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TSO - Q3 2016 Tesoro Corp Earnings Call

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OVERVIEW:

Co. reported 3Q16 net earnings from continuing operations attributable to Co. of \$170m or \$1.43 per diluted share.



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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Tesoro Corporation third-quarter 2016 earnings call.

(Operator Instructions)

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

Sam Ramraj - Tesoro Corporation - VP of IR

Good morning and welcome to today's conference call to discuss our third-quarter 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 sales.

Our comments and answers to questions during this call will include forward-looking statements that reference the management's expectations or future predictions. They 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 Steven.



Steven Sterin - *Tesoro Corporation - EVP & CFO*

Thanks, Sam. Good morning and thank you for joining us today. I'll review our third-quarter 2016 financial performance and then turn the call over to Greg. Yesterday we reported third-quarter 2016 net earnings from continuing operations of \$170 million attributable to Tesoro or \$1.43 per diluted share, compared to \$759 million or \$6.13 per diluted share a year ago.

Consolidated net earnings were \$201 million for the third quarter compared to \$799 million for the same period last year. And EBITDA was \$577 million compared to \$1.5 billion a year ago. Operating income in the third quarter grew year over year in logistics but was lower in refining and marketing due to a stronger than normal market environment in 2015.

Turning to our business segments. Refining operating income was \$52 million for the third quarter compared to \$899 million year ago and segment EBITDA was \$204 million versus \$1 billion last year. Operating income and segment EBITDA for the quarter included pretax inventory benefit due to a lower cost of market valuation adjustment of \$20 million, offset by a \$14 million charge related to a contract dispute with a supplier.

The Tesoro Index was \$12.45 a barrel for the third quarter with a gross refining margin of \$9.08 per barrel or 73% capture of the Tesoro Index. This compares to the Tesoro Index of \$23.09 and a gross refining margin of \$19.43 or 84% capture for last year.

Refining margins in the third quarter were negatively impacted by the following three items. First, an overall lower refining margin environment. Second, rising RINs prices. Let me remind you that our refining sales to our marketing business are based on spot prices less the full RIN cost. So in a quarter where RIN costs rise, we reflect the higher obligation in refining and the benefit from blending in our marketing segment. It's important to know that we run our business in the integrated manner. This does not have a material impact on total Company results.

And lastly, we continue to look for ways to drive improvements in our business and capital allocation. One of the ways we do this is by driving improvements in working capital. In the third quarter we successfully reduced inventory and generated approximately \$150 million in cash as a result. This inventory reduction had a positive impact on cash flow but a negative impact on refining margins in the quarter.

Total refining throughput for the quarter was 873,000 barrels a day or 98% utilization, which was at the high end of our expectations. Manufacturing costs in the third quarter increased \$0.27 per barrel over the same period last year, to \$5.11. This year-over-year increase was largely due to the addition of the Dickinson Refinery and the Tesoro Great Plains assets acquired in 2016.

Moving to logistics, operating income increased to \$133 million in the third quarter from \$106 million a year ago and segment EBITDA grew to \$181 million from \$153 million last year. This performance was driven by the following factors: year-over-year growth in TLLP's crude oil gathering, terminalling and transportation throughput; growth from the acquisition of the Los Angeles storage and pipeline assets last year; and growth from the Alaska storage and terminalling asset acquisition made during the quarter. The total general partner and limited partner distributions received by Tesoro were \$65 million during the third quarter. This is an increase of \$27 million, or 71%, versus 2015.

Turning to marketing, operating income was \$273 million compared to \$379 million a year ago and segment EBITDA was \$285 million compared to \$390 million last year. Fuel margins were \$0.149 a gallon in the third quarter versus \$0.205 cents a gallon last year.

During the quarter we saw continued strong fundamentals and favorable business conditions, including growth in consumer demand and an increase in vehicle miles traveled. We are pleased with our operating results in the quarter, as we continue to execute our strategy of optimizing the placement of refined products through the most valuable channels for market consumption.

