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MPC - Q3 2015 Marathon Petroleum Corp Earnings Call

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OVERVIEW:

MPC reported 3Q15 earnings of $948m, or $1.76 per diluted share.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

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

Geri Ewing - *Marathon Petroleum Corporation - IR*

Thank you, Hilda. Welcome to Marathon Petroleum Corporation's third-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; Tim Griffith, Senior Vice President and Chief Financial Officer; and other members of MPC's management team.

We invite you to read the Safe Harbor statement 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'll turn the call over to Gary Heminger for opening remarks and highlights. Gary?

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

Thank you, Geri. Good morning, and thank you for joining us.

We are pleased to report third-quarter consolidated earnings of $948 million. Our results were driven by a solid performance across all of our businesses. We were able to capture strong crack spreads in a favorable refining environment, and we took advantage of our flexibility to move feed stocks and refined products throughout our system to optimize profitability where original dislocations occurred. Lower fuel prices facilitate a strong refine product demand, further contributing to our results.

Speedway also performed very well during the quarter, benefiting from higher light product margins. Our peer-leading merchandise model also continues to drive profitability, with higher earnings compared to the third quarter of last year.

On September 30, we celebrated the one-year anniversary of our East Coast retail acquisition, and we are very pleased with the results of the transaction so far. The new locations are performing well, and the business is on track to more than double the $75 million in synergies we expected in this first year.

We are significantly ahead of schedule in converting the acquired stores, with nearly 1,000 of the 1,245 new locations converted to the Speedway brand and operating system. In addition to the convergence, over 240 remodels of these new stores have been completed or are in progress. This rapid progress on conversions and focus on remodeling selected locations will further enhance Speedway's ability to grow merchandise margins across this entire platform.

Turning to the midstream business, we look forward to finalizing a combination of MPLX and MarkWest later this year and are very enthusiastic about the prospects of the combined partnership. The MPLX and MarkWest combination will create one of the industry's largest diversified master limited partnerships. We will combine MarkWest's robust organic growth opportunities with MPC's large and growing inventory of MLP-qualifying EBITDA.

The growth of distributable cash flows to the combined partnership will also be supported by MPC's and MPLX's strong financial position, creating a large-cap diversified MLP with an attractive distribution growth profile over an extended period of time. The strategic combination will drive substantial long-term value for the unit holders of both partnerships as well as MPC shareholders.

At the time MPLX announced a combination with MarkWest, the partnership provided distribution growth guidance through 2019. MPLX remains committed to the growth profile provided in that guidance. Given the significant change in MLP valuations and the resultant higher-yield environment the sector has experienced in the last several months, we now expect drop-down transactions or some other form of MPC support as early as 2016. As MPLX's sponsor, we are committed to support its success.

As we work to maximize our shareholders' long-term returns, we continue to focus on a disciplined and balanced approach to investing in the business and returning capital to our investors. An important element of this focus has been to identify market opportunities and pursue transactions that accrue long-term benefits to shareholders, as we have done with our acquisitions of the Galveston Bay refinery and the East Coast retail operations.

I am confident we will extend our track record with the pending MarkWest combination. We look forward to MarkWest becoming part of MPLX to the benefit of all equity owners associated with the merger.

Another important element of the Company's capital discipline is to monitor changes in the market to ensure investments reflect the best long-term, risk-adjusted returns to shareholders. In February of this year, we announced deferral of the final investment decision on the proposed residual oil upgrader expansion project at our Garyville refinery in order to evaluate the implications of market conditions on the project. While we still believe the ROUX project, as we call it, is an excellent project to enhance MPC's platform, at this time we have decided to cancel the project based on our assessment of market conditions. And we wrote off the $144 million in capitalized project costs incurred to date. We will look to deploy this $2.2 billion in capital on a variety of other projects to provide superior long-term return prospects.

We were also pleased to return $327 million of capital to shareholders during the quarter. We purchased $156 million of our shares and have approximately $3 billion remaining under our total of $10 billion of share repurchase authorizations.

We also paid dividends of $171 million. Our Board approved a $0.32-per-share dividend, which was increased 28% last quarter, resulting in a 31.5% compound annual growth rate on our quarterly dividend since we spun in 2011.

We continue our efforts to remain a leader in our industry through all cycles by focusing on operational excellence and continuous optimization of our refining and marketing system. We will continue to grow our stable cash flows through our retail and midstream businesses, taking a disciplined approach to capital allocation, and delivering significant value to our shareholders through our sponsorship of and our general partner interest in MPLX.

Due to the timing of MarkWest's special meeting for the proposed combination with MPLX, we are moving our analyst day meeting back one day to December 3. At that time, we plan to provide an update on our allocation of capital, including margin-enhancing opportunities identified at our Galveston Bay refinery, Speedway's growth in synergies from the stores acquired in September of 2014, the compelling combination with MarkWest and other midstream areas of focus. We look forward to seeing you at our combined MPC and MPLX analyst day on December 3.

With that, let me turn the call over to Tim to walk you through the financial results for the third quarter. Tim?

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

Thanks, Gary. Slide 4 provides earnings on both an absolute and per-share basis. As Gary mentioned, our financial performance was strong once again in the third quarter, with earnings of $948 million, or $1.76 per diluted share, during the third quarter of 2015, compared to $672 million, or $1.18 per diluted share, in the third quarter of last year. Just note, third-quarter 2015 earnings reflects the $144 million impairment charge, or about $0.17 per diluted share, for the cancellation of the ROUX project that Gary just mentioned. You can see the earnings through third quarter are already about $140 million ahead of the entire year last year.

The chart on slide 5 shows by segment the change in earnings from the third quarter of last year. The $276 million net increase in earnings was primarily due to higher income from our refining and marketing and Speedway segments, which I'll discuss further in just a minute. Partially offsetting these higher earnings is $144 million non-cash impairment charge for ROUX, which is included in the items not allocated in the chart, as well as higher taxes resulting from higher taxable income in the quarter.

Turning to slide 6, refining and marketing segment income from operations was about $1.5 billion in the third quarter, compared with $971 million in the same quarter last year. The $486 million increase was primarily due to stronger crack spreads in our markets and the favorable effects of Contango in the crude oil market in the third quarter of 2015.

