten the deal. Maybe just talk us through a little bit about your thought process there.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

I understand your question, and we feel this is a very compelling transaction, compelling for both sides. When you look at the profile of MPLX, one of the things I think investors have not fully been able to understand yet is that our risk profile really hasn't changed from where we were before. Because we needed to execute on a number of organic growth projects within MPLX since we started the IPO in October 2012. And a good part of the growth that we have that was eventually going to become drop-downs, always going to be dependent upon executing an organic growth profile.

The same thing happens here with MarkWest. The key to this transaction is you look at MarkWest today, they're around $1 billion or so of EBITDA. And we are speaking to $1.6 billion, $1.7 billion of EBITDA still sitting in backlog within MPC, MPLX. So that's the great strength of the great combination going forward. But we really believe this is a compelling transaction, understanding the value that MPLX brings to the table.

Ed Westlake - *Credit Suisse - Analyst*

Okay. And then a separate follow-on. You've got a lot of maintenance or some maintenance in the mid-con, if I look at your turn-around costs in the 3Q. Maybe just talk a little bit about any upgrades to the plants that you're planning during that maintenance to perhaps give better EBITDA from self-help after the turnaround if there is any.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

This is Rich Bedell, Ed. There's two projects going. Catlettsburg, their project is a crude unit upgrade to recover more distillate in gas oil out of those crudes. And Robinson has a unicracker or a hydrocracker project to produce more distillate.

Ed Westlake - *Credit Suisse - Analyst*

Okay. Do you have any rough numbers on what the EBITDA contribution might be in, say -- I know diesel is not doing great, but in, say, current conditions?

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

I don't have any right in front of me here, Ed, no.

Ed Westlake - *Credit Suisse - Analyst*

Okay. Thanks very much.

Operator

Chi Chow, Tudor Pickering.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities - Analyst*

This may be a little bit of a naive question, but could you walk us through how processing incremental condensate volumes at Canton and Catlettsburg and eventually Robinson will impact refining operations? The upside based on yield improvements or higher gasoline blending volumes or some other factor, I'm just wondering how to quantify the impacts of increased condensate you're running through the plants.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

This is Rich Bedell again. The overall condensate, you've got everything from the light straight-run material all the way into a distillate-type material. So by running those, it gives us more blend stocks and feed stocks for the downstream units. And Catlettsburg and Canton are pure condensate splitter-type projects.

The project that will go in in Robinson is more of a light-crude project, and that's going in next year. And that will just give us more ability to process the lighter crudes slates that are available.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Okay. Rich, so essentially you are going to get better yields coming out that kind of bottom line?

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Yes, yes. Well, Chi, it's both yield and it's a low-cost feedstock. You will have structural advantage to low-cost feed stocks in the region via the condensates. And given the location, we think that that's an enduring advantage to the business.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Right, okay. Now, does that exasperate the situation we've got going on with the octane differential between premium and regular gasoline? Does that make things worse, I guess (technical difficulty) in the end or how do you think about that?

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

Well, we're pretty well-positioned with our reformer capacity to generate the octane to use the lighter blend stocks. It all gets into optimizing the refinery.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Okay. And then one question on the MarkWest transaction. I'm not sure if you can answer this, but can you walk through any examples of growth projects that a combined MPLX/MarkWest entity can undertake but that each entity could not do on its own?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Well, the question you just asked, Chi -- this is Gary. The question you just asked concerning octane is a great example. As you look at the feedstock that MarkWest has today, with the butane supply, butane is great feedstock to put into an alkylation unit and make octane. And we see going out to meet the CAFE standards of 2022 that the industry is going to be short octane.

We have the ability to take this butane, marry it up with a possibly -- and this is a conceptual project we have, but one we've been looking at for quite some time -- and that is to manufacture octane right near the source. It makes more sense to do that than to distribute the butane to different markets, albeit the Gulf Coast or the Harbor -- New York Harbor and then manufacture it into a finished product. I think it makes more sense to manufacture it and then distribute that octane into the gasoline pool that is already in this market.

