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TSO - Q4 2016 Tesoro Corp Earnings Call

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OVERVIEW:

Co. reported 2016 net earnings from continuing operations attributable to Co. of $724m or $6.04. 4Q16 net earnings from continuing operations attributable to Co. of $78m or $0.66.

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Tesoro Corporation Q4 2016 earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to introduce your host for this conference, Mr. Sam Ramraj, Vice President, Investor Relations. You may begin.

Sam Ramraj - *Tesoro Corporation - VP of IR*

Good morning and welcome to today's conference call to discuss our fourth quarter and full-year 2016 earnings. Joining me are Greg Goff, Chairman and CEO, and Steven Sterin, Executive Vice President and CFO.

The earnings release, which can be found on our website at tsocorp.com, includes financial disclosure and reconciliations for non-GAAP financial measures that should help you analyze our results. Our comments and answers to questions during this call will include forward-looking statements that refer to Management's expectations or future predictions.

These are subject to risks and uncertainties that could cause actual results to differ from our expectations. Please refer to the earnings release for additional information on forward-looking statements. Now, I will turn the call over to Greg.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Thanks, Sam. Good morning and thank you, everyone, for joining us today. We made excellent progress in 2016, executing our growth strategy and delivering improvements in efficiency and productivity. This included achieving the following: excellent personal and process safety performance, delivering 97% availability across our refining system; delivering annual improvements to operating income; and making strategic acquisitions that positions Tesoro for further growth.

We returned approximately $500 million to shareholders in the form of share repurchases and dividends, and also invested $418 million in high return capital projects. We achieved these results despite a challenging market environment characterized by lower refining margins and significantly narrowed crude oil differentials versus 2015. Let me recap and summarize our performance in 2016.

Our expectations for 2016 were based on the Tesoro Index of $12 to $14 per barrel, marketing fuel margins of $0.11 to $0.14 per gallon, and crude oil differentials reflecting transportation costs. As we look at our results for the year, the Tesoro Index of $12.27 was at the low end of the range, and marketing fuel margins of $0.127 per gallon were in line with expectations. However, crude oil differentials were significantly narrower than our expectations and resulted in lower year-over-year capture rates and profitability in our refining business.

We delivered an estimated $485 million of year-over-year improvements from higher utilization and operational efficiencies. This was primarily attributable to better refining utilization and optimization versus 2015, which included work stoppages and extended maintenance.

In 2016, we also committed to delivering $400 million to $500 million of annual improvements to operating income. For the full-year 2016, we estimate that Tesoro delivered approximately $420 million of annual improvements to operating income.

Estimated refining and marketing improvements were at the upper end of our expected range. However, estimate logistics improvements came in below our expectations, primarily due to the weak commodity price environment, which impacted crude oil and natural gas volumes and our organic growth.

Let me take a moment to discuss our operations in 2016, starting with refining. Total refinery throughput for the year was 825,000 barrels per day, or 93% utilization, and our gross refining margin was $10.42 per barrel.

We operated our refineries well in 2016, with operational availability of 97%. Our overall operating performance was better than 2015 and we were at the high end of our range for annual improvements and operating income. However, our profitability was negatively impacted by a combination of lower refining margins, narrower crude oil differentials, and higher prices for RINs.

Moving to logistics. We executed on our strategy of growing TLLP through optimization, organic growth, and strategic investments, including third-party acquisitions and dropdowns from Tesoro. This led to continued growth in operating income and EBITDA in 2016.

During the year, TLLP completed several organic growth projects to expand its base business. This includes terminal expansions at our product terminals in Mandan, North Dakota and Kenai, Alaska, several interconnections on the High Plains pipeline in North Dakota, throughput enhancements on our Northwest product system, and a natural gas gathering pipeline compression project in the Rockies.

Also during the year, TLLP announced over $1.5 billion of strategic acquisitions that positioned the Company for future growth. TLLP completed two acquisitions from Tesoro, the Alaska Storage and Terminalling Assets for $444 million, and the Northern California Terminalling and Storage Assets for $400 million.

TLLP also announced a $700 million third-party acquisition of a crude oil, natural gas, and produced water gathering system and two natural gas processing facilities in North Dakota. This acquisition closed on January 1, 2017 and the business is running well.

Looking ahead at 2017, we are excited about TLLP's expanded portfolio and its growth opportunities, as we continue to execute our strategic priorities. We are committed to achieving our target of $760 million of annual operating income and $1 billion of EBITDA in 2017.

Shifting to marketing, 2016 was another strong year of operating performance and volume growth. We continued to successfully execute our strategy of optimizing the placement of our refined products through the most valuable channels. We increased our same-store sales by approximately 1% in 2016, and increased our branded store count by 4%, or 95 stores, year over year to 2,492.

We expect to see continued favorable market fundamentals in 2017, driven by a strong economy and growth in consumer demand in the regions in which we operate. We remain excited about the organic growth prospects in our marketing business, as we continue to implement site improvements, which drive higher fuel volumes and a better customer experience, and expand our network of stations by leveraging our extensive brand portfolio.

Now, let me provide an update on the proposed acquisition of Western Refining. As you know, we announced on November 17, 2016 a definitive agreement under which Tesoro will acquire Western Refining in a stock transaction with a 10% cash election option. The acquisition is expected to create a premier, highly integrated, and geographically diversified refining, marketing, and logistics Company, and provide strong platform for earnings growth and cash flow generation.

We remain committed to delivering $350 million to $425 million in annual synergies from operational improvements, value-chain optimization, and corporation initiatives, with the run rate to be achieved by the end of the second year. We are confident in our ability to achieve these targets, given our solid track record of integrating operations and delivering results.

Integration planning is well underway, and a planning team with representatives from both Companies was established in December to ensure an effective and efficient transition. This transition is on target to close in the first half of 2017 and is subject to customary closing conditions, including approval by the shareholders of both Companies and the receipt of regulatory approval.

Turning our discussion to strategic projects, let me start with our Vancouver Energy project. The Energy Facility Site Evaluation Council concluded adjudicative hearings in September 2016. The Council is now deliberating in order to make its recommendation, and it is also preparing a final environmental impact statement that will be reviewed by the governor.