You may recall the crack spreads we provide in our market metrics on our website are calculated using prompt product and crude prices. The price we pay for crude, on the other hand, is established 30 to 45 days prior to the prompt month. This price difference is reflected in the $226 million favorable Contango reflected as market structure on the walk. Partially offsetting these increases was less favorable crude acquisition costs relative to our market indicators and lower dollar base refinery volumetric gains resulting from overall lower commodity prices, both of which are included in the $325 million other gross margins column on the chart.

On slide 7, we provide the Speedway segment earnings bridge for the third quarter. Speedway's income from operations more than doubled from the same quarter last year. Speedway's newly acquired locations were an important part of that increase, contributing additional income of approximately $66 million to the quarter's results, or approximately $98 million of EBITDA in the third quarter.

For the legacy Speedway locations, light product gross margin was about $48 million higher in the third quarter 2015 compared to the same quarter last year. This increase was primarily due to higher light product demand and a favorable pricing environment during the quarter. Overall, the Speedway segment gasoline and distillate gross margin increased by $0.055 per gallon from the third quarter of 2014 to the third quarter this year.

Speedway's merchandise margin in the legacy locations was $16 million higher in the third quarter compared to the third quarter last year, primarily driven by an increase in merchandise and food sales and improved margins.

On a same-store basis, gasoline sales volumes increased 0.5%, and merchandise sales, excluding cigarettes, increased 3.6% in the third quarter compared to the same quarter last year. As you compare our same-store gasoline sales to industry averages, I would point out that these can vary due to many factors including regional footprint, weather and competition. Speedway continuously strives to optimize total gasoline contributions between volume and margin to ensure fuel margins remain adequate.

As you might expect, total light product sales were almost doubled in the third quarter last year as a result of the Hess acquisition, and we are pleased to highlight that gasoline volumes for the legacy Speedway locations were up 2.4% in the third quarter on an absolute basis versus the same quarter last year. Given that we are now one year into the acquisition, October will be the first month our new East Coast locations will be included in our year-over-year same-store metrics. So far for October, total Company same-store gasoline's volumes are up 1.8% versus October last year.

Slide 8 shows the changes in our pipeline transportation segment versus the third quarter last year. Income from operations was up slightly from the same quarter last year with $72 million of income in this quarter. The increase was primarily due to higher transportation revenue in the quarter, reflecting higher average tariff rates and higher crude and light product throughput volumes, partially offset by increased operating expenses and about $4 million in transaction-related costs incurred as part of the MarkWest combination.

Slide 9 presents the significant elements of our changes in our cash position for the quarter. We had about $2 billion of cash on hand at the end of the quarter. Our, operating cash flow was a $1.5 billion source of cash. The $389 million use of working capital noted on the slide primarily relates to a decrease in accounts payable partially offset by a decrease on accounts receivable. The decrease in accounts payable and receivable were primarily due to lower crude oil and refined product prices during the quarter, which created the use of cash given the generally longer terms on the crude purchases.

We continued delivering on our commitment to balance investments in the business with return of capital to shareholders. We returned $327 million to shareholders during the quarter, including $156 million in share repurchases. Share repurchases were slightly lower this quarter as we plan our liquidity needs over the next several months, including the $675 million contribution for the MarkWest combination and, based on current prices, the approximately $180 million to MPLX to maintain our 2% general partner interest after the combination is completed. Share count at the end of the quarter was 534 million shares, reflecting repurchase activity since the spin of about 27% of the shares outstanding at that time.

Turning to slide 10, in the third quarter we paid a $0.32-per-share dividend, representing a 28% increase over the $0.25-per-share dividend paid during the second quarter. It was the fifth increase in our dividend, and our dividend has seen a 31.5% compound annual growth rate since MPC became a standalone public Company in mid-2011. Our continued focus on growing regular quarterly dividends demonstrates our ongoing commitment to our shareholders to share in the success of the business. And as Gary highlighted, we are pleased to affirm that commitment with the $0.32-per-share dividend declared yesterday.

Slide 11 shows that our balance sheet continues to be strong and our leverage low, with gross debt at less than one times the $7.2 billion of LTM EBITDA and a debt-to-total-capital ratio of 34%.

Slide 12 provides an updated outlook information on key operating metrics for MPC for the fourth quarter of 2015. We are expecting fourth quarter throughput volumes of 1.8 million barrels per day, which are down slightly compared to the fourth quarter of 2014 due to more planned maintenance this year. As the fourth quarter begins and we come out of the summer driving season, we expect to see normal seasonal demand levels, which are typically lower in the fourth quarter. Our projected fourth-quarter corporate and other unallocated items are $130 million, including an estimated $58 million of pension settlement expense in the quarter.

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

Geri Ewing - *Marathon Petroleum Corporation - IR*

Thanks, Tim. As we open the call for questions, we ask that you limit yourself to one question plus a follow-up. You may re-prompt for additional questions as time permits. With that, we will now open the calls to questions. Hilda?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Edward Westlake, Credit Suisse.

Edward Westlake - *Credit Suisse - Analyst*

Good morning, and congrats on the results. Appreciate obviously most of your questions this morning are probably going to be on MarkWest. The -- some form of support -- obviously a drop-down would help, but talk me through what other forms of support you have. And then I have a more general question on MarkWest.

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

Yes, good morning. How you been?

Edward Westlake - *Credit Suisse - Analyst*

Good. Thanks very much. The girls are doing well.

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

Good, good; glad to hear that. So, Ed, as you know, as we have talked on this call before, we have many forms of support. Let me back up really and talk about this transaction and the overall market. I still continue to be surprised at how the overall market has performed, especially how MPLX has performed.

In a higher-yield environment, of course, we need to talk about possibly support earlier than we had initially planned than later. But I think the industrial logic is still so strong with the combination of these two companies, MarkWest having just an outstanding suite of assets and growth opportunities, and MPLX having a tremendous backlog and a growing backlog of EBITDA that is eligible for drop-downs as we go down the road.

Of course, we have tremendous flexibility. I'm not going to tie us down to just one. But we can incubate projects, and that's our plan going forward, and we have been very specific about that plan going forward. And when I step back and look at the overall environment in this MLP world today and look at how strong MPLX is, and you compare us against other MLPs that were just a drop-down story before, we still compare very, very favorably, if not one of the best in industry, and now we're tying it to a very strong growth profile.