That is just one example. We have a number of other examples that we're looking at possibly batching refined products to the New York Harbor. And when I look at MPC, the drop-downs that we have, some of the pipeline opportunities we've been looking at as well as some of the terminal opportunities, you combine that volume with volume that MarkWest has and I think it make some feasible projects.

And lastly, Chi, we've already announced the Cornerstone pipeline. And so, again, you take the feedstock and the initiation station, if you will, of Cornerstone is going to be right at MarkWest Cadiz facility. So we're going to be able to marry up additional products there. Initially, we were building this to be able to move condensate up to Canton and our Catlettsburg refinery.

You probably have recognized here some of your E&P contacts how Marcellus and Utica are continuing to have some very strong results on some wells that have been drilled here recently. We believe that we can take some of those products, put them into Cornerstone and then go into the second phase of Cornerstone that we've talked about in the past. But the second phase to get us all the way back to the Chicago market and maybe even eventually tie in with some pipelines that we have coming up from the North, and considering reversing those getting back down to the Gulf Coast. So we have tremendous flexibility and tremendous options to be able to expand MarkWest and MPLX.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Thanks for the color, Gary. On Cornerstone, does the link-up with MarkWest allow you to flow Cornerstone at full capacity?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

It's really not being that we're linking up with MarkWest. It's all going to be about how the drill bit and how the producer continues to bring this stream on. That's why I brought up early, you noticed recently the significant progress and some of the big wells that have come on in the region. We certainly think this is going to help us. Pam, do you have any more color?

Pam Beall - *Marathon Petroleum Corporation - SVP, Corporate Planning, Government and Public Affairs, Marathon Petroleum Corporation*

Well, I was just going to say, Chi, certainly, as Gary mentioned, we're going to originate that MarkWest had his condensate stabilizer facility. We're also going to tie into their Hopedale fractionation operation. So we see the potential to move not just condensate but natural gasoline and butane and different grades as we're going to batch this system. As Gary said, really we believe we can deliver diluent into a pipeline that will end up going into Canada. We could reach the refineries in Toledo, Lima all the way back to our Robinson plant. And then, as Gary mentioned, there's even the potential to go north to Chicago and south to the Gulf Coast.

So as the volumes ramp up, that's -- we'll be able to step into, kind of leg into the growth in the region. So the reason that we upsized Cornerstone from 12 to 16 inches was really to handle what we think will be a very large increase in natural gas liquids coming out of Utica and Marcellus. So we do see a lot of opportunities to leverage a lot of pipe we already have in the ground, a lot of right-of-way that we can access to build out our distribution system from the Utica-Marcellus area West, South and Northwest. And, as Gary mentioned, even (technical difficulty).

Chi Chow - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Great, yes, that makes a lot of sense. Thanks for the comments, Pam. I appreciate it.

Operator

Doug Terreson, Evercore ISI.

Doug Terreson - *Evercore ISI - Analyst*

First, I wanted to see if Tim would repeat the compliance calls item that you highlighted for other gross margin in the quarter.

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Sure, Doug, you're talking about the $46 million?

Doug Terreson - *Evercore ISI - Analyst*

Was it $46 million?

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Yes.

Doug Terreson - *Evercore ISI - Analyst*

And Tim, what was it for? I'm sorry.

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Doug, this is effectively -- at the end of May we got the sort of the final proposed standards on renewable fuels, especially for biomass diesel. And so, we sort of had built into what we expected that obligation to be. We found at the end of May what it actually was going to be for calendar 2014 obligations. And so we were immediately in a position where we needed to acquire those RINs to satisfy that obligation. So these are basically D4 and D5 RINs, and there's basically about a $46 million cost in order for us to come current based on the standards released at the end of May.

Doug Terreson - *Evercore ISI - Analyst*

Sure, okay. Thanks. Okay, and then second on Speedway, I wanted to see if we could get an update on integration of the Hess acquisition. And specifically on the major areas of earnings opportunity that you guys have talked about. Meaning, how is progress unfolding so far versus expectations on light products, supply and logistics, marketing enhancement and SG&A costs? And also, where were light product break-even in the quarter, if you have them, and are they falling at the rate that you thought they would originally?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Okay, Tony?