We remain committed to the proposed crude oil rail-to-marine terminal and are confident that a thorough evaluation will demonstrate that we can design, construct, and operate a safe, environmentally responsible facility that offers benefits to the state of Washington and the West Coast.

Regarding the Los Angeles Refining Integration and Compliance Project, we continue to work with the South Coast Air Quality Management District on the responses to public comments to the draft environmental impact report. Following certification, which is expected in the first quarter, additional required permits are expected to be obtained within 60 days thereafter. We continue to be excited about this project, as it enhances our position on the West Coast and offer several benefits, including: the full integration of the Carson and Wilmington operations; yield flexibility of 30,000 to 40,000 barrels per day between gasoline and distillates; and a significant reduction in greenhouse gas and other criteria pollutant emissions.

Regarding our Clean Products Upgrade Project, we are progressing through the permitting process with Skagit County in the state of Washington. We anticipate a draft environmental impact statement to be prepared by this spring.

Now, moving to our outlook for 2017. Last November, we issued our expectations for this year, which included Tesoro Index of $12 to $14 per barrel and marketing segment fuel margins at $0.11 to $0.14 per gallon. In addition, we committed to delivering an estimated $475 million to $575 million of annual improvements in operating income in 2017 through the execution of our growth and productivity plans.

These estimates exclude the expected synergies from the proposed Western Refining acquisition. These improvements consist of $305 million to $355 million in refining, $125 million to $150 million in logistics, and $45 million to $70 million in marketing.

Looking ahead, we are excited about the opportunities that we see from an attractive refining market environment, strong consumer demand for gasoline, and numerous strategic initiatives underway to continue to improve operating income. Further, we are looking forward to the additional value creation and synergy opportunities from our pending acquisition of Western Refining.

With that, I will turn the call over to Steven to provide more details of our fourth quarter and full-year financial and operational results.

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Thanks, Greg. Yesterday we reported fourth-quarter 2016 net earnings from continuing operations of $78 million attributable to Tesoro, or $0.66 per diluted share, compared to $54 million, or $0.45 per diluted share year ago. Consolidated net earnings were $101 million for the fourth quarter compared to $83 million for the same period last year, and EBITDA was $468 million compared to $388 million a year ago.

For the full-year 2016, net earnings from continuing operations attributable to Tesoro were $724 million, or $6.04 per diluted share, versus $1.5 billion, or $12.39 per diluted share in 2015. Consolidated net earnings were $860 million compared to $1.7 billion last year, and EBITDA was $2.4 billion compared to $3.6 billion a year ago.

Turning now to our business segments. Refining operating income was $43 million for the fourth quarter compared to $12 million a year ago, and segment EBITDA was $205 million versus $146 million last year. Operating income and the segment EBITDA in the fourth-quarter 2016 included pretax inventory benefit due to a lower cost-to-market valuation adjustment of $123 million, which compares to an LCM charge of $276 million in the fourth quarter of 2015.

The Tesoro Index was $10.59 a barrel for the fourth quarter, with a gross refining margin of $9.45. This compares to the Tesoro Index of $15.60 a barrel and a gross refining margin of $9.05 per barrel last year.

When comparing our fourth quarter of 2016 operating income, segment EBITDA, and gross refining margins to the same period last year, I would like to remind you that results for [25] reflected the relatively strong market conditions for the year, but also note the impact of LCM in both periods.

The refining throughput for the quarter is 841,000 barrels per day, or 94% utilization, which was near the high end of our guidance for the quarter and reflected strong operational performance. In our California region, throughput was at the high end of our guidance and we continued to see strong product demand, which resulted in solid operating results.

In our Pacific Northwest region, throughput was at the upper end of our expectations, but our operating performance was negatively impacted by the lower refining margin environment. In the Mid-Continent, throughput was in line with our expectations.

During the quarter, we completed our scheduled turnaround at the Salt Lake City refinery. During the planned turnaround, we maintained full operations of our cat cracker by successfully optimizing feedstock delivery from the Dickinson refinery. Operating results were primarily impacted by a lower overall refining margin environment.

Consolidated manufacturing costs in the fourth quarter decreased $0.19 a barrel over the same period last year to $5.43. This year-over-year decrease was largely due to higher refinery throughput this year. For the full-year 2016 refining operating income was $535 million compared to $1.9 billion a year ago, and segment EBITDA was $1.2 billion versus $2 billion last year. Operating income and segment EBITDA for the full-year 2016 include the pretax benefit due to the LCM valuation adjustment of $359 million, which compares to the pretax loss of $317 million in 2015.

Total refining throughput for the year was 825,000 barrels a day, or 93% utilization. The Tesoro Index was $12.27 a barrel in 2016, with a gross refining margin of $10.42 a barrel.

Moving to logistics. Operating income increased to $123 million in the fourth quarter from $97 million a year ago, and segment EBITDA grew to $177 million from $146 million last year.

TLLP's strong results for the fourth quarter were driven by year-over-year growth in crude oil gathering and terminalling and transportation throughput, as well as contributions from the Alaska Storage and Terminalling Assets acquisition made during the third-quarter 2016, and the North California Terminalling and Storage Assets acquisition completed during the fourth quarter of 2016.

The total general partner and limited partner distributions received by Tesoro were $71 million during the first quarter. This is an increase of $29 million from a year ago. For the full-year 2016, the total GP and LP distributions received by Tesoro were $245 million, an increase of $97 million from 2015.

Operating income was $487 million for the full year compared to $393 million a year ago. And segment EBITDA increased to $696 million from $587 million last year.

Turning to marketing. Operating income was $169 million for the fourth quarter compared to $175 million a year ago, and segment EBITDA improved to $192 million from $187 million last year. Fuel margins were $0.114 a gallon in the fourth quarter versus $0.117 per gallon a year ago.

For the full-year 2016, we saw continued strong market fundamentals and favorable business conditions. This was highlighted by the 1.6% growth in US consumer gasoline demand and the 2.1% increase in California consumer gasoline demand through October.