Now I'd like to take a moment to discuss our balance sheet, cash flow and our strategic priorities for creating long-term shareholder value. Our balance sheet remains strong. We ended the quarter with a consolidated cash balance of \$1.4 billion compared to \$942 million at the end of 2015. Total debt to capitalization was 36% at the end of the quarter. Excluding TLLP debt and equity, our debt to capitalization ratio was 19%.

We have made significant progress in strengthening our balance sheet, investing for growth and returning cash to shareholders. And we continue to progress towards our goal of obtaining investment-grade credit ratings for Tesoro and Tesoro Logistics.

As you may be aware, at the end of the quarter Tesoro entered into a new \$2 billion senior secured revolving credit agreement. This new four-year cash flow credit facility replaces our \$3 billion asset-based credit facility. The new credit facility will become unsecured upon Tesoro achieving an investment-grade rating from either Moody's or S&P.

Additionally, on October 14 S&P upgraded TLLP's credit rating by one level to BB+ with a stable outlook. This new rating is now the same as that of Tesoro and just one notch below investment grade.

Turning to cash flows, Tesoro generated cash flow from operating activities of \$1.2 billion for the first nine months of 2016, including \$573 million in the third quarter. I'd like to discuss how we continue to deploy cash to create long-term shareholder value. First, we invest in high-return capital projects and improved returns on invested capital. For the first nine months of the year we invested \$296 million in income and growth-capital projects at Tesoro and TLLP. Our combined capital expenditures were approximately \$624 million.

And we now expect full-year 2016 capital spending of approximately \$900 million. This is a reduction from our previous expectations of approximately \$1 billion.

Next, we ensure that we maintain a strong balance sheet to give us the flexibility to make strategic investments and also return cash to shareholders. For the first nine months of the year we spent approximately \$412 million on accretive acquisitions. We executed 3.2 million in share repurchases for approximately \$250 million, including 1.9 million shares for approximately \$150 million during the quarter. We also paid dividends of \$186 million and distributed \$155 million to third-party LP unit holders.

Looking ahead, you can find details of our planned throughput, manufacturing cost per barrel and other elements related to our fourth-quarter outlook in our earnings release that was issued yesterday. With that, I'll turn the call over to Greg.

Greg Goff - *Tesoro Corporation - Chairman & CEO*

Thank you, Steven, and good morning. We are pleased with our results for the quarter which can be attributed to our integrated business model and the continued execution of our operating improvements. Our operational reliability was very strong. Combined with our continued growth in logistics and our integrated marketing business we generated strong operating cash flows. Also this quarter we returned \$215 million to shareholders through share repurchases and dividends.

Turning to our operations, let me start with refining. As Steven mentioned previously, total refinery throughput for the quarter was 873,000 barrels per day or 98% utilization and gross refining margin was \$9.08 per barrel. In our California region we continue to see product demand growth. We operated our refineries well with the utilization of 98% which was at the high end of our guidance.

In our Pacific Northwest region throughput was higher than our expectations, but our operating performance was impacted by a lower refining margin environment, RINs pricing and products mix due to an impact of a reduction of inventory. In the Mid-Continent throughput was within our expectation, however operating results were impacted by a lower refining margin environment and a charge related to a contract settlement with a supplier. For the fourth quarter we expect overall refinery utilization to be between 90% and 96%.

Moving to logistics. We continue to execute on our strategy of growing this business through organic investment, strategic acquisitions and acquisitions by Tesoro. TLLP delivered strong operating income growth in the quarter. TLLP's quarter results were driven by the terminalling and transportation segment which generated record revenues, operating income and EBITDA. During the quarter TLLP completed the acquisition of the Alaska storage and terminalling assets from Tesoro and this contributed to the segment's operating performance.

Crude oil gathering volumes increased to 206,000 barrels per day versus 199,000 barrels per day last year, despite a challenging commodity price environment. While this headwind still exists in our gathering and processing operations, we continue to invest in attractive organic projects such as interconnections on the High Plains system and compression projects in our natural gas gathering systems.

Tesoro expects to offer TLLP the opportunity to acquire the Northern California terminalling and storage assets in the fourth quarter of 2016. The assets could add \$28 million to \$33 million of annual net earnings and \$45 million to \$50 million of annual EBITDA to TLLP. Looking forward TLLP remains committed to achieving its goal of \$820 million of annual operating income and \$1 billion of EBITDA by 2017.