Tony Kenney - *Marathon Petroleum Corporation - President, Speedway LLC*

Yes, on the color around the integration with the Hess assets, actually we're moving along at an accelerated pace in converting the brand to Speedway. We are a little over 650 stores, more than halfway complete on that progress right now.

But Doug, the important thing there is it's more than just a brand. What's going inside the store is all of our technology that kind of is the platform for our marketing programs, primarily our loyalty program, all of our inventory management, other things that drives savings and synergies for us as we operate convenience stores.

In terms of the synergies itself, the early opportunities have been to capture the savings on the light-product supply and logistics part of the business. Which, as you know, we've talked many times about the integrated benefits of MPC's vast supply system and how we're able to take advantage and extract some value from that. Those are basically in place right now in terms of supplying the stores. And then the other early opportunities have been to capture the operating expense savings and the G&A savings.

So for the quarter and for the year, what we're really saying essentially is that we are expecting to be on pace with what we earlier indicated that the synergies would be in the business for 2015. And then down the road as we began to bring on all the marketing enhancements through the conversions inside the store that I described earlier, then we'll start to realize those benefits down the road.

Doug Terreson - *Evercore ISI - Analyst*

Sure. Great. Thanks a lot, guys.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Gary, I wonder if you could start off by talking about your capital allocation strategy. You raised the dividend by 28% yesterday. How are you weighing buybacks versus dividends at current levels? And how does MarkWest impact the way you think about capital allocation, if at all?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Sure. And Neil, you'll recall at our sell-side analyst dinner when we were talking about MPLX, we had -- we discussed some of these issues there that, in fact, we think it enhances things going forward. And maybe let me have Tim go into the details.

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Yes. So Neil, the question of dividends versus buybacks is, I think, for us a relatively easy one. Dividends, despite their sort of tax inefficiency, we know are an important part of a lot of investors' thinking around the stock. And so our intention will be to maintain a strong and growing dividend for the long-term. That is going to be the approach.

I think the way we view the sort of what remains from a capital, if there's excess capital and cash in the business, that share repurchase is the most efficient way to get that back to shareholders. It has a nice benefit of sorting out the shareholder base and basically returning capital to those people that aren't going to be long in the stock anymore and allows for investors to pick their own liquidity window, as opposed to pushing cash to shareholders that may not wish it, in the form of a special dividend or other form.

So I think that's the way we approach it. I think you should expect to see continued focus on both of these. They are both part of our overall thinking on the sacred trust that exists with investors with regard to the capital and cash we have been entrusted with, and that's likely how it will continue.

You know, the addition of the MarkWest business in the combination of MPLX and MarkWest, we think provides some very interesting dynamics, one of which we described on the announcement call itself, which is it is true that the GP cash flows are enhanced by the transaction. And the way we view that is that there is really is a virtuous capital cycle here. As those GP cash flows come back into the C Corp, it becomes available for further investment in what become ultimately investments of the partnership.

An important part to what we think makes sense around the transaction that we think has got a lot of power to it is the fact that, to the extent there are very nice investments -- good, high-returning investments available in the midstream that provide some strategic advantage, we have the ability to incubate those at the C Corp and drop them into the partnership at the appropriate time.

One just from a pure capital capacity that the partnership may not be able to swallow at all at once but also the timing issue that where capital gets spent and built and the time that it takes before those projects come fully onstream, MPC has got the capacity to sort of incubate them and basically put them in the partnership when they're full run-rate cash flow.