And so I step back and look at it at, Ed -- I really don't look at it as whether it's a gathering of processing, whether it's a natural gas MLP, whether it's a refined products MLP, a retail MLP. It's what is your backlog and what's the quality of the EBITDA that you have. And I believe that we have, again, one of the best-quality inventories of EBITDA that can go into this sector going forward. And as I said, we looked at incubating projects. We take the backlog of projects that MarkWest has, we can incubate those projects inside MPC, drop them in at the right time.

We can do many other things. Look at the multiples on how we drop down assets, other commercial arrangements where we do intercompany loans, IDR givebacks, the list goes on and on of the flexibility. But on the front side, we now -- based on the yield environment of MLPs, and I do expect that our yield will improve substantially as the market gets more comfortable that this combination is going forward.

Edward Westlake - *Credit Suisse - Analyst*

And then on the yield comfort, obviously there's a big move in the spreads of the overall index. But the upstream in the Northeast is under stress because gas prices are low and NGL prices are low. And when you look at MarkWest, although they have a lot of capacity and acreage dedication, the MPCs, the volume protection is relatively low on some of the new areas. So just give us some color as to how much diligence you've done on the ability of the MarkWest EBITDA to deliver against your expectations. And then if it does fall short, what would be the plan to support the overall combined EBITDA to the extent that volumes in the Northeast disappoint?

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

Right. And we did do, obviously, a tremendous amount of due diligence before we ever signed this agreement. But step back, Ed, and look at the Marcellus and the Utica. And you look at -- you all and everyone on this call is very familiar with some of the major producers in these regions and the success that they continue to have in the Marcellus and the Utica at this time.

The areas of -- and just some of the wells that have been made public recently are very large wells in the acreage positions that we have.

I will let Frank talk about his current environment more when he has his earnings call next week. So I'm not going to go -- overstep my bounds here with his current business, but we did a lot of work on the due diligence. We believe the break-even cost in the Marcellus and Utica, which is the predominant area of influence of MarkWest, continue to be some of the best basins in the country. And if there is a slowdown, as we've already indicated, we will consider dropping down earlier. And we've talked about this $1.6 billion of project backlog or EBITDA backlog we have inside MPC, and that continues to grow as we go forward.

The key, though, that we are very interested in and the logic behind this deal on a combination is we have the balance sheet and the financial strength to really take the backlog of projects within MarkWest and bring them to the table. And I think that will overshadow any drop-off in -- from the producer side.

Edward Westlake - *Credit Suisse - Analyst*

Thanks very much.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Gary, I wanted to give you the floor a little bit on the oil macro, which you are always great about reflecting on. I wanted you to talk through your views on Brent LLS and some of these key crude spreads in a potentially lower production environment. And also views on the flat price as we get into the OPEC meeting in December.

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

Wow, I don't know that I have enough time to talk about that, Neil. But anyway, let me -- I believe the last time we were together, the market continues to illustrate that we're going to be lower for longer. I believe especially as you see the trade flows and you look at the crude resources that are coming from the Middle East, West Africa, that is moving into the East Coast today. But specifically those crudes -- and we're finding some other supply sources, mainly Iraqi crudes -- I can have Michael Palmer, who's with me today, address this more -- but Iraqi crudes that are coming into the Gulf. And I think what this is going to illustrate for a longer period of time, you're going to see the influence of imports on top of continued domestic production.

While domestic production has somewhat flattened out, especially in the Permian and the Eagle Ford, we are continuing to see -- and we see this through our ownership in LOOP, we are continuing to see good growth in offshore Gulf of Mexico production.

So for the remainder of the year and into next year, we're still looking probably in the $50 to $55 range. You might get up into the higher 50s mid-to-later next year. I think we're going to be probably range-bound in that arena for most of 2016 and probably into 2017 until you start to see -- because you're going to have to see not only some domestic production, but you're going to have to see a balancing of this incremental Iraqi production coming on. And you also have to watch where Russia is taking some of their production and how they have been taking some of their production out of strategic petroleum reserve into other parts of the world and the effect that has on the Asian markets. So I would keep all those things in mind when you look at those, Neil.

Bringing it back, then, to spreads here domestically, I think with the incremental production, as I just mentioned, coming in from the Gulf Coast, I think that bodes well for the supply side. We're coming down off the high-demand quarter here in the US as far as refining capacity and the crude that is needed to satisfy the refining capacity in the US. And I think here as we get into the latter part of the fourth quarter -- first quarter, you're going to see spreads widen out -- Brent, Tuck-in -- and I will let Mike Palmer, who is the expert on the spread market, add anything to it.

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

Gary, I couldn't have said it better myself. The one thing I guess I would add is just, again, that we -- in the third quarter, we did run a little more sour crude than we did in the quarter before or the third quarter last year. And I think one of the things that we are seeing, of course, is that the Gulf of Mexico production continues to increase.

And then in addition to that, we have seen -- as Gary pointed out, we have seen some foreign cargo opportunities into the Gulf Coast that we've taken advantage of, and others have as well. And I think that's likely to continue, as, again, Gary pointed out the Iraqi crude is being produced. There is certainly the possibility that we will have some Iranian crude that we will be trading in the world -- increased volumes next year. And I think that will continue to have some pressure against sour grades that should look attractive.

On the other hand, the sweet crude, as we have talked about before, on the Gulf has been a little more expensive. There is not a surplus in this light-sweet crude waiting to find a home. The producers have many avenues to clear it. So, again, that to me points toward probably a little more sour crude that we will run.

Neil Mehta - *Goldman Sachs - Analyst*

Thank you. The second question is more of a housekeeping question. The buyback was a touch lower than we were expecting in maybe the previous quarter as well. Was that related to MarkWest and some of the processes going on there? Anything you can speak to in terms of the quarterly buyback.

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

Sure, Neil. This is Tim. Again, there has been no sort of philosophical change around the way that we've approached capital return to shareholders. I think in any given quarter we're going to plan carefully in the liquidity. We obviously have a contribution that MPC will make to the MarkWest transaction that we certainly are thinking around. But if you look at cash balances, things are generally in line with where we're at. So, no change to behavior, no change to belief. I think just circumstances in the quarter were suggestive of a little bit lower activity.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, team. I appreciate it.

Operator

Chi Chow, Tudor, Pickering, Holt.