Now shifting to marketing. Our performance in the quarter was strong. During the quarter we saw continued favorable trends in the market, including strong consumer demand with US gasoline demand up 3% year over year through September, and an increase in vehicle miles traveled of 3.2% year over year in the US and 4.8% year over year in California through August.

Also we increased our branded store count by 178 stations year over year to 2,467. We continue to successfully execute our strategy of optimizing the placement of our refined products through the most valuable channels for market consumption.

We see continued favorable market fundamentals, 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. These include implementing improvements in our stations, expanding our network of stations and investing in our brands.

Now let me discuss the acquisitions we made during the quarter and also provide you an update on major capital projects. On the acquisition front, in September we acquired Virent Incorporated, an innovative renewable fuels and chemicals company.

This acquisition supports our renewable fuel strategy of developing high-quality, low-carbon renewable feedstocks and blendstocks that can be either co-processed in our existing refineries or blended seamlessly with traditional fuels. Also, by generating valuable renewable fuels credits, we could lower our compliance costs with both the Federal Renewable Fuel Standard and California's low-carbon fuel standard.

During the quarter we closed both portions of the sale of the Alaska storage and terminalling asset to TLLP for a total consideration to Tesoro \$444 million, paid as \$400 million in cash and approximately \$44 million of TLLP common and general partner units.

To give you an update on our Vancouver energy project, the Energy Facility Site Evaluation Council concluded adjudicative hearings in September with the filing of all party's post-hearing briefs. On October 6 Vancouver Energy submitted its revised permit application to EFSEC in keeping with the Council chairing rules and regulations.

In the revised permit application, Vancouver Energy offered many conditions that are well above regulatory requirements. This includes the performance-based throughput structure by which EFSEC could limit the project's initial throughput to 180,000 barrels per day or 50% of the originally proposed 360,000 barrels per day. This structure includes the ability to incrementally increase the facility throughput by 90,000 barrels per day after 12 consecutive months of acceptable safety and environmental performance. Two consecutive performance periods would result in the originally proposed 360,000 barrels per day facility.

EFSEC is now deliberating its recommendation to the Governor of Washington. We are committed to the proposed crude oil rail to Marine terminal and remain 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 entire West Coast.

Regarding the Los Angeles Refinery integration and compliance project, the South Coast Air Quality Management District is making progress on preparing the final environmental impact report. A certified environmental impact report will allow the main permitting entities to approve the project. We expect to have the necessary permits and approvals by the end of this year and begin construction shortly thereafter.

To update you on our progress to deliver improvements in our business, you will recall that at our Investor and Analyst Day last December, we laid out our expectations for 2016 which were based on three things. One, the Tesoro Index of \$12 to \$14 per barrel; two, marketing fuel margins of \$0.11 to \$0.14 per gallon; and three, crude oil differentials that reflected the cost of transportation.

Through the first nine months of 2016 the Tesoro Index and marketing fuel margins are in line with our expectations. Crude oil differentials continue to be significantly narrower than our expectations. This has resulted in lower capture rates and lower refining profitability than our original



expectations for this year. Tesoro continues to expect year-over-year improvements from higher utilization and operational efficiencies of \$400 million to \$500 million.

We also committed to delivering \$400 million to \$500 million of annual improvements to operating income in 2016, consisting of \$200 million to \$250 million in refining, \$175 million to \$200 million in logistics and \$25 million to \$50 million in marketing. Even in the current challenging market environment we are confident that we will deliver the \$400 million to \$500 million of total annual improvements to operating income.

Through the first three quarters of the year, our estimated refining and marketing improvements are trending above the range. However logistics improvements are trending slightly below the range, primarily due to the weak commodity price environment which has impacted organic growth and volumes.

Before I conclude, I would like to remind you that we will be hosting our 2016 Investor and Analyst Day on December 6 in New York City. My leadership team and I look forward to updating you on the Company's strategic outlook and outlining our plans for 2017. For additional details on this event, please follow up with our investor relations team.