So, again, the financial flexibility afforded here, we think, is tremendous, and the capital allocation will follow form on where we think the investments need to be made. But we fully stand ready to make continued investments in the midstream and through this vehicle probably on an even more accelerated pace.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, Tim. And then a follow-up here on the macro, Gary. Of all the CEOs in the oil industry, you probably have spent as much time in Saudi Arabia or dealing with the Saudis as anyone. What are your thoughts in terms of the Saudi output and productive capacity? Another question is I think last time we spoke you certainly seemed more constructive on oil than the forward curve and even our lower for longer view. So I think investors could benefit from hearing your perspective on the flat price.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Yes, Neil. What I said earlier in the year -- in fact, at your conference in January -- has continued to prove out for the year. I said I think investors should watch the amount of imports coming into the US, namely from the Middle East, not only Saudi Arabia but others. And that has continued to bear fruit for refining. And as we look at the forward positions and how crude oil is positioned right now as imports in the Gulf Coast, we think this remains.

The other thing I have stated is we were expecting to have a second dip. We did not expect a V-shaped curve here. And it ended up being -- I think it's going to be more of a W-shaped curve with the crude price. Now, we expected the second dip, but we do expect strength going on down the calendar end of the year, probably into the second quarter of next year before you really, I think, start to see some strength.

The other thing is when I look at the volumes coming in through LOOP, the main oil line volumes continue to be strong, which again suggests strong imports coming into the US. And it really takes it back to the question of how is crude situated in the Midwest. We've had this discussion many times looking at the amount of sweet crude we run versus sour crude. We have the capacity to run somewhere between 65% and 70% sweet crude, and we're basically on the same number this quarter as second quarter of 2014 at around 54% sour. So that suggests we have a lot more room to run more sweet crude if it is priced right in the marketplace.

So I think you're going to continue to see light sweet crude coming in from Middle East producers, landing in the Gulf Coast and being available. And that really is going to come back and tie in with where do we see the drill bit, where do we see the production out of the Permian, Eagle Ford. We're not getting much Bakken down into pad 3 today. Some, but not that much. But it's Permian, it's Eagle Ford to really see what's going to happen there.

So I think some of the same, Neil, going forward, and I expect to see the Middle East producers want to continue to maintain their market share.

Neil Mehta - *Goldman Sachs - Analyst*

All right, Gary. Thank you very much.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

You're welcome.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Gary, I was wondering, there's a number of reports talking about the climate in the Alkylate market and also at the high-octane component. I think one of your competitors even said in the (inaudible) talking about they may have difficulty there to produce output. Want to see that what is your view that how tight is the (inaudible) and the high-octane component right now in the marketplace and how that impacts that what you can see is on the gasoline supply and the corresponding frac.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

As Rich said earlier, Paul, we are very balanced on the output because of our reforming capacity. But you are right; there have been some wide spreads between the New York Harbor, Chicago and the Gulf Coast on alkyd and, therefore, octane.

We are very balanced at this point in time, but we really see this growing into the future. Again, as I say, getting out to meet the CAFE standards with higher-compression engines going many years from now -- not many years, but into the latter part of this decade, we're going to need to be able to have more octane in the system. And I think you're going to be able to see this grow over time these spreads. And this is why we have this interest and why we think it's a natural benefit between MarkWest and MPC going forward.

Paul Cheng - *Barclays Capital - Analyst*

Will you contemplate to build some new Alk unit in your refining system?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

That's what I had said earlier, Paul, that -- and as -- we are very balanced right now, but the -- one of the very strong synergies, operational synergies from a conceptual standpoint. I don't want anybody to think that we have FID'd an alkyd unit. But from a very conceptual standpoint, with MarkWest being long butane, the producers being long butane in a very strategic area of the country, I think it really tees it up well for us to consider additional alkylation manufacturing capacity, and we're looking at that very strongly. And I think it makes sense to manufacture it within the region. Don't transport the feedstock to different markets but rather manufacture it where you need it in order to be able to put it into the final blend stock.