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

I guess just on MarkWest, there's been a lot of speculation on the acquisition price given the decline in both MPLX and MarkWest unit prices. How comfortable are you with transaction as it is currently structured? And are there any actions you are considering to support the closing of the deal?

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

Well, Chi, I believe this deal is still very, very compelling. We've already -- I think the biggest and most positive action, we announced today when we reaffirmed guidance. But you just step back and look at the strength of MPC's balance sheet, MPLX's balance sheet, the financial position we're in -- it bodes very well to take this combination, which I think sets us up on a pedestal as the best combination in the business going forward. And we feel it's a compelling enterprise. We have a number of options that I already talked about. And we believe, in effect -- we think today, tomorrow, we will go effective with a proxy, and it will be sent out shortly.

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

Okay. I guess the timing of closings here -- by moving the analyst day back one day, is that corresponding to when you expect to be able to be closed?

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

Right. And that's what -- maybe not necessarily closed, Chi; it just depends on the timing. But Thanksgiving and another bank holiday -- or I guess it's Columbus Day -- Veterans Day, I'm sorry. Veterans Day that is coming up, we lose two business days. So, unfortunately, that's just the way the timing worked; it moved us back just the day to be able to have the analyst meeting. So, yes, that's as we would expect to have the vote in the first, second of December time frame.

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

Got it. Thanks. And I have a couple questions following up on Neil's questions on the crude markets. Can you talk about what you have seen on the heavy crude markets both -- what's going on in Canada with the new Detroit coker? Are the spreads for WCS still attractive? How do you see that market playing out? We've got pipeline access now all the way to Houston. You've got upgraders -- I guess (inaudible) can cut on upgraders. How do you see the heavy Canadian market and then, conversely, the heavy market in the Gulf Coast as well? Any views on how supply demand will look going forward here?

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

Sure. Let me ask Mike to take this.

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

Yes, Chi, I'll give you some thoughts on that. The heavy Canadian market continues to be very attractive. We've seen differentials to WTI that have been gyrating around that minus $15 mark. By historical standards, that's a pretty good discount in a $45, $50 environment.

We -- and, again, this market is influenced by many things that take place. We saw a great opportunity on the heavy Canadian this summer during some turnarounds that were taking place. The spreads went a little wider, and we really took advantage of that. We brought quite a bit more Canadian into our system, and we were able to move record amounts down to Garyville.

So, going forward, again, I don't see any reason to believe that that's going to change. We think that the differential will stay in that kind of a range, and we will continue to take every advantage we can. We are continuously looking at foreign cargo opportunities that we can bring to the Gulf Coast. We see opportunities coming in from Brazil with some of their heavy sweet crudes.

We oftentimes find very good values in crudes that are more difficult to run. They are either high TAM or they've got some other issue. The Mexican crude has been relatively attractive as well.

So the heavy market looks pretty good right now, and I don't see any reason why that should change.

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

Does the agreement with Pemex on the crude swap -- does that open things up a bit more, or any impact there?

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

No, I don't think so. As you know, that's a -- I think what's been approved is 75,000 barrels a day. It's really a relatively small amount. I really don't see that changing the market for us at all.

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

Got it. Okay, thanks, Mike. Appreciate it.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Gary, thanks for the update on MarkWest. Maybe just a follow-up there. I presume you will use a proxy solicitor that will inform you how the vote is going through that solicitation period and utilize that data to determine or consider your options as it relates to the offer. Is that fair?

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

Yes, sir. That's correct.

Evan Calio - *Morgan Stanley - Analyst*

And then if the transaction were voted down, which I know is in your base case or ours -- but I presume into that scenario, you just revert back to your prior drop-down strategy given your significant potential at the parent and you source growth internally. Is that your thoughts?

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

Well, you're right in your first statement. That certainly is in our base case. We are very confident that this creates a -- just a stellar position in the marketplace, one with a strong financial position, a tremendous growth profile. But if for some reason it did not go through, you're absolutely right, we would revert to MPLX 101.

Evan Calio - *Morgan Stanley - Analyst*

Great. I think it's a great -- will be a great transaction for MPLX and MPC shareholders.

Different question, can you discuss pipeline committed volumes in your two Bakken pipelines? And how do you think about the risk to MPC or your exposure in an environment where Bakken is in decline? And I know pipeline should have -- should be superior to rail in that environment, but what are your thoughts here, maybe any actual exposure?

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

Sure, Mike will take that.

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

Yes, I will answer that, Evan. So let me first mention that our Southern Access Extension Pipeline, SAX, a joint venture with Enbridge, it's a completed project. We're going to be filling line fills and tank bottoms in early December. And then by January, we will be fully operational and online.

We are already purchasing crude for that pipe. We fully expect that we're going to be at planned rates. It will be a combination of not only the North Dakota crude, but it will have a variety of various Canadian crudes. We are really excited about having this SAX pipeline open. It creates some flexibility and some optionality that we were out of, and I think we're going to see some real strong earnings coming from crude that will be coming down that pipeline to our Patoka hub.

With regard to Sandpiper, I guess I would say that probably -- exactly what you said earlier: we think that North Dakota crude is going to continue to be very attractive for those that have pipeline space. We are the best option in the market. We also think that as we continue to have fairly narrow Brent WTI spreads, what you are really going to see is that the East Coast players that have been railing so much North Dakota light, we really do believe that those volumes are going to decrease. And as the commitments kind of run out -- as they are -- they will be canceled and probably won't be re-upped. So we think that's going to create -- it's going to take some of the pressure off North Dakota light maybe that you see today. So we think Sandpiper is going to be another great vehicle for us. It will create flexibility and optionality in a market that we are sure will increase production down the road.

Evan Calio - *Morgan Stanley - Analyst*

Great --

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

And Evan, the other thing about those two pipelines -- and Mike was speaking to the tremendous advantage to MPC -- is that gives a great cash flow EBITDA stream then back to MPLX down the road.

Evan Calio - *Morgan Stanley - Analyst*

All right, exactly. Maybe if I could one more, Gary, and thanks for the macro views on the oil side. But in the past, you've also shared your macro views on the other side of the equation demand. Any comments on demand as you see it either through retail, export -- what's your thoughts there given that's an increasing concern in the market? I will leave it there.