To conclude, we have built a strong integrated refining, logistics and marketing business and have a competitive position in our market. This enables us to drive significant operational improvements, create sustainable earnings growth and deliver long-term shareholder value. Thank you. And with that, we'll take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Spiro Dounis, UBS Securities.

Spiro Dounis - UBS - Analyst

Hey, guys. Hi, Steven, how are you?

Steven Sterin - Tesoro Corporation - EVP & CFO

Morning, Spiro, how are you?

Spiro Dounis - UBS - Analyst

Not bad. Just wanted to start off around the IDR structure at TLLP, given recent events by your peers. I wanted to ask you in two ways. First, how should we be thinking lowering cash capital there while compensating TSO for its GP interest?

And then two, you're trying to obtain investment-grade rating at TLLP and TSO. TLLP just got upgraded to a notch below. How, if at all, would any IDR buy-in or relief give you by the credit agencies is that a factor what you end up deciding to do?

Greg Goff - Tesoro Corporation - Chariman & CEO

Good questions. Let me ask Steven to comment on both of those.



Steven Sterin - *Tesoro Corporation - EVP & CFO*

Good morning. As we've talked before, we are in the logistics business because we see substantial opportunities to continue to grow the business, both organically and through acquisition. And as you mentioned, we are in the MLP because we need access to low-cost capital to do that. Over time, as we've grown the business substantially, the IDR structure does have an impact on the cost of capital of the MLP. We see that we acknowledge it and understand it.

As we look forward, it's critical, because we do see continued opportunity for high-return investment within the logistics business, for the MLP to have very attractive cost of capital for our unitholders to have significant accretion opportunities as we grow the business, and for Tesoro to continue to receive cash and the MLP to be a source of cash for Tesoro to reduce our cost of capital over time. So we absolutely view that as part of our ongoing long-term strategy. And we'll, as always, continue to look at all the options that are out there to allow us to continue to both grow the business and have a low cost of capital.

And on your second question about investment-grade, if you look at Tesoro and TLLP balance sheet, if you look at what we've done with cash flow and capital allocation and leverage, we think the Companies are very high-quality and meet most, if not all, investment-grade ratings. And think that managing cost of capital and options that are there only support that and wouldn't take away from that.

Spiro Dounis - *UBS - Analyst*

Got it, appreciate that color. Second question around the retail growth. I think expectations may be whether you would acquire something at this point in the year. And I think you'd looked at something earlier on but maybe valuations were just hard to justify. Curious if that's still the case and if valuations are getting more attractive?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Spiro, on our marketing strategy that we laid out pretty clearly at the end of last year was to substantially improve the integration between our refining and marketing, both of quality and the overall performance of our marketing business. We've made very, very good progress this year. As I stated in some of the comments that I just made, we've been able to grow our wholesale marketing business for our branded stations by almost 200 stations year on year, which is probably a little bit ahead of what we expected to do going into the year. And we've been able to drive other improvements in the business.

And you're exactly right, we have looked at opportunities to acquire assets that would fit into our integrated business model. There haven't been a lot available in the marketplace this year, so we will continue to evaluate opportunities as they become available. But probably more importantly, we are seeing really good growth in our underlying business that's probably a little bit ahead of our expectations from what we thought we'd be able to do last year.

Spiro Dounis - *UBS - Analyst*

Great appreciate the color. That's it for me, thanks, guys.

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Thank you.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Hey, good morning, guys.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Hi, Neil.

Neil Mehta - *Goldman Sachs - Analyst*

Good morning, Greg. On capital spending, you guys have been tracking very well here. I think you're now guiding to \$900 million in 2016. Can you talk about the delta relative to the previous guidance that you laid out last quarter? And then pluses and minuses going into 2017, recognizing we're going to get more flavor at the December Analyst Day. But how you're thinking about 2017 CapEx would be helpful.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, it's an excellent question, Neil. As we've progressed through the year, we've continued to manage all of our capital projects. First by trying to find improvements in the execution of the projects would allow us to have lower total capital spend on the projects that we are executing. And we've had good success on that through our supply sourcing and other programs like that. So that we are very excited about.

As the actual change from our revised guidance of \$1 billion down by about 10% primarily is some movements in our logistics business, more or less a timing impact moving things into next year. And then other small improvements across the whole system.