Paul Cheng - *Barclays Capital - Analyst*

Gary, you have very heavy -- I have to apologize because I came in late, so you may have already addressed it. In the third quarter, I looked at your outlook. You have very heavy turnaround in the Midwest. Wondering can you share that how is that outlook may be for the fourth quarter? And also then in the third quarter is the heavy downtime is primarily in the front end of the refinery or the back end of the refinery?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Sure, let me have Rich cover that for you, Paul.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

Paul, the turnarounds we have in our Robinson refinery starting in August are really around our hydrocracker and reformer areas and not so much the crude. In Catlettsburg, one of the crude units will be taken down to do modifications.

Paul Cheng - *Barclays Capital - Analyst*

Okay. And then how about in the fourth quarter, Rich, do you expect it to have a pretty heavy downtime also, or that is going to be more similar to the first half of the year where you don't have a lot of maintenance?

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

Say, Paul, you know our history. We don't like to talk beyond what's going on right now as far as turnarounds. It's just too competitive to get into that going forward.

Paul Cheng - *Barclays Capital - Analyst*

Okay, fair. My final one, maybe this is for Tim. Tim, any preliminary 2016 budget you can share?

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Well, Paul, we would love to be able to give you a look at the year, but we're not in a position to do so. And if we were, we probably wouldn't be sharing it at this point. We -- I think as we get closer to the end of the year, you can look to us to give some indication from some of the metrics. But as you know, we're not going to give any sort of full-year guidance at this point.

Paul Cheng - *Barclays Capital - Analyst*

Can you at least tell us whether it's going to be more likely it's going to be flat, up or down compared to this year?

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Paul, it's just too early to say. I think we will -- you will hopefully shortly see our invitation to our December analyst conference. And if we provide the information, it will be in that forum.

Paul Cheng - *Barclays Capital - Analyst*

All right, will do. Take care.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Paul, let me back up to your question about butane and how it fits in with the market and the structure going forward. Don has talked about this. Don has been on the road; let me ask him to share as far as some of the producers and consumers.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Don Templin - *Marathon Petroleum Corporation - EVP of Supply, Transportation and Marketing*

Paul, I think Gary mentioned the benefits to MPC and having the opportunity to have alkyd and octane, the benefit to MPLX of a combined project with MarkWest around this. But I think it's also important to make sure that we are not forgetting about the producer customers of MarkWest or the MPLX combined entity. Because it is our objective to make sure that they are getting the highest netback that they possibly can get. So these kinds of projects, as we think forward, are opportunities to benefit the producer customers, opportunities to benefit MPLX, the combined entity and opportunities to benefit MPC, the C Corp.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Brad Heffern, RBC Capital Markets.

Brad Heffern - *RBC Capital Markets - Analyst*

Just looking at yields during the quarter, I noticed that gasoline yield was the lowest I've seen, at least as far back as my model goes. I would've thought that during the quarter you guys would've been running max gasoline. Was there any particular reason around that? Was it maintenance or turnaround related? And have you ramped up gasoline yield since then?

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Brad, this is Tim, and Rich can certainly supplement. I don't think there was any particular focus one way or another. As you know, we will -- we run LPs every day and every month in terms of what optimizes the system with regard to product yields from a total value maximization perspective, and we'll make those decisions as appropriate.

We did -- exports for the quarter were strong. Those are generally diesel-focused for the most part, so that -- those markets continue to be receptive and robust from an earnings-opportunity perspective. But, Rich, I don't know if you had any supplements.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining, Marathon Petroleum Corporation*

I'm looking through; I don't have anything to add to that.

Don Templin - *Marathon Petroleum Corporation - EVP of Supply, Transportation and Marketing*

Brad, this is Don. Exports were 330,000 barrels a day, so super-strong quarter from an export perspective. And as Tim mentioned, about 70% of those exports were diesel or distillate. So there was a reason for -- we were able to optimize the value and the netback of that diesel production.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, that makes sense. Thanks for that. And then looking at Galveston Bay, I was wondering if you had any update on the synergies that have been achieved to date, how much there is left to achieve and then where we stand on the earn-out.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Brad, this is Gary. In December, this is going to be part of the centerpiece. We now have another centerpiece that we're going to talk about at the analyst meeting in December being MarkWest. But Galveston Bay is going to be a big part of that. To really give you more detail, we're very pleased with where we stand. We are ahead of schedule on the synergies. We just made the second earn-out payment this year. We paid out $369 million; we have $331 million left in the earn-out. And things are performing very well this year.