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

Right. As Tim mentioned in his script today, we are very pleased here -- October year to date, we are up 1.8% in Speedway on the gasoline side. And you will recall when we spoke last year about this same time, we were looking for an increase in gasoline demand. However, we were in the shoulder quarter, and it really didn't kick off until early into the second quarter. I think the consumer really had some confidence that this gasoline price was here to stay. And gasoline demand has been very robust over the second, third quarter and now starting into the fourth quarter.

On top of that, you look at exports for both gasoline demand and distillates demand, and we, too, set a new record here in this quarter for our refined product exports with 333,000 barrels per day. So -- and we will continue to ramp up our gasoline exports as we've completed a couple of gasoline tanks, both in Garyville and continuing to improve in Galveston Bay, with our logistics to be able to move out the gasoline.

So we think that going into 2016 here -- and as I mentioned earlier on the macro side of crude, I think that stands to benefit the consumer very well, and you will continue to see good gasoline incremental demand.

Turning to the distillate side, global distillates have been a bit flat. And I would say it's because -- if you look at over-the-road diesel here in the US, it still -- and we have pretty good optics through all of the travel centers and commercial fueling locations that Tony has done at Speedway. So we have a pretty good feel of overall gas or distillate demand, and our distillate export demand continues to be strong.

I think what you're seeing is that, across the globe and how some of the regions in the globe have changed, some of the exports and the globe in which they are hitting have slowed down a little bit. Our distillate demand exports continue to be very strong. But it appears on a macro basis, some parts of the globe, distillate demand has slowed a little bit.

Evan Calio - *Morgan Stanley - Analyst*

I leave it there. Appreciate it, guys.

Operator

Doug Terreson, Evercore ISI.

Doug Terreson - *Evercore ISI - Analyst*

So Gary, I just wanted to see if you could clarify the last point that you made about distillate demand. I think you highlighted that there were a couple of regions that had been a little bit spotty recently. Could you provide a little bit more color on which ones those might be?

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

Well, it appears as though there's been a slowdown in Asia, and all of us have seen that. And then, obviously Brazil has had some bit of a somewhat of a slowdown. Europe continues to be robust. The Latin American countries for the most part continue to be strong. And you are seeing more of an incremental gasoline pickup in the Latin American countries than other parts of the world.

So the markets in which we serve continue to be very strong. But I was answering that question, Doug, on a global basis -- and the new refineries that have come on in Saudi Arabia, some in China, and I think that is just the material balance. The way it's moving around the world is where you are seeing some softness.

Doug Terreson - *Evercore ISI - Analyst*

Okay, I just wanted to be sure. And then also, Gary, a few minutes ago you talked about Speedway and how that business is well ahead of expectations as it relates to synergies you thought you would have when the acquisition was consummated. So my question is between the major sources of synergy, which at the time were light product supply and logistics and marketing enhancements and then SG&A. Which ones are driving the positive surprise versus the original expectations?

And the second question is how are light product breakevens trending as well, and are they similarly surpassing your expectations at the outset of the transaction?

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

Sure, Doug. I'm going to turn this over to Tony Kenney, who is on the line. Tony?

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

Hey, Doug. How are you doing? The synergies in all the categories are ahead of pace in each one of those that you mentioned: the light product supply; the marketing enhancements; and the operating and G&A costs. What I plan to do, Doug, at analyst day is to provide more detail and more color in each of those areas.

So, going back to Gary's comments -- opening comments, we are 2 times ahead of where we thought we would be in 2015 on synergies, and I will provide more detail on that at analyst day.

Doug Terreson - *Evercore ISI - Analyst*

Okay, great. Thanks a lot, guys.

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

And a light product breakeven, Tony?

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

Yes, and with respect to light product breakeven, we're about a penny ahead of where we thought we would be when we originally put our forecast together. So, again, that's a combination of the business just performing well but also the enhanced synergies that we are realizing as well.

Doug Terreson - *Evercore ISI - Analyst*

Okay, okay. Thanks a lot.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

A number of quick questions, hopefully. Gary, just curious, fourth quarter the turnaround seems unreasonably heavy for you guys. Are those primarily in the crude unit or conversion? And also that 2016 -- the turnaround cycle, are they going to be somewhat similar to 2015 or higher or lower?

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

I'm going to have Rich Bedell take that for you.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining*

Yes, this is Rich. The turnarounds in the third quarter -- what we've had is Robinson has been primarily around a hydrocracker and its revamp. In Catlettsburg -- and the Robinson one is finished. In Catlettsburg, we do have a crude unit now. We're doing a revamp to that one to recover more gas oil. So that has impacted the crude runs at Catlettsburg. We also had a shutdown planned at Detroit to do some coker cleanout and catalyst changes there, and that one is wrapping up right now. So those were the major turnaround activities here in the third quarter for us.

Paul Cheng - *Barclays Capital - Analyst*

How about which 2016 is the turnaround cycle going to be comparable to? 2015? Or that we should assume it's going to be higher or lower?

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

Paul, you know, our policy is we don't talk about turnarounds into the future.

Paul Cheng - *Barclays Capital - Analyst*

Okay. And maybe this is for Gary. There's a lot of movement in the MLP sector in terms of valuation have dropped quite a lot over the last six months. And then we have also started seeing the lower production. So, some of the MLP operators start to voice concern. The industry may have seen, at least short-term or medium-term, over-investment in the lot logistic outset. Do you share the same view and whether that -- in any shape or form, that may have changed your view on that market? Or how you are going to -- going forward in terms of your organic investment?

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

No. In fact, Paul, I'm glad you brought that question forward. We believe that is the most important part of our platform of this strategic combination is that we are running -- all of our midstream assets are running very well. We do not see stranded investment. And as a number of peers and members of the industry within the MLP community are starting to talk about lowering their guidance and reducing their investment, lowering their guidance going forward, we just reaffirmed again this morning -- I believe this is now the third time since we announced this transaction that we have reaffirmed our guidance and where we believe to go -- or where we are going to go with this with our midstream. And it's based on the fundamentals of our business. We have such a backlog and projects within MarkWest. We have a backlog with some projects within MPC. And a lot of the barrels that are going to move through some of these projects are barrels that we already control.

So, as I said, many are backing up on their growth. And this is what -- from Ed Westlake's first question this morning is why I wanted to speak to that. Is we have a very, very strong case, and I believe we deserve to be -- our yield deserves to be much lower and priced with the high drop-down, high-value MLPs in the business.