Marketing operating income was $830 million compared to $899 million a year ago, and segment EBITDA was $889 million compared to $945 million last year. Full-year fuel margins were $0.127 per gallon in 2016 versus $0.14 per gallon a year ago. As Greg said, this was in line with our expectations of $0.11 to $0.14 per gallon, and reflects the continued growth in our branded retail network.

Now let me take a moment to discuss our balance sheet, cash flow, and our strategic priorities for creating long-term shareholder value. We made significant progress in 2016 on our strategies to continue to strengthen our balance sheet, invest for growth, and return cash to shareholders.

We ended the year with a consolidated cash balance of $3.3 billion, up from $942 million at the end of 2015. This increase was primarily driven by the $1.6 billion of senior notes we issued during the quarter related to the announced acquisition of Western Refining, and $688 million of cash and cash equivalents of TLLP, an increase of $672 million, which was used to fund the North Dakota gathering and processing assets acquisition, which closed January 1, 2017.

Including the senior notes issued to pre-fund the Western Refining acquisition, total debt, net of unamortized issuance costs was $6.9 billion, or 46% of the total capitalization at the end of 2016. Excluding TLLP debt and equity, total debt was $2.9 billion, or 35% of total capitalization.

We made significant progress towards our goal of obtaining investment-grade credit ratings for both Tesoro and Tesoro Logistics. We are pleased to announce yesterday, Fitch Ratings assigned a first-time long-term issuer default rating of BBB- to both Tesoro and TLLP, marking the Company's inaugural investment-grade ratings. Fitch indicated that the BBB ratings reflects the Company's cash flow diversification across our integrated refining, marketing and logistics segments, credit-conscious financial policy, strong liquidity profile, as well as the operational and financial flexibility afforded by Tesoro's ownership in TLLP.

Shortly after the announcement of the Western acquisition in November 2016, S&P placed Tesoro on credit watch with positive implications, indicating that after the transaction closes, the agency would consider upgrading Tesoro to investment grade. Additionally during the quarter, S&P upgraded TLLP's credit rating to BB+ with a stable outlook from the previous rating of BB. This new rating is now the same as that of Tesoro and one notch below investment grade.

Moody's also reaffirmed Tesoro's ratings and positive outlook, and changed TLLP's outlook to positive shortly after the Western acquisition was announced. We continue to be actively engaged with the rating agencies and look forward to updating you on our continued progress towards an investment-grade credit rating for both Companies.

Turning to cash flows. Tesoro generated cash flow from operating activities of $1.3 billion for 2016, including $103 million in the fourth quarter.

I'd like to highlight the financial principles that guide our cash deployment in a disciplined manner with a focus on maintaining a strong financial position and creating long-term shareholder value.

First, we invested in high-return capital projects and improved returns on invested capital. In 2016, we invested $418 million in income and growth capital projects at Tesoro and TLLP. Our combined capital expenditures were approximately $948 million, consisting of $676 million for Tesoro and $272 million for TLLP. These investments create substantial value for Tesoro and position the Company for further growth. This is reflected in our competitive returns on invested capital.

Second, in addition to investing for growth, we also ensure that we maintain a strong balance sheet to give us the flexibility to make strategic investments and also return cash to shareholders. In 2016, we invested approximately $413 million in acquisitions, including the acquisitions of a crude oil pipeline, gathering system, transportation, storage, and rail loading facilities in North Dakota; wholesale marketing and logistics assets in Alaska; the Dickinson refinery in North Dakota, an environment renewable fuels company.

We also repurchased 3.2 million shares for approximately $250 million, paid dividends of $249 million, and distributed $216 million to TLLP LP unitholders during the year. Capital allocation discipline and strengthening the financial position of the Company has been and continues to be our commitment to shareholders.

Turning to our 2017 capital outlook, we expect total capital expenditures of approximately $1.2 billion, consisting of $870 million at Tesoro and $325 million at TLLP. Turnarond expenditures for the full-year 2017 are expected to be $360 million.

As you think about TLLP's capital spending, I'd like to remind you that its CapEx is primarily funded through sources that are independent of Tesoro's operating cash flows, either through new MLP units, MLP debt, and the MLP's existing cash flows. Looking ahead, you can find details of our planned throughput, manufacturing cost per barrel, and other elements related to our first-quarter 2017 outlook in our earnings release issued yesterday.

This concludes our prepared remarks. We will now be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Dietert, Simmons.

Jeff Dietert - *Simmons & Company International - Analyst*

You've identified your business improvement target, the $475 million to $575 million for 2017. Despite capturing a large percentage of your business improvements historically, it seems that you're getting little, if any, credit for the expectations for 2017. Can you talk about how confident you are in capturing these improvements and what types of projects are included?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

That's a good question, Jeff. We are just as confident today as we've been for the last several years of delivering everything that we laid out. So same exact approach to running the business.

We identify specific projects throughout the organization, and we go about and we deliver those projects. So our confidence is unchanged from what we've done in the past from that regard.

The specific projects, they run across all different types of things. For example, one of the projects that we'll do this year will be -- have an impact on how we supply crude oil to the West Coast of the United States through our operations in Panama. So we'll go about and make changes in the supply of crude oil.

Typically, if we would bring it in from West Africa or from other parts of the world and bring it through our Panama operations, we will change that this year and have a significant reduction in cost there. But everything else is exactly as we've been doing for the last several years.

Jeff Dietert - *Simmons & Company International - Analyst*

Is there a way for us to track these improvements? For example, perhaps in refining, see what impact it's had on margin capture or gross margin? What impact it's had on cash operating costs, perhaps a way to see more clearly the improvements that you're making?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Jeff, it's Steven. Excellent question. I think you can start maybe with the obvious one, logistics can be seen very clearly just by looking at the year-over-year growth that takes place in the business.

Within marketing, we talk about our branded store growth, what we've done to improve the quality of our channels, and you can see that both in terms of our net margin, but also the sustainability of this level of EBITDA that we've been able to generate and our confidence in being able to do that going forward. And so, you'll see that within the marketing business.