I'm very pleased to state that the strike that went on that has been settled, we've had a great return to work. Great productivity from our employees and very pleased to welcome them back. So things are moving very well at Galveston Bay. But as I said, we will give you -- along with Paul Cheng's question concerning the budget, we're going to give you more detail and where we see a lot of low-hanging fruit going forward.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, I'll leave it there. Thank you.

Operator

Doug Leggate, Bank of America.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks. Good morning, everyone. Good morning, Gary.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Good morning, Doug. Where have you been? I haven't talked you in a long time.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Well, let's just say we're working out of the Scottish office this week. (laughter) But I've got a couple of questions, if I may. First of all, I don't want to labor the MarkWest deal too much. But to get straight to the point, there seems to be some chatter in the market that the MarkWest side of the equation may not be terribly happy with the currency anymore. I understand the commitment of both sides, but I'm just curious if you feel that there would be a need to change the terms somewhat in order to cement the transaction. I know it's a tough question to answer, but I do have a follow-up as well, please. Thank you.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Yes, Doug, and Ed Westlake had the same question earlier on here. And as I said, we believe it's a very compelling transaction. And you need to look beyond just MPLX. We announced this the day after the Iranian nuclear court was announced, and there's been a lot of macro headwinds in the marketplace. And if you look at the large-cap MLPs gathering processing MLPs, even the high drop-down MLPs, there's been tremendous volatility and headwinds on those. But if you combine where the units are trading from both MarkWest and MPLX and then take into account the headwinds of the marketplace, we still think that we are in a very compelling business.

The relative performance, as I said, looking at MarkWest and look at those G&P units or the large-cap units, if you take into account that tough backdrop along with that, I think it further supports that this is a compelling transaction at this time.

We're getting ready to -- it won't be long that we'll have an HSR filed, and that will be followed by the S4. So there will be more details to come, and I think that's going to further support that this is a compelling transaction.

Doug Leggate - *BofA Merrill Lynch - Analyst*

As you know, Gary, we like the deferral of the refinery drop, so congratulations again on doing the deal. One follow-up, if I may. It's really more of a macro question. There's two things seem to be dominating the second-half outlook. One is obviously strong gasoline demand, and the other is the remarkable buildup of distillate. I'm just kind of curious -- because of your unique exposure in retail, you tend to have a pretty good handle as to whether the 6% EIA gasoline demand growth is really translating on a same-store sales basis.

So wondering if you could comment on your view of sustainability of gasoline demand growth. And I guess the byproduct, which is strong refinery runs means more distillate production going into winter, and you seem to be starting from a fairly high level of inventory. So little more of a macro question, I just love to get your perspective on those two things. And I'll leave it there, Gary. Thank you.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Sure. If you look at the overall gasoline demand, the 6% EIA -- the last number I saw was 5.1%, but maybe you have a new number from what I had yesterday. And that's why we gave a little more color in Tim's presentation here on Speedway's gasoline being a market leader in many of the markets. With that, as we are trying to move these -- as you recall, in the second quarter crude oil prices went up significantly over that period of time. And with that, trying to reflect that incremental cost to the street is difficult. So that's why we gave more color this time to look at overall Speedway legacy assets versus -- or legacy stores versus the new stores they acquired on the East.

But we think that we perform very well on the incremental gasoline, and we're continuing to see that, as Tim outlined here early in the third quarter. We're continuing to see that move forward and move up very, very nicely.

On distillate, as Mike Palmer and Tim spoke as well, our distillate exports continue to be very strong. And as I look at our book going into the third quarter, they continue to be robust. So I think we're very well-balanced on distillate. I think as the fall -- two things, the fall harvest and, secondly, the fall turn-around schedule, especially the ones that we've already talked about this morning, I think is going to soak up some of the distillate in the market. But the key -- you're absolutely right, Doug, the key to watch is how the exports continue forward on distillate.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks a lot, Gary. I appreciate the answers.