And let me ask Don Templin to make a few comments as well.

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

Yes, Paul, I think one of the things that is really intriguing to us and excites us is that, particularly in Utica and Marcellus, there is clearly more production that exists now than there is a reasonable take-away capacity. And so you're finding the producer customers are very constrained in terms of their ability to get their product to a market where they can get an appropriate realization.

And so we look at that as being a real strategic opportunity for us to be able to meet the need of the producer customers. So those are projects that are ripe for investment, where there's already production, and we believe there will be -- in continuing production, but there's already production and a need for take-away capacity. So our ability to take on projects that allow producer customers to move their NGLs to a market where they get a higher netback is a high priority for us and a real opportunity.

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

And Paul, we are one of the few MLPs that have the financial strength to be able to get this done. Those projects, the back-up that's in the Utica, the Marcellus, they don't get done unless you have a strong balance sheet. And you can incubate these projects over time. That's where the strategic logic is.

Paul Cheng - *Barclays Capital - Analyst*

Great. And Gary and Don, I think I have two final questions. One on the Galveston Bay -- I think that previously you guys have been talking about the opportunity now that you sort of like the Galveston Bay version two. You already fixed a house, and now that is looking for the opportunity to grab the low-hanging fruit or other opportunity set.

Is that any -- maybe the update you can provide in terms of quantifying roughly what is that opportunity set may look like for the next two or three years?

And secondly, that when you did the write-down this morning indicate that some related to the long lead-time equipment. Is there any alternative use of those equipment or that you are totally -- the reason that you have a write-down is that you are not taking delivery at all? And also that from that standpoint, is there any change in your future FID pull sets so that you will not have this type of situation in other words that the timing of when you are supposed to order the long lead-time equipment?

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

No, that's a fair question, Paul. I will take the latter question on the ROUX first, and then I will come back to GBR. On the ROUX, we continue to look to see if there's -- if we have use of some of this long lead equipment. It's specifically designed, and it's called long lead because it takes three or four years to be able to fabricate some of this.

So, for the most part, what we did is we stopped the fabrication early in the stages. Therefore, it would not have -- it's not in a -- for the most part, it's not in a finished state. So it would have very little lead.

The majority of that $144 million was the preliminary engineering. Of course, all of that has value down the road as markets turn around. And we'll reevaluate -- I said in my talk earlier, this still is a very strong project and makes a good strategic process platform inside of our system. But the markets have certainly turn south. And if the spreads aren't going to be there, it doesn't make sense to go forward.

As far as our FID process, our FID process worked very well here in that we didn't force something to go through, and we minimized all of the fabrication expense. We have not done any work in the field as far as any construction or any earth-moving whatsoever in order to be able to start this project. Our FID process and the steps that we go through to make that final decision worked very well. But as always, Paul, we try to certainly back-end load any type of equipment, any long lead time until we have made a -- clearly a final decision.

When we made that decision two years ago, this was a 25% recurring project, and the market certainly has turned the other direction.

And then your first question about Galveston Bay, you stole our thunder a little bit. That will be the centerpiece of what we will talk about on analyst day. We're going to talk about Galveston Bay, we will talk about our midstream business because it's going to be a combination analyst day meeting with MPLX. We will spend a lot of time on midstream and then obviously spend a lot of time, Tony already mentioned -- Speedway. So we will be giving a lot of those, as you say, low-hanging fruit, how we will harvest. And the type of projects we're looking at at Galveston Bay will have quick returns and quick returns of EBITDA, and they won't be long-lead projects of capital that's many, many years out before you start getting your return.

Paul Cheng - *Barclays Capital - Analyst*

Very good. Thank you.

Operator

Brad Heffern, RBC Capital Markets.

Brad Heffern - *RBC Capital Markets - Analyst*

And Speedway, just circling back to an earlier question, I was wondering if you could put a finer point on the synergies generated to date. Has it been the overall pool of synergies has expanded, or have they been just coming in faster than you would expect, and perhaps the 2017 goal now becomes the 2016 goal? But the overall synergies are not more than you originally expected?

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

All right, Tony?

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

Yes, so, originally we had indicated that we would generate $75 million of synergies in 2015. And as Gary mentioned, that's about 2X that number that we've seen so far.

So what's happened is, again, alluding back to Gary's comments, when you think about the accelerated conversions, the back-office platforms, the operating platforms, the benefits we get to really marketing the stores along the same lines as we do our legacy stores, those are all generating additional synergies that we are realizing from that activity. When you add in the number of remodels that we've completed -- so these are projects we're spending $300,000 to $500,000 to go into the stores and really redesign how we are merchandising the key areas of the store. And, again, those are giving rise to synergies on an accelerated basis.

And then, lastly, I would say that the -- just the overall integration of the operations, the people have been tremendous. The amount of time it's taken to train thousands of employees on new systems and procedures has really exceeded our expectations. So, again, from an operating expense standpoint and then overall from the G&A standpoint, we have been able to take advantage of those savings as well.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, got it. And then just thinking about Speedway in general and its place in the portfolio, obviously it is a very valuable asset. At this point, the head stores are not mature. But fast-forward a couple years, if you feel that you are not getting the credit that you should for Speedway in the share price, how do you think about unlocking that?

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

Well, we will just continue to follow that through, Brad. We continue to believe Speedway, as you said, is a very, very strategic part of our portfolio along with our refining system and our midstream and how everything works and we move those volumes through our integrated logistics space. But we will cover that down the road.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, I will leave it there. Thanks.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

The first question, just one more on MPLX, could you talk a little bit more about the interplay between the drops that you're not talking about in the organic growth that you see from MarkWest and other opportunities? How should we think about the mix of those two things when you look at 2016 in order to hit that 25% distribution growth target?

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

Well, you look at MarkWest by itself today -- and they've stated publicly, they have about $1.5 billion of CapEx in their plan this year. That will be coming on some work they already had going on. And as fields mature -- and the other thing is how they are improving utilization of the assets that they already have in place. You take on top of that the assets that we have already put into the MLP, how they continue to grow.

And then one of the things that is kind of a flywheel, if you look at it, is how we move refined products. Sometimes it makes more sense to move refined products out the exports. Sometimes it makes more sense to take them through our pipeline systems. And we take that all into account. And then you couple that with possible drop-downs that we may look at.