Within refining, Greg gave a good example. Most of these do show up within the margins of the refining business. And if you look over time, you can see that, but you also have to take into account the dropdowns that we've done from the business and moving the wholesale marketing business out, which is all on tables on our website. But if you were to isolate those, you'll see that very clearly within refining margins, and it's led to our competitive overall returns.

Jeff Dietert - *Simmons & Company International - Analyst*

Thank you.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Thanks, Jeff.

Operator

Spiro Dounis, UBS Securities.

Spiro Dounis - *UBS Securities - Analyst*

Just wanted to start off on West Coast capture rates. Came in a bit stronger than we thought during the quarter. And just based on what peers had said, we would have thought that they'd be sequentially down.

Also, when you look at that in light of crude prices going up and maybe the potential for secondary losses to increase. So just wondering, was there something specific you can point to for the improving capture? And how does that look as we're heading into 1Q 2017?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Hi Sprio, we had a really excellent operating performance in the fourth quarter, particularly in California both in terms of how we manage costs, the yields, and the focus on producing the right products, managing inventories properly, and placing products in the highest values channels that our customers need to run the business and supply the market.

And so overall, as we look at it, we executed very well in the fourth quarter. And so we feel good about has the business performed in California.

Spiro Dounis - *UBS Securities - Analyst*

Got it. Just on the investment-grade upgrade, congratulations, first of all. But just as you're thinking about refinancing your debt going forward and really starting to see that, I think you previously guided $80 million to $105 million in just cost savings. How we think around the timing around that and when that could actually start to get realized?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

So you need two of the three agencies to get the full investment-grade rating. And S&P has us on a credit watch positive with an indication of potential upgrade at Western close, and so that's a potential timing for Tesoro.

TLLP currently is at the same level with Tesoro at S&P, but that timing is a little bit less certain just given that it's not in the same credit outlook. But we still are committed to doing that as quickly as we can.

When you look at the value-creation opportunities, in the past we said it was, like you said, $80 million, $100 million. That's a substantially larger opportunity now, given that post the Western transaction, that successfully closes.

We've got a larger base. There's debt there we're refinancing that we haven't taken into account, even not at investment-grade. But also the growth, and so where you'll begin to see it, and you're seeing it already if you look at the spreads of our debt issuance, even before we were investment grade, is in our debt issuance is -- particularly within our logistics business as we grow that business.

Within Tesoro, we have some debt maturities coming up in 2017 just under $500 million. And so we can begin to see those benefits starting here pretty soon, but it will take a couple of years to reach the full run rate. But it's really about sustainably lower borrowing costs going forward, as well as access to capital and long data maturities within TLLP.

Spiro Dounis - *UBS Securities - Analyst*

Appreciate the color. Thanks, Steven. Thanks, Greg.

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Thank you.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Greg, my first question is a follow-up question on capture rate in California. It was obviously very strong, but I'm just wondering, you've had continued demand growth the regional market across the whole West Coast, relatively stagnant supply.

Can you just talk to us about what's happening to regional market dynamics? Are we, in your view, getting closer to balance? I'm just comparing the capture rate the last two years is the best you've had in eight, nine quarters. But if you look back long enough in a more balanced market, your capture rate was substantially better. So where are we in the context of California getting back to balance?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

When we take all of the factors of the California -- West, not [read] California, let's talk to the entire West Coast market. When we look at the West Coast market and look at the current inventory levels, what we've realized in demand growth over the last several years actually, and where the industry has been operating the refineries at actually pretty high utilization rates, especially in 2016.

But we take all of those factors, and then we, as we project out and we look at the flows also from -- there has been a pretty significant change in movements from the other pads into the West Coast over time. And you take all of those factors, the West Coast market to us looks very, very supportive to a good market environment, strong demand.

And we see the market, particularly in the summer short gasoline, so in the need of sourcing either blending components in more moving in from other areas. And that's overall, our outlook is optimistic on what we see on West Coast fundamentals. I don't know how it's going to get any better, to be honest with you, when you look at the demand that we're seeing, the vehicle miles traveled, everything else. It's a good market outlook.

Spiro Dounis - *UBS Securities - Analyst*

I appreciate that, thank you. My follow-up is -- I hate to be predictable, but obviously, the border tax issue, I think as some described it to us, someone's going to flog it to death. So I'll take that mantle.

But the potential of the border tax risk, obviously, the flexibility that you guys have seems a little less than others, as it relates to your ability to offset imports with exports. Can you just walk us through how you're thinking about that? Where you see the bottlenecks or the potential solutions for you in the event of that happening? And maybe your perspective as to whether you think it will happen would be useful, and I'll leave it there. Thank you.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Yes, well the latter question my perspective whether or not would add no value to the discussion, so I won't even comment on it. But the other part, based upon what's been what is being talked about today and you look at our overall balances as a Company, we import about a third of our -- the crude that we produce and there are two parts to that. Part of it is the heavy crudes that we bring in from South America to support the California system, and the other part is the Canadian.

And then really, the crudes that we bring in that are comparable to like an ANS type crude that we compete with ANS coming into the West Coast, typically Middle Eastern type crude. So we bring in about one third of the crude that we run, and we export, as we've said many, many times, the exports off of the West Coast have been in the range of 150,000 to 175,000 barrels a day, basically two thirds diesel, one thirds gasoline, in that range. We don't see that changing.

Our position in those has stayed pretty constant over time. So we -- based upon that, you could see that we would not be able to offset with exports what we import in crude oil to a significant extent. Where we could change that is the types of crudes that we buy and bring in and displace imported crude into the West Coast system. And one of the biggest one way would be running more ANS crude.

The second and probably the most impactful way, when we successfully get the permit at Vancouver for Vancouver Energy that we will be able to then bring in domestic crudes into our West Coast system, which we've planned all along, probably because of the value they provide. But if, in fact, the border tax were to become law, then that would -- we would receive that benefit there, which we could almost completely offset all of our imported crude if we chose to.