Last year in December we gave guidance for 2017 that would've had Tesoro and Tesoro Logistics for a combined spending of about \$1.7 billion. We are in the final stages of completing our planning for 2017 2018 and 2019, as we go out and look at our plans to execute on the various projects that we are undertaking. And it looks preliminarily that we will probably be down somewhere between, say, 27% to 33%, somewhere in that range versus what we said last year. So down by about another \$400 million to \$500 million of capital spending. But as you clearly stated, we will be specific about that when we get together in December.

Neil Mehta - *Goldman Sachs - Analyst*

Got it, appreciate that. And when you say you are down \$400 million to \$500 million, that's relative to the plan that you laid out last year which, if I remember, was \$1.5 billion was the 2017 guide, if I remember.

Steven Sterin - *Tesoro Corporation - EVP & CFO*

I think it's relative to last year and I actually think it's \$1.7 billion for 2017 that we said.

Neil Mehta - *Goldman Sachs - Analyst*

Okay, great. And then the follow-up, Greg, is on West Coast refining. How do you see the market, both from a supply and demand perspective? I know there were a lot of concerns about Asian imports coming into the market. That seems to have faded a little bit. But just thoughts on how we are set up as we go into 2017.



Greg Goff - *Tesoro Corporation - Chariman & CEO*

Neil, as we've spoken in the past, our fundamental analysis of the West Coast market is very constructive. We see good fundamentals from the demand outlook, as we just stated, in the marketplace. The refinery is operating at relatively high utilization rates. Still export activity going into Mexico and a little bit into Chile and Peru. So overall, our view of the West Coast is a very constructive view from a fundamental market analysis standpoint. So that's how we see that continuing into 2017.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks for the comments. Thank you, Greg.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thank you.

Operator

Chi Chow, Tudor, Pickering, Holt.

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

Great, thanks. Good morning.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Hi, Chi.

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

Hi. Hey, Greg, on refining overall, I noticed that the cost structure is a bit higher in the quarter when you total up your operating expenses and other expense line. Was there anything specific that drove that up? And what's your outlook going forward on refining costs?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

So I think Steven made a couple of comments. We brought in the Dickinson Refinery which had a little bit of an impact in our cost structure for the third quarter. And the second point that he made was we have that Great Northern system that we acquired at the beginning of the year. And we have -- that's where we identified we have a dispute with a supplier that impacted our refining costs in the third quarter. So we don't see a material change from the trend that we've had in refining costs.

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

Issue with the vendor, that flow through gross margins or is that operating cost line?



Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, gross margins.

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

Okay. Is there any guidance on that other operating expense line item that you show in refining? It was \$116 million in 3Q. Any guidance on how that's going to trend going forward?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Off the top of my head, I don't have that, Chi. You can just follow up later with Sam.

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

Okay no worries. On your investment-grade rating, what's the next possible opportunity for a ratings adjustment by the agencies?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Let me ask Steven to comment on that.

Steven Sterin - *Tesoro Corporation - EVP & CFO*

One of the key criteria that the rating agencies have talked about was the need to eliminate secured debt, which we did effectively with the new revolver finance. So that wasn't a very important step forward. It's typically this time of the year and early next year when they tend to do ratings reviews, looking at what we present at our annual Investor Day.

As we look at the business, all the fundamentals that we've talked about, the ratings targets and leverage targets that we've talked about were either ahead of our on track with those. So that's something we will continue to evaluate. But we feel like we are continuing to move in the right direction on it.

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

Can you handicap the possibility next year of getting IG for both entities?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

I think from the Tesoro perspective we feel very good about where we are positioned. TLLP, as you know, is a notch behind with the exception of S&P, so that's going to take more time. And so I think when we are ready for that, we lay out our plans, we think that we should be investment grade. We certainly, if you look at our balance sheet and the way we manage capital, the quality of the way we do that has been investment-grade for quite some time.

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

Great. I'll leave it there, thanks, Stephen.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - BofA Merrill Lynch - Analyst

Thanks, good morning, everybody.

Greg Goff - Tesoro Corporation - Chariman & CEO

Hi, Doug.