The other thing is -- let me turn it over to Pam. Pam Beall is here with me. Pam is managing all of the transition between MPLX and MarkWest, so let me have Pam give you some of her thoughts.

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

Gary really elaborated extensively early on the call about the many different ways that the parent can support the distribution growth for MPLX going forward. So it's not simply a combination of drop-down and organic growth. And we will determine as we move through 2016, based on a lot of different considerations, what we think is the best combination of the many tools that MPC can lend to the partnership to support its distribution growth.

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

Phil, this is Don. I think the other really important factor in there is the yield environment. That will impact how the trajectory of where the EBITDA sources are and how that works going ahead. So what we feel great about is that we have a lot of options and tools to be able to manage whatever yield environment that we are in to be able to reach that -- the distribution growth guidance that we've articulated. And we think that differentiates MPLX from many of MLPs that are out there. So I can't tell you the exact percentage, but I can tell you we have all the tools that we need to meet that distribution growth guidance, and that is a differentiator.

Phil Gresh - *JPMorgan - Analyst*

Yes, okay. And then on the capital spending, if I think about the core business outside of the MarkWest, number one, you're tracking well below the full-year guidance. And number two, I'm just wondering how you are thinking about that as you compare it against how you're thinking about 2016, again, outside of MarkWest. How are you thinking about that today? And if you could maybe tie that to how you're thinking about return of capital as well -- the availability of cash flow to returning capital to shareholders -- again, this quarter being a bit lower. How are you thinking about that?

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

Phil, are you speaking to MPC?

Phil Gresh - *JPMorgan - Analyst*

Yes.

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

Right, okay. Tim will take that.

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

Phil, I think a great question. For capital spending through third quarter, we're not terribly far off our expectations and would expect that our full-year 2015 will be about where we expected. So -- and that's not unusual to see a little bit heavier of a capital spend in the fourth quarter. That includes all elements of the business. Obviously we've got some continued investment on the pipeline projects that we are working on within refining and within Speedway. So I think for the full year we will get there.

We're really not at a position right now to talk about 2016. Hopefully you can join us for the investor day in December. I think we intend to give you a little bit more color around our intention and exactly where we're going to devote resources for next year across the entire business.

The return of capital piece is another good question. I think you've seen from us and will continue to see from us a very balanced approach. This is not an all-in, one-way-or-another. We think that we -- it's carefully and then with a pretty disciplined approach invest in the business where we think it makes sense, and do that with a focus on shareholder returns as well. We believe that the dividend and share repurchase are part of the overall value equation for investors, and that's something we're going to remain committed to.

Phil Gresh - *JPMorgan - Analyst*

Okay. All right. Thanks a lot.

Operator

Ryan Todd, Deutsche Bank.

Ryan Todd - *Deutsche Bank - Analyst*

Maybe if I could just follow up with one follow-up on the ROUX project cancellation. You discussed it a little bit, but maybe if you think about general capital deployment going forward, is this just more of a project-specific? Should we think about it in terms of the specific economics of this project? Is it a comment on relative gasoline versus distillate cracks going forward? Or if we think about it, can we view this as -- when you think about capital allocation within your portfolio, as better opportunities outside of refining, or are there other opportunities within refining if these spreads aren't going to work where you can maybe shift capital going forward?

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

It's, first of all, a specific project, Ryan. And it's the market conditions that we are seeing today. This project was all about taking heavy resid, upgrading it through the ROUX, and making (inaudible) for diesel. And it's a spread from that. And we all know where crude prices have gone, therefore where the product price has gone, and the spread has collapsed significantly.

As I stated at one time, this specific project had a 25% return. It's going to have about $800 million to $1 billion of annual EBITDA. And our FID process work, we're on top of that. And it suggests that the market conditions, if they are going to be lower for longer, now is not the time to invest in them. But we believe that the backdrop to that is we have superior projects specifically around Galveston Bay that are higher rates of return, much quicker returns of capital into our marketplace that makes more sense.

So, yes, we wrote this off. We shelved this for the time being. But when the markets come back, we have all the engineering done, complete, and we can pull it off the -- you don't say shelf anymore, you pull it out of the computer and away you go. So it's a -- the right decision from a capital discipline approach, but it gives us the available capital. There are other projects in refining and, of course, other good returns that we have either in the midstream or in the Speedway space.

Ryan Todd - *Deutsche Bank - Analyst*

All right, thanks for the clarity on that. I will leave it there, actually.

Operator

Doug Leggate, Bank of America.

Doug Leggate - *BofA Merrill Lynch - Analyst*

So, look, a lot of stuff has obviously been asked, but I have two things. And then maybe you want to save this for the analyst day. Gary, you've been pretty open and active about finding ways to release value over the years. And obviously one of the big slugs of your business now is retail following the acquisition, obviously, a year or two ago. What are your longer-term strategic thoughts for retail in terms of what -- if you look at peers in the street, you could argue it gets a higher-multiple business that's embedded in a lower-multiple refining business. So I'm just curious about your broad thoughts on that. As I say, maybe it's an issue for the analyst day. And I've got a follow-up, please.

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

Right, and I just had a similar question to that. We've been very clear -- you and I have traveled and talked about this in the past. Speedway is a very strategic part of our business. Our strategies are we want to have a very high-control volume out of our refinery specifically for gasoline. And as Speedway continues to grow the diesel part of its business, it is certainly continuing to help that.

I think if you want to look at the capture rate from our refining and the margins that we get from some of our refining, it certainly helps having Speedway in order to have a very ratable demand source that has taken your refined product.

Lastly, as I said last year when we did the acquisition of the Speedway East, that we want to grow Speedway to be a $1 billion-a-year EBITDA business. And I will knock on wood, and we will share more with you at analyst day, but I think we're pretty much going to be there in the first year of operations.

So, it illustrates that our strategy -- the tremendous execution by Tony and the Speedway team in order to be able to accomplish this, to get about twice as many stores reconverted in the first year than we had anticipated is very, very strong. But we will share more with you at analyst day. I think your real question is are we thinking about spinning Speedway off, and the answer is (multiple speakers) --

Doug Leggate - *BofA Merrill Lynch - Analyst*

Yes, I didn't want to be that obvious. But, yes, that's pretty much it.