Spiro Dounis - *UBS Securities - Analyst*

Appreciate the answer. Thanks.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Greg, there's been a lot of debate about the value of integration in the space, and many investors see it as trading at a deep discount to your sum of the parts. And so one of your comments on why you think integration is valuable and what value proposition that offers, or if the stock continues to trade at a deep discount to some of the parts, how you think about unlocking that.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Our system is very integrated physically, so I think that's very important that we are integrated. If you take our refineries, they go right out from to the terminal to our marketing outlets, so were not commercially integrating our business by matching up what we sell in gasoline to what we produce in gasoline. We are actually physically integrating that system into capture value across that whole value chain, and we can do that in a lot of different ways.

But as you would expect Neil, in any business where you can take from the point of, in our case, feedstock purchase to ultimate sale, and you have all those steps along that process and you can find ways to manage the costs and optimize that value chain, it presents excellent opportunities to drive what we talk so much about around value chain optimization, which is -- gets back to, to be able to do that, you have to have a highly integrated business model.

So we believe that especially in the markets where we do business, by the nature of the whole distribution systems and the access to the markets from different areas in that, that the best business model is to be highly integrated. To be a merchant refinery in a marketplace like where we operate, we believe you just give up a lot of value in, especially over time, that you would give up that value.

So we are, as you know, we are very, very strong advocates in our geographic area of a highly integrated business. And we believe we show that capture over time that you can go back and look at the crack spreads and the West Coast and how refining performs relative to marketing in that over time. And you just look at the capital that we have employed, whether it be in refining or marketing or logistics, and we get very attractive return on capital employed across all facets of that value chain. That's probably the most I can say about that at this point in time.

The second answer to your question is I think the market needs time. Our business is relatively young as far as the growth of it to create the critical mass we have and the high degree of integration and the improved marketing portfolio that, when Steven talked about her earnings performance and that.

So all of this has come together, and we don't have a lot of history. Now we're creating that history, which we're confident the market will see the value of that over time relative to our other investment opportunities.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, Greg. The follow-up is just the role of Tesoro and further consolidation. As I look across the Mid Con, there's still a lot of small and mid cap refiners. Do you see Tesoro, over the long term post-Western, as a further consolidator of assets potentially in the Mid Con?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

We see the Company being very, very capable of identifying opportunities that fit within our business model that we -- which integrates, and that we think where we can go in and capture value by the way we would operate the business that would give us the opportunity into the future to continue to pursue those opportunities. And the ones where we can capture them, we would go about doing that and integrate them into the Company.

But they have to fit a lot of different criteria to be successful for us. And so, we believe what we've done in the past demonstrates how we look at things for the future.

Neil Mehta - *Goldman Sachs - Analyst*

Appreciate it, Greg.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Thanks, Neil.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Hoping a simple one to being with. Assuming the permit's coming in line that you laid out earlier on, (inaudible) products, when do you think the earnings contribution would come through?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

So for almost all of those with where we are in the cycle and that, they'll start coming in 2018.

Ed Westlake - *Credit Suisse - Analyst*

Okay.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

And then they'll come more. So when we'll be -- provide more guidance on that once we actually get the permit, because then we have all of our construction schedules, everything, and we can give a better indication of when earnings will impact that. Because we've given the indicative level of income that comes from each of those projects and that hasn't changed.

Ed Westlake - *Credit Suisse - Analyst*

And then, obviously, you probably can't talk about the Western deal in detail. But obviously it does expand your footprint into the Permian. And you've had a history of being a full-service provided to the upstream in the other basins you operate now. So maybe just how has the response been to -- since that deal was announced from the upstream producers?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

We believe that we have created a very good logistics business, and you said exactly how we view the Companies. We want to be able to provide full service to the customers out in the business, whether they be producers or marketing companies or whatever. And we focus a lot on service to those customers and providing them a very valuable service in that.

So we had already targeted to grow into the Permian prior to the Western opportunity. And this further just supports what were trying to do in that space. So we believe the early indications are very, very positive of putting Tesoro logistics into the Permian from a service provider.

Ed Westlake - *Credit Suisse - Analyst*

It seems that it's going to be very competitive. I'm just trying to see how you can think you can make a better return than the other guys who are already there.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Ed, it's always been competitive. I'm not sure if that's changing. To be honest with you, I think one thing that we've known honestly over the last several years that there is tremendous amounts of capital that people want to deploy in there. And so the competition isn't as much for the business; it's the type of returns that people are willing to get on the capital. And we believe we'll be able to go in and find opportunities where we can capture logistical opportunities that fit within our business model.

Ed Westlake - *Credit Suisse - Analyst*

Thanks.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

Just to start, in terms of looking at other opportunities, I know this has been touched upon. As you look at yourself organizationally, and you're thinking about the integration of Western, do you believe that you might need a pause to work on the integration and achieving the synergies? Or do you feel like there's an opportunity to continue to look at other deals, whether it's in midstream or in refining?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

You raise an excellent question. We pride ourselves on doing an excellent job of integrating the business, because that's actually where we capture the value. So we have to do that; that's foundational to everything that we do.

So when we look at what we have in front of us today, and then if an opportunity were to come up, we'd have to take that into consideration is our ability to integrate it, because we're very committed to being able to capture the value. And so, we just need to balance all of that out and do the right things when the time comes.

Phil Gresh - *JPMorgan - Analyst*

Sure, okay. And then, as you continue to work on Western behind the scenes here before the deal gets closed, any additional color you could share about the confidence level and the ability to achieve the synergies and the timing as you continue to dig in?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

It is unchanged from the very first day when we announced the opportunity to combine Western and Tesoro. So there are no changes to what we've said originally. We are highly committed to it and we see tremendous value for what we're being able to do, so no change.

Phil Gresh - *JPMorgan - Analyst*

Okay, thanks.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Thank you.

Operator

Sam Margolin, Cowen and Company.

Sam Margolin - *Cowen and Company - Analyst*

I have a question on -- more on the Western midstream footprint. It seems like one of the trends that might be developing is that producers maybe want to direct more capital to drilling wells and potentially less on infrastructure and other nonproductive items. I was wondering if any of the early feedback you're seeing is in line with that. And what maybe the opportunity set is to make investments in the Permian midstream footprint that are potentially way ahead of what we were seeing from the standalone Company.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

We see good opportunities. I think part of it is, is your relationship that you have with the different producers. And so, fortunately, some of the companies that we do business with in other parts of the US, especially up in North Dakota and in the Rockies, have positions in the Permian. And we would hope to be able to work with those companies to be able to leverage what we've done from a service standpoint into the Permian basin.