Doug Leggate - BofA Merrill Lynch - Analyst

Greg, I wonder if I could ask a little bit about the marketing EBITDA trend. Obviously there is some RIN distortions in there, but I think you touched on it in your prepared remarks. The run rate year-to-date appears to be well above the \$1 billion target you laid out originally with acquisitions for 2018. I don't want to get in front of your Analyst Day but can you talk about how you feel about that target, given your performance year-to-date?

Greg Goff - Tesoro Corporation - Chariman & CEO

Well, to reiterate what I said earlier, Doug, is that we are having very good success in driving some fundamental improvements in our overall marketing business. So in addition to the growth in our wholesale marketing business, with the almost 200 branded stations, they've been able to drive continued improvements in our overall portfolio. So we feel really good about the improvements. They are ahead of what we expected to be able to do in the business for this year.

Because you're exactly right, when we laid out our plan last year, which we clearly gave a run rate EBITDA of about \$650 million, and you pointed out very accurately that we are running in excess of that this year. So the margins are slightly better as a result of the improvements that we've been driving in the business and that. So we will talk more about it in a month or so when we get together. But the outlook to us is very, very encouraging without any growth.

Doug Leggate - BofA Merrill Lynch - Analyst

So to clarify, the \$200 million to \$300 million, I think it was, of acquisitions that were embedded in that original target, have any of those taken place?

Greg Goff - Tesoro Corporation - Chariman & CEO

They have not. Let me just be clear about our thinking. When we laid out our plans, we basically stated that our business is highly integrated. And you've heard us say that probably ad nauseam. But our business is highly integrated and as a result what we want to be able to do is three things.

One, continue to strengthen that integration around each of our refineries so that we drive that integration to a very high level. Two, improve the quality of our marketing business around each of our refineries so that as we actively manage the portfolio of marketing assets, we are able to high-grade that portfolio. Which part of our thinking was around potential acquisitions over time, and we said we would do that over about a three-year period of time, that if we identified opportunities we would try to capture those opportunities in an effort to high-grade our marketing portfolio. And the third thing was, we said that we needed to strengthen our convenience store offering. We felt that was a critical variable in our overall offering to our customers, and that's a third thing that we are working on.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay. As a quick follow-on, if I may, and it may have to wait until December, but obviously you and I have talked about the relative value of that marketing business relative to the relative multiple of the refining assets. Curious if you have any further thoughts on how best to help the market recognize that?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

No, we continue to look at everything in our business. We are fundamentally focused on creating value with all the assets that we have, refining, marketing and logistics. And we recognize that how different parts of our business are valued and that. So that's work that we have going on but we do not have things that we plan to do at this point in time.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Got it, I'll leave it there. Thanks, Greg.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thank you, Doug.

Operator

Jeff Dietert, Simmons.

Jeff Dietert - *Simmons & Company International - Analyst*

Good morning. Following up on Doug's comments on the strong quarter in the marketing segment, both of you mentioned optimizing channels for distribution. I wondered if you could discuss that specific area of execution during the quarter?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Jeff, I think that's probably a competitive thing that we probably prefer not to talk about, to be honest with you. It has an impact on customers and how we look at our position in the market. So that's probably something I prefer not to talk about.

Jeff Dietert - *Simmons & Company International - Analyst*

All right. Secondly, could you talk about the performance of the Dickinson Refinery and its contributions during the quarter, how it's performing relative to your expectations?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, I think when we acquired it, we made some brief comments on the facility and relative to the things that we've identified at the front end before we closed the transaction, our people have been incredibly successful capturing those benefits. So relative to our outlook, we're basically on target with what we thought we would do.

We've done some interesting things with it. For example, in the quarter we just completed a turnaround in Salt Lake City on the crude unit within the last few days. And one of the things we were able to do is we were able to take the resid from the Dickinson Refinery and run it through the cat cracker in Salt Lake and make gasoline to supply the market during the downtime of the refinery, which worked out extremely well. And we've similarly done that by taking some of the resid to Anacortes to run through the cat cracker in Anacortes.

So the benefits the additional benefits and that we are seeing, are working out really, really well for us. So we do not see anything materially different than when we first talked about it. Now, it doesn't have a significant impact on the Company overall, but even those small little things that I talked about are very attractive to what we're trying to do. So no surprises and good execution with what we set out to do.