Operator

Ryan Todd, Deutsche Bank.

Igor Semenov - *Deutsche Bank - Analyst*

Good morning, guys, it's actually (multiple speakers). It's Igor here chiming in for Ryan. Hi, Gary. Just a question on the refining side. Your -- the other gross margin bucket contributed I think it was $19 million in the quarter, or call it a little bit higher if you're adding back the RFS-related hit you called out. Either way, it's a bit of a drop-off versus recent quarterly levels. So just curious, as I know it's notoriously fairly volatile but there are a lot of moving factors in there. Just curious is there anything that you could kind of point to the drop-off?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Yes. Sure, let me have Tim take that.

Tim Griffith - *Marathon Petroleum Corporation - SVP and CFO , Marathon Petroleum Corporation*

Igor, thanks. Certainly what we've said on a run rate basis around this has been higher. But we had a couple of things in the quarter that sort of are all part of that other gross margin. I think you're probably referring to the slide in the appendix that shows that it is 19. But within the quarter, we had -- as I mentioned in my comments, we had volumetric gains which were an impact on the quarter. That is frankly just a scale impact. Volumes were slightly lower, but just with lower absolute prices you're going to see a lower impact there. So that was a hit on the quarter.

Product price realizations -- again, as you said, we picked up the [$46 million]; that's part of that. But we did see a little bit softer gas margins in the quarter and, frankly, just less favorable than where they were for second quarter last year. Second quarter last year was a very strong quarter. You've probably heard us say on multiple occasions that we really perform best in volatile environments. That's where we have the greatest opportunity to sort of optimize the system. And, frankly, second quarter last year was a very good quarter on that basis.

And then we had some impact to some of the incremental crude costs, some of which we've already described, and some that had an impact on the quarter. So those are probably the biggest drivers and I think the things we'll highlight, and we'll see how this is looking forward.

Igor Semenov - *Deutsche Bank - Analyst*

Great. Thanks, guys. Just one more, and apologies if this was discussed already. But on Speedway, fuel margins dropped off a good amount quarter on quarter, and I understand the crude price movement was upward and, slash, kind of stabilizing over the quarter. But anything else there that we should note, or is this is kind of a feeling of a level more or less on the margin side?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Tony?

Tony Kenney - *Marathon Petroleum Corporation - President, Speedway LLC*

Gary, let me answer that, please.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Right.

Tony Kenney - *Marathon Petroleum Corporation - President, Speedway LLC*

Yes, it goes back to Gary's comment he just made a little earlier. Crude ran up our wholesale cost increase, and that's kind of the pressure you're under when you're trying to pass on increasing costs. And that's what we saw in the second quarter. It's as simple as that.

Igor Semenov - *Deutsche Bank - Analyst*

All right, great. Thanks, guys.

Operator

Philip Gresh, JP Morgan.

Philip Gresh - *JPMorgan - Analyst*

First question, just any update on the Capline reversal analysis? I know it's something you had put a press release out a couple of quarters ago, so I was just hoping for any recent thoughts.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Phil, there's nothing new from what we have talked in the past. Still think it makes sense, but it takes a unanimous approval by all the owners. But no update from the last time.

Philip Gresh - *JPMorgan - Analyst*

So is there a particular timeline on it, or not really at this point in terms of trying to make a decision?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

I would say -- as we said last fall, I believe, that we did a study from an engineering standpoint of what it was going to take. But from an engineering perspective, it's -- I won't say it's easy, but it's just kind of a normal engineering project to be able to reverse the pumps and be able to reverse the flow.

The biggest thing that I think you need to understand and the market needs to understand is where do you get the heavy crude supply Patoka. In order to be able to reverse this, you need a static, heavy crude supply into Patoka so that you can have a good, heavy supply and a ratable supply into the Eastern Gulf. And I would say that is the issue. And with the downturn in crude prices and, you know, looking at the Canadian supply coming forward, I think the incremental Canadian supply is probably being pushed back a few years.