And we believe we'll find those opportunities as we get our feet on the ground and spend more time doing that. And that's something that we are very optimistic about the future combined for the Logistics business.

Sam Margolin - *Cowen and Company - Analyst*

Okay. Just as a quick follow-up, do you think under maybe some new regulatory environment, the prospects for connecting the Permian and the West Coast refinery system are improved?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

I don't think it has anything to do with the regulatory environment, per se. The first driver has to be economic. Is there a value proposition there, and it's hard to see that with just outlets and supply and that. We'll always look at that and see if there are any possibilities there, but I don't think, Sam, it would be driven as much by regulatories, just by pure economic value.

Sam Margolin - *Cowen and Company - Analyst*

Thanks very much.

Operator

Blake Fernandez, Howard Weil.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Greg, you had mentioned that the Western acquisition is on track for a first-half close. Can you give any update on the FTC review or any regulatory process?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Blake, all we can say is that we engaged in that immediately once we announced it, and we're progressing along in -- throughout the process. And you have to go through all of the steps. We're going through all of those steps, and we still feel confident that we will be on target for the first half of this year.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Okay. Second question is on the operational improvements. I know you reference in 2016 that your assumption on differentials being in line with transportation costs, those differentials were a lot narrower and impacted capture rates. Do you have a similar assumption on differentials for this target here in 2017?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Yes, our differentials, we don't see a lot of change in between 2016 and 2017 on crude differentials.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Just so I'm clear though, have those been recalibrated a bit lower to reflect the environment that was in 2016 or is that still --

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Greg Goff - *Tesoro Corporation - Chairman and CEO*

No, what I said was if you look at what realized crude differentials were in 2016, we would see a comparable market environment for 2017.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Okay, and that's what underpins your operational improvement numbers.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Yes.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Got it. Thank you, sir.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Thank you.

Operator

Chi Chow, Tudor, Pickering, Holt.

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

Just a couple of quick details on the quarter and your guidance. The Mid Con capture rate looks a bit weak in the quarter, and also your Q1 guidance for California operating expenses seem a little high. Can you give us some details on both of those?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Yes, Steven, can you -- Steven will comment.

Steven Sterin - *Tesoro Corporation - EVP and CFO*

In the Mid Continent, we've mentioned we have a turnaround within our Salt Lake refinery. But also, the market was just pretty weak for a couple of months in the fourth quarter. And so, nothing beyond that or specific to us.

Your second question on the operating costs for California in the first quarter, we have a turnaround. We're taking down one of our co-gen units. And so, instead of producing our own energy, we have to go out and buy it off the grid. And so there's just a one quarter additional cost that we have in California.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Is that at Carson, Steven?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Yes.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Great. Thanks. And then, regarding your debt raise in the quarter, can you give us any details on what tranches of Western's debt you're looking to redeem or pay? And also, can you talk about the nature of that $20 million bridge financing cost you identified in the release?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

When we announced the transaction, we said that we would refinance all of Western's debt except for a tranche that's at their Logistics business in MLP. And so we're positioned now to do that.

And the bridge cost related to, and it's all in the S4, so there's a lot more detail in there. We entered into a bridge that got syndicated in case we were unable to raise financing. That cost $20 million. Because we were able to complete both the revolver upsize and the debt offering, we were able to terminate the bridge. So there's no future cost on that facility.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Okay, great, thank you, Steven. Appreciate it.

Operator

Corey Goldman, Jefferies.

Corey Goldman - *Jefferies & Co. - Analyst*

Was just hoping to get some more color on the 2017 operating income improvement of the $125 million to $150 million over at TLLP. What can we expect dropdowns to make up of total and is there a timeline you're comfortable providing at this time?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

When you look at TLLP, a large portion of the year-over-year improvement in that number is the acquisition that we completed in the Bakken area on January 1. We -- our target that we've set for TLLP in terms of dropdowns is $50 million to $75 million a year of EBITDA. At this point, that's unchanged. If we're successful with the Western acquisition, we'll look at all of those things, but that still remains our plan.

Corey Goldman - *Jefferies & Co. - Analyst*

Okay, and can we continue to assume 90% of the -- or consideration of roughly about that will be cash to TSO?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Over time, that is our desired intent is to be able to both raise cost-efficient equity within the MLP and maximize the cash that Tesoro drops. That would be our intent over time, yes.

Corey Goldman - *Jefferies & Co. - Analyst*

Okay, and just as my follow-up, in last night's release and in your prepared remarks, you guys highlighted gasoline demand growth of roughly 1.6% through October. Could you guys just provide us what the percentage is for the rest of the quarter on a same-store basis and perhaps some color on what you're seeing through the first five weeks of the year?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

I think our same-store growth was about 1% in our system as we continued to manage and optimize our system. So we had less growth in our system than what -- the number that you cited was the total US, 1.6 through the first 10 months.

Corey Goldman - *Jefferies & Co. - Analyst*

I'm sorry just to clarify, the 1% is for the --

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Same-store sales.

Corey Goldman - *Jefferies & Co. - Analyst*

Can you provide numbers? Okay, that's the whole year.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

That's for the whole year, right.

Corey Goldman - *Jefferies & Co. - Analyst*

Thank you.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Greg, this may sound a bit [strangish] on the question. We know that this is a commodity so there's an economy of scale, and getting back to initially that clearly, you will improve operation. But long term, from your view, is there a level that bigger scale actually become a negative?

In other words, that -- do you foresee yourself to say, okay, that's a sweet spot and I want to get into, and beyond that is really maybe actually not running very efficiently for me? Or that the commodity means that bigger is better, doesn't matter?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

No. From our perspective, Paul, we -- because of the geographic area where we operate and because of our integrated business model, I think we would look at the business from two perspectives. One is that there is a certain scale of what we will call more technical scale where you have the operating capability with the expertise to be able to go in and run a superior operation really to be able to deploy the technical resources over time, to maintain the asset -- the integrity of your asset, and keep them at that -- at a sustainable level over time.