Jeff Dietert - *Simmons & Company International - Analyst*

Got you. Are you willing to say what the contract settlement impact was on gross margin in the Mid-Continent?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

No, it's within a few cents per share. On an earnings-per-share basis, it's within a few, say between \$0.05 to \$0.06 per share, is where it probably is.

Jeff Dietert - *Simmons & Company International - Analyst*

All right. Thank you for your comments.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thanks, Jeff.

Operator

Sam Margolin, Cowen and Company.

Sam Margolin - *Cowen and Company - Analyst*

Thank you, good morning.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

How are you, Sam?

Sam Margolin - *Cowen and Company - Analyst*

I'm good, thanks. I was hoping for a little color on Virent since the release came out between quarters and this the first time we've had a chance to talk about it. Just a little background information, if they were a vendor of yours, if this changes anything from an operational standpoint volumetrically.

And then on the compliance side, the California carbon standard isn't something people talk about very much, but it seems like it's material here. And so, anything to flush that out a little bit would be really helpful.

Greg Goff - *Tesoro Corporation - Chairman & CEO*

Virent is a company that's existed for probably around 15 years. It's based up in Madison, Wisconsin and they've been doing development on producing both different types of renewable fuels and renewable petrochemicals, almost like a renewable mixed Xylene that could be used to make polyester. So the company has had actually very good success over time. When Tesoro got involved in the business within the last couple of years, we acquired an option with the potential to ultimately acquire the business, which we did during the quarter.

Like I said in the three statements that I made about Virent, the ability to make the product that they are targeting is very, very well developed. There's not a lot of uncertainty about that, so that part we feel really good about. We are working to progress that on a scale-up basis and that's very advanced to being able to scale up the production of that. And our primary interest is to be able to supply, with our fuel, the renewable component of it, and particularly to be able to meet some of the requirements in the State of California.

So we will continue to work on the scale-up of the business. And then within probably a couple years, make a decision on how you go about executing the business as far as the construction of a facility to make the renewable material.

Sam Margolin - *Cowen and Company - Analyst*

Okay, thanks for that. My second question is probably for Steve. Thanks for the disclosure about the RINs impact between segments. I'm curious if -- I know it doesn't necessarily affect the business on an enterprise-level, but to the extent that things like capture rate and other operating metrics are talked about in the investment community, if you have any options as far as how you account for those, if there's a way to reduce the volatility on the refining side and smooth it out, especially in the context of people asking about the marketing segment valuation. Part of that valuation premium is the fact that it's a more stable business than having a moving piece and it makes it confusing too. So curious about if you have observed any options that you have with respect to that accounting?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Yes, first of all, when you look at the way we transfer price, we take spot price to marketing minus the cost of RINs. So our view is that the full obligation of the RIN is borne within the refining business. When you think about gasoline, the value of being integrated, which is the key to us, is that we are able to, on the gasoline side, blend and get a lot of credit against that obligation.

So I don't think on a Company perspective, there's a lot of noise around that. Most companies, and us included, it's access to the cellulosic and diesel, biodiesel RINs and credits where -- that's for the challenge is. You see that mostly within the refining business, as our marketing business has a lot more of its earnings tied to gasoline.

Sam Margolin - *Cowen and Company - Analyst*

Okay.

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Point taken in terms of metrics and clarity on that.

Sam Margolin - *Cowen and Company - Analyst*

Yes, it's just -- to add a point, if RINs prices were to ever come down, the marketing segment, it wouldn't necessarily be a hit against the underlying business in the marketing segment but you might see it in the results and it could be confusing to people. Thanks so much.

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Thank you.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Hey guys, good morning.

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Hi, Paul.

Paul Cheng - *Barclays Capital - Analyst*

Greg, curious that for the IMO 2020 no-sulfur standard for the bunker fuel, is there in any shape or form will change how you operate in the Pacific Northwest and California system?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, it does have an impact, Paul, as you correctly stated with the recent decision to implement 2020. We actually see it as a very good opportunity. We haven't quantified the impact or anything like that, but our initial view of that change will provide an opportunity for business, especially in the Pacific Northwest, like you stated.