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

The answer is no. This is a very, very key part of our strategy going forward.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Gary, my follow-up is really -- I guess we started off the call talking about MPLX or maybe I could just finish it up there. Clearly, the share price of MPLX is under pressure. I think that's a wider market issue than just a Marathon issue. But leaving that aside, what does it do to your view on what you think you can attract by way of acquisition multiples for your midstream assets? And I'm thinking more the longer-term refining drops. A lot of you still think that sort of 8 to 10 multiple is still reasonable. And if so, when do you think we can start to see that process kickstart again?

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

Well, I will answer that from a very macro viewpoint, Doug. As we look across the entire midstream space, I still think you're going to see consolidation in the midstreams. I think you have to. The pressure on balance sheets of certain midstream companies -- that's why this is a compelling combination. And the industrial logic is our strong balance sheet with a company that has a tremendous backlog of projects and can't do all of them on their own. So that's number one. I think you're going to continue to see additional combinations in this business.

The next point that -- when you look out at assets that are available, high-quality assets that are attractive in the marketplace are still demanding an 8, 10, and sometimes even a higher multiple when you are competing for those assets in an open auction.

So I think the market -- because what we're talking about that is available to be dropped into the MLP are very high-quality, very high-sustaining cash flow assets, and they will demand a premium in the marketplace. So I still think that market is good. Don, do you have any comments?

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

Well, maybe the other just observation, Doug, is in an environment where the yields have widened as much as they have, there is probably going to be some pressure just around the market in general on multiples. I mean, if you have a higher cost of capital on a higher yield, what you are able to pay for at acquisition, I think, does go down over time.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay. Well, I appreciate the full answer. Don, we'll see you in a couple of weeks. Thanks again, everybody.

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

Get feeling better. Don't bring any of those germs to our meeting.

Doug Leggate - *BofA Merrill Lynch - Analyst*

You got it. Thanks a lot.

Operator

Roger Read, Wells Fargo.

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

Can we talk about the exports a little bit? You mentioned doing some things to expanded and if you could go just a little further than record volumes but where do you think volumes can go given the expansion? And as you mentioned earlier, some competition picking up and probably not anything we would call core markets of yours. But there is some capacity coming on in Latin America in fits and starts, let's say. And a lot of downtime in that region as well that may not resume anytime soon. Just give us an idea of where that -- I think it was 330,000 you mentioned.

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

Yes, we did 333,000 this quarter. Let me ask Rich Bedell, and Mike Palmer may have a few comments as well.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining*

As far as the projects that we have to increase our export capacity, there's -- two are ramping up this year. One is done at Garyville and that was to increase the gasoline portion. In Galveston Bay, we are doing something to increase the distillate portion. And then looking down the road by about 2018, I think right now we will take that up to about 395,000 will be our stated capacity on exports. But then we go up to a little above 500,000 with a project that we will complete in 2018 at Galveston Bay that really takes the old crude import docks and makes them into gasoline and distillate export docks. So Mike, you can talk about the bigger scale of the demand.

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

Sure. Roger, here's what I would say. It's -- this export market is extremely dynamic. It's very complex. Every time we start to see maybe a little slowdown in one area, the strength shifts and it goes somewhere else. The predominance of our business ends up today in Europe or in Latin America.

But in addition to that, we actually have cargoes they go all the way to Asia. There's all kinds of different needs out there for different specs and different-sized cargoes. And as I say, the market is extremely dynamic. We honestly have had -- we haven't missed a step since these big export refineries have come on. And no reason to believe that we won't continue to have the advantage that we've had in the past.

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

Okay, that's great. And one follow-up on that, you mentioned weak diesel demand overall domestically, globally. It seems to me any sort of pickup in that is going to tighten the distillate market fairly quickly. And I don't know exactly how to name the timing of that. But do you see that there is any -- especially given the shift to gasoline this summer that there is a substantial amount of excess distillate capacity that's not being used out there?

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

No, we don't think there's that much. In fact, a lot of upsets around the world in refining over the last quarter have been able to soak up a lot of that excess inventory in the marketplace. But you are right; it goes back, Roger, to basic economic theory. It's not going to take much to turn that distillate market around. Whether it's 50,000 barrels a day or 100,000 barrels a day, it's fairly balanced today. And so it's not going to take much to happen. A little bit of pickup in Asia, a little bit of pickup in Brazil that I was mentioning earlier. Europe continues to remain strong. So it's not going to take much to, I think, put things in a positive position on the distillate side of the equation.

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

Okay, great. Thanks. See you all in December.

Operator

Jeff Dietert, Simmons and Company.

Jeff Dietert - *Simmons and Company - Analyst*

My question is related to high-octane gasoline, and I was wondering if you could comment on your flexibility to increase production of high-octane gasoline within your system. Are you seeing retail sales and high-octane gasoline grow more rapidly? And then the regular 87-octane gasoline?

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

We will have Rich take the first and Tony take the retail side.

Rich Bedell - *Marathon Petroleum Corporation - SVP Refining*

From the refining standpoint, we've seen that octane demand has gone up. Primarily, I think it's related to running the shale crudes and the Canadian crudes with the diluent. So you are using your octane, you're blending it up in the refinery. Our octane knobs -- Marathon's refinery, we have a pretty high percentage of reformer capacity, and we utilize it fully. So we are generating octane there. We are also looking at projects to generate additional octane through our cat crackers and alp units. But we've -- look at our product slates and we optimize our refineries around that.

Mike, do you want to take a little bit around some of the octane sales?

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

And Jeff, I will finish the call here with one of the key things that we will talk about with the MPL and MarkWest combination is we're looking at a project that has an alkaloid-type unit down the road that can take the butane that is in the Marcellus -- so the Marcellus Utica regions are long butane. We can take butane, put it through an alkylation unit, and make a high-octane blend stock. And that's one of the key things that -- one of the real strengths we bring to the table into this -- in this combination that helps the producers. It helps us being short octane and helps the industry and the consumers. So that's a big part that we will talk about in December as well.

Jeff Dietert - *Simmons and Company - Analyst*

Thanks very much.

Operator

Thank you. We show no further questions. I would like to turn the call over to Ms. Ewing for final remarks.

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 clarification on any of the topics we discussed this morning, Teresa Homan 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. You may now disconnect.