And that, I believe, requires a certain scale to be able to do that, mainly so you can get all of the resources and that to be able to do that, and to deploy that capability over an entire system. And that's where we are as the size of the Company. I think you probably have to be at a minimum, about the size that we are to be able to do that, in our opinion. That to us is one thing.

Probably second and probably more important is the assets that you own, just the overall quality of the assets. So the better, more quality assets you can put together, no matter how big it gets, the better it's going to be. Having a lot of capacity and with some lower quality assets in there probably, to me, isn't going to do you much good. Because we look at it on a return on capital employed on each individual asset. We have to be able to get it on each individual asset, and that's how we run the business.

Steven Sterin - *Tesoro Corporation - EVP and CFO*

If I could add, maybe not necessarily scale, but there's a scale of integration. How well-integrated we are, the quality of integration, and the optimization that allows there. So there's maybe not traditionally, think about that when you think about size of refining that work, but that's clearly, as Greg mentioned earlier, we think about creating value within the assets that we have is by optimizing across the value chain. So increasing the quality and scale of integration, as well.

Paul Cheng - *Barclays Capital - Analyst*

Steven, personally I do agree that in your operation, that integration is the way to go. But is there anything that you can share in terms of over the, let's say with the 5-year, 10-year, on average, how much is the benefit you capture from integration comparing to if those are standalone operations? (inaudible)

Steven Sterin - *Tesoro Corporation - EVP and CFO*

I will tell you how we think about it. Greg mentioned earlier that in reality, we're pretty early into this journey. You have to go back to really 2014 was the beginnings or the genesis after both the BP Carson acquisition, additional branding. So we've been able to acquire marketing, the growth in our Logistics business that we had any meaningful integration, Paul.

And so our view is that you look out over time, and even if you look over the last three or four years, our returns on invested capital should be superior to a standalone refining business.

And everybody could do their own analysis on it we've done it, and we think we've begun to demonstrate that, since 2013, 2014 that our return on invested capital is becoming one of the leading indicators in the industry. And so it's continuing to demonstrate that over time on a relative basis, ultimately, is where that shows up.

Paul Cheng - *Barclays Capital - Analyst*

I just think that it would be helpful if you guys would be able to provide some, maybe some estimate. Because from the outside, oftentimes, they are very difficult to renegotiate] what's the integration benefit,even though I'm actually a proponent for that.

Steven, is there any --

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Paul, I would agree with you. I think it's a good point. Your question and the question that Neil asked earlier and all that, I think are very good points. And we'll give that some thought and ways to be able to demonstrate that. Because we see lots of things inside the Company. So we have to do a better job of being able to explain it. So when you look from the outside in and that, so we appreciate you bringing up that point.

Paul Cheng - *Barclays Capital - Analyst*

We would really appreciate that. It would help us a lot if we had some data from you guys. Steven, is there any hedging gain or loss which you would consider on the long-haul barrel in the quarter, given the last, say, 30 days of the quarter or (inaudible)?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

No, for the quarter there was no timing impact that affects Q4 or really into Q1.

Paul Cheng - *Barclays Capital - Analyst*

Greg, on the TLLP on the GP, is there any consideration in, say, the next several quarters you may need to do something so that you can bring down the TLLP financing costs or that the capital costs? One of your competitors, of course, that they go for the new care, and jot everything down, and then exchange the GP into the LP. Is that a path that you believe fit you or that you have a different view?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

It's a good question, Paul. We have looked at all possibilities on -- with our Logistics Company, our ownership in the Logistics business, the role that Company plays in our overall business and that, and we have good ideas of what we need to do on a go-forward basis. So at the right time, we will come forward with what our plans are to do that. We have to wait till the right time to do that.

Paul Cheng - *Barclays Capital - Analyst*

Greg, when you're talking about right time, are we talking that within the next 6 to 12 months or that is a little bit longer-term timeline from your standpoint?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

I think within the next period of time here, Paul. You recognize we're in the middle of doing a major transaction, and when you do something like that, you have to operate within the conditions of what we are trying to do. So we're evaluating it, and we'll come out and it will be in a very reasonable period of time.

Paul Cheng - *Barclays Capital - Analyst*

Okay. Just a couple of quick ones. Greg, do you guys have a [gend] or a same-store sales number?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

For January?

Paul Cheng - *Barclays Capital - Analyst*

Yes.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Not yet, Paul. We probably do in the marketing group. I don't have it today. I can tell you that, as you would be very aware, of the first part of the year on the West Coast with heavy rains in the north and the south has impacted volume. But we've seen a quick recovery, I can tell you that. The recovery has already happened and that. But there was no question, there was the heavy, heavy rains that California desperately needed and received had some impact on our sales in the first part of the first month of the year.

Paul Cheng - *Barclays Capital - Analyst*

Okay. In 2017, your turnaround is $360 million versus 2016 is $336 million, so not significant difference. Should we also take that and assume the impact on [warnings] or throughput would be roughly about the same, that not really any different from one year to another?

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Probably. It's probably not a lot different. As you know, the turnarounds on throughput, we may not have a lot of crude unit turnaround activity, so -- but it's probably a reasonable estimate.

Paul Cheng - *Barclays Capital - Analyst*

Okay. Final one. Steven, does the Dickinson refinery have positive or negative EBITDA in the quarter?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Actually in this quarter, even though that margins were relatively weak, we were around breakeven on the business. But it does provide value to the rest of the system, as well.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Roger Read, Wells Fargo.

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

I had one major question for you, Greg. Given everything you've got going in California and it seems to be the one state absolutely focused on going the opposite direction on the regulatory front, is there anything that we need to be watching particularly closely, either in expansion of the LCFS, another similar program, or anything that will be a roadblock to future permits on some of the improvements you'll want to make over time? Just looking for anything broadly to focus on there.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

No, I think if I were to give advice on things to monitor from the outside, it really is the actual implementation of the low carbon fuel standard. Because as we get further in time, it becomes more difficult, and the state's going to have to find ways to make it work or it just actually just doesn't work out. But we do not see anything on the horizon that would be a fundamental change in the operating environment that we've had here for the last few years.