Philip Gresh - *JPMorgan - Analyst*

Sure, okay. And then just in terms of -- you've done the Hess deal, MWE. Is it fair to say that the organization at this point becomes kind of organically and inwardly focused in terms of execution, and that further M&A anywhere across the portfolio is probably more of a limited likelihood?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Yes, I would say we have a lot to say grace over right now.

Philip Gresh - *JPMorgan - Analyst*

Fair enough. Thanks.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Gary, I'd like, if we could, maybe the differential question following up on the comments on the Canadian crude and just the fact that differentials being narrower kind of trimmed Q2 margins a little bit. Any quantification you can give us or maybe just as we think Q2 to Q3 is especially that WCS dips have opened up, how that may impact realizations?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Let me ask Mike to cover the current markets.

Mike Palmer - *Marathon Petroleum Corporation - SVP Supply, Distribution and Planning, Marathon Petroleum Corporation*

Yes, Roger, I guess what I can tell you -- and it's obviously market information, but the wildfires in the Cold Lake area are behind us. And in addition to that, when you look at the differentials today, the Canadian heavy dip is up around that $16 level. We have got -- we do have some projects that are coming on in Canada that were sanctioned some time ago before oil prices fell. So we've got some additional supply coming on from several projects.

In addition to that, when you look to this fall period, we do have some heavy refineries that have turnarounds. So this $16-ish kind of differential, this wider differential that we're seeing, is likely to be with us for a while. So it looks very positive.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Okay. Thanks. And then Gary, you mentioned earlier on the question regarding diesel and the need to focus on exports, is it as simple as we should just watch the ARBS to the various international regions, or is there something else where we'll actually notice a change in volumes first and change in ARBS second? I was just curious, chicken-or-egg question there.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

No, I think you got it right. That's chicken-or-the-egg. And I wasn't saying that to give a hint on anything. It's just we have continued to see very strong and very robust demand on diesel into Latin America, Europe and South America -- what continued increases in the request for gasoline cargos.

I find both exports products being very strong going into the third quarter, and so I was just saying continue to watch that because I think that underpins the strength of refining going forward.

Roger Read - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you.

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

You bet, Roger.

Operator

Faisel Khan, Citigroup.

Faisel Khan - *Citigroup - Analyst*

I just want to go back to some of the comments around octane. So are you saying that the octane market is getting shorter just because we've had this big uptick in gasoline demand so we need to fill that gap? Or is it -- you also talked about the CAFE standards having the impact on octane. But I would think about the CAFE standards as actually having a negative effect on gasoline demand and therefore having a negative effect on octane demand. But can you just sort of elaborate a little bit more on what you are -- on how you see the octane market over the next year or two, especially given where gasoline demand is today?

Gary Heminger - *Marathon Petroleum Corporation - President and CEO, Marathon Petroleum Corporation*

Let me have Rich cover that, and then I'll take the longer-term strategy part of octane.

I think what we're seeing is, as we run the lighter crudes and crudes with the diluents, you're using those light straight-run materials to blend off your octane, and that's raising the overall cost of the octane. So it's a function of some of the lighter feed stocks that we're dealing with.

And what I was saying long-term is it's not just -- and it's going to -- octane demand going forward is going to go with the change over the fleet. It's a change over the fleet, and the manufacturers are starting to put out higher-compression engines. So that will gradually grow with the change over the fleet that you're going to need higher octane as really the base gasoline to power the new cars coming off the line.

So it's not going to be a drop in mpg that is going to hurt. It's going to be the incremental demand from the new fleet coming in with the higher-compression engines.

Operator

I will now turn the call back over to Geri Ewing for closing comments.

Geri Ewing - *Marathon Petroleum Corporation - IR*

Thank you for joining us today, and thank you for your interest in Marathon Petroleum Corporation. Should you have additional questions or would like clarifications on topics discussed this morning, Teresa Holman and I will be available to take your calls. Thank you.

Operator

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