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

So standard issue California and just keep working through that.

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Yes.

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

Thank you.

Operator

Brad Heffern, RBC Capital Markets.

Brad Heffern - *RBC Capital Markets - Analyst*

Just have one and it's about RINs. I know that Tesoro has almost no net RIN exposure, but I think how you guys report it is that the refining business pays marketing for the RINs. And so, I was wondering if we see a change in RIN policy, either the point of obligation being changed or something else that makes RIN prices very low, are we going to see a chunk of marketing EBITDA move over to refining? And can you quantify what the impact of that would be?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

You made a few statements and some questions in there, and they probably require some clarification. First, the way that we account for the RINs is exactly how the law is written. Refining is the obligated party, and therefore, we incur that cost in our refining business to comply with the law.

In our marketing business, since marketing sells the product, in some cases, they generate RINs; in other cases they don't, but that generation of the RIN in that stays with marketing when they generate it. And in some cases, RINs go through all the way to the customer, so it's not clear.

So our accounting for it is exactly how the law is written between the obligated party and the generator of the RINs. That's one thing that's very important too.

The second thing is we don't have a complete -- we're not significantly impacted by the cost of RINs, but the RIN obligation in the diesel market is different than the gasoline. So what we always talk about is in the gasoline, because we're like 97% integrated, we have higher coverage of RINs with the gasoline sales. It's a little bit different on the diesel, so we do have some obligations on the diesel that we sell where we have the RIN obligation there to do that.

We do not see any change in how the RINs, where the obligation is or where the generation of the RIN is, if there's any changes in the laws. And we believe the impact is going to basically stay the same because of the way they pass through in the market.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, so basically, the marketing segment is generating RINs, but you think that if the law is changed, it won't have a big impact because they're getting passed on to the consumer, or the marketing segment isn't actually capturing the value of the RIN. Is that what you're saying?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Right, yes.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay. Thanks.

Operator

Fernando Valle, Citi.

Fernando Valle - *Citigroup - Analyst*

Just a quick follow-up on the turnaround question from Paul. Is there a concentration on the quarters, if it's on the first quarter where your utilization is a bit lower or towards the fourth quarter?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

No. It's -- we typically do, in the beginning of the year, we have low turnarounds in the first quarter. And then in the latter part of the year, the turnarounds would be a little bit heavier.

Fernando Valle - *Citigroup - Analyst*

Just as a bigger picture question, you talked a lot about integration and growth. Just wanted to understand once you close a transaction, where do you see your incremental capital going between refining marketing and logistics or growth capital? Where do you see that relative to today's opportunities, organic and external?

Steven Sterin - *Tesoro Corporation - EVP and CFO*

Well, the allocation capital from a logistics standpoint will be unchanged, because like it has in the past, the growth capital from logistics will be funded by the Logistics Company itself. So that part of how we do business will be -- will remain the same.

The portfolio of opportunities that we have in taking our free cash flow that we reinvest in high-return capital projects in the past has been focused primarily on refining. And with the projects that we have right now, we'll continue to do that with the major capital projects that we talked about earlier here. So probably remains somewhat unchanged on a go-forward basis, especially in the short term. The short term would be in the next three years or so.

Fernando Valle - *Citigroup - Analyst*

Okay. Perfect. Thanks, guys.

Operator

(Operator Instructions)

Paul Sankey, Wolfe.

Paul Sankey - *Wolfe Research - Analyst*

The very first question you were asked actually went back to the idea that you are not really being credited with these synergies that you're talking about, so just wanted to slightly go over that. One thing that you mentioned in your own comments was that you had missed on last year's target in logistics but beat in refining. Could you just talk about -- and I think that was owing to low prices and less activity in US E&P.

Could you talk a little bit about the sensitivities around some of these ranges that you've got on the synergies? One of the questions would be, I assume, obviously there's an assumption for when the Western deal closes. And then within that, there are parameters for what kind of oil price environment you're expecting for what kind of activity you're expecting in US E&P, for what kind of marketing environment you're expecting. Thanks.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

If I understand the question correctly, and I'm going to break it into two parts. The first part is the improvements in the business that we're driving with the way Tesoro is today. That's to me one question. Then the second question was the specific synergies that we've identified and disclosed as far as our view of what's possible with the combination of Western.

First, let me address the ones that exist today within Tesoro, the opportunities. The way our system works, Paul, is that we, throughout -- across the entire Company, we have people that find ideas. And then we take that idea, and we've trained everyone in the Company to use lean Six Sigma. So use those tools to go about, and then capture those specific opportunities that are put into a system.

We track every single opportunity that we've identified. Once we've delivered it, we track it every single month for 12 months to make sure we deliver all of the benefits and how it's impacted the Company over 12 months, whether it be in refining or marketing, logistics, in the finance organization. Anything that we do to drive those benefits.

And so from a risk standpoint, and I think to get back to your question, we have, for the most part, a number of those opportunities already identified and working in progress. So there's a very, very high probability that we'll deliver all of those because of the continuum that we operate under.

So I would personally assign the probability of the business improvement opportunities that we've identified in the high, probably 80% to 90% likelihood of delivery for those, and it's part of just our culture. It's the way that we work as a Company. It's the way that our compensation programs recognize what we do. It's everything about who we are from that standpoint.

The synergies that we've identified and disclosed regarding the combination of the two Companies we've gone about pretty much the exact same way. Only with a little bit less rigor to the full identification of them, as would expect, until we combined the companies. But we'll approach those exactly the same.

And they're independent of the other improvement opportunities. So if we go out and deliver all of the improvements that we just talked about in 2017, and depending on when the transaction closes and the ability to go out and deliver those, they will be -- the cumulative impact will impact the bottom line of the Company in both those. So you can see that it is potentially very significant.

Paul Sankey - *Wolfe Research - Analyst*

That's what I was driving at. And given the time, I will leave it there. Thank you, Greg.

Greg Goff - *Tesoro Corporation - Chairman and CEO*

Yes, thanks, Paul.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.