Paul Cheng - *Barclays Capital - Analyst*

And do you produce any reasonable quantity of the high-sulfur bunker fuel at this point, or not really?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Not the highest-sulfur bunker fuel. We do produce resid but not the highest-sulfur resid.

Paul Cheng - *Barclays Capital - Analyst*

So it's not so much about you need to reduce that output, it's just that your gas oil or diesel maybe higher-value going forward.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Exactly right. You're exactly right.



Paul Cheng - Barclays Capital - Analyst

And this is for Steven. Steven, for the LCM 20-minute should we just assume that it's all in the refining margin and spread across all three regions by the throughput? Or how should we look at it?

Steven Sterin - Tesoro Corporation - EVP & CFO

Yes, I think given that it's not a large number for this quarter, that's not an unreasonable way to do it, Paul.

Paul Cheng - Barclays Capital - Analyst

Okay. And don't know whether you guys are willing to tell us that what is the Dickinson throughput in the quarter and the actual EBITDA?

Greg Goff - Tesoro Corporation - Chariman & CEO

The throughput for Dickinson, I think, Paul, we've said that it was rated about 20,000 barrels a day. And it's running between 70% to 80% of capacity, as we've worked through transitioning it into our system. And the EBITDA, it's not a material number to talk about really. If you recall, we said in our early indications when we acquired the facility, that we expect it to make about \$20 million a year. And as I referenced a question earlier, maybe Jeff had asked me that question, we see it on target for the year to what we started out to do.

Paul Cheng - Barclays Capital - Analyst

The only reason I ask that is that comparing to our estimate the MidCon margin, the realization, is actually down couple of dollars. So I was just trying to see how big is the impact from the Dickinson in terms of [low oil flow] margin.

Steven Sterin - Tesoro Corporation - EVP & CFO

Paul, one of the things we mentioned earlier was the contract element that we had. That shows up in our Mid-Continent gross margins. So as Greg said, that's \$0.05 or \$0.06 so you need to adjust for that.

Paul Cheng - Barclays Capital - Analyst

Sure. Steven, also you sold some inventory and you're saying that you will have a negative impact on the margin. The inventory that you sold, is it all concentrated in the Pacific Northwest? Or that is also spread throughout all different regions? I assume it is also hitting in the gross margin?

Greg Goff - Tesoro Corporation - Chariman & CEO

Yes.

Steven Sterin - Tesoro Corporation - EVP & CFO

Yes, mostly in the Pacific Northwest, yes.

Paul Cheng - Barclays Capital - Analyst

Okay. The sales [sworn in] even though they are lower margin, seems that the margin is being calculated based on the throughput. So you're still going to be in addition to margin is it? Or that is actually is a loss comparing to. What is the inventory that you sold? Is it resid fuel or is the product that you sold from inventory, is it higher? Get the price higher than the core price or just lower than the price?

Steven Sterin - Tesoro Corporation - EVP & CFO

I think if it was an average product mix, you are right, you wouldn't see anything. But this quarter it was more heavily weighted towards fuel oil. And as you know, that trades at a discount typically to even crude. So you have a positive cash flow from those sales. It's the right thing to do to drive cash flow and capital allocation, but can actually have a negative EBITDA on the actual transaction itself.

Paul Cheng - Barclays Capital - Analyst

Okay, great. And in terms of your overall financing strategy, given the volatility in the marketplace and uncertainty, Steven and Greg, should we assume that TLLP net debt going up is good for the investment and drop down and all that, that the TSO C-corp net debt would come down so that on a consolidated basis, total net debt would be flat to down? Or that's not really the way how you look at the business?

Steven Sterin - Tesoro Corporation - EVP & CFO

Yes, I really think because our Logistics MLP is relatively large and continuing to grow, you need to think about the components of our capital structure together, but also separately. We've said that in our MLP that we want to target leverage below four times. And at Tesoro we've targeted on an unconsolidated basis and been showing less than 20% debt to capital.

Even investment-grade ratings would allow you to go higher than that, but we tend to not want to leverage the refining business. But the logistics business being at four times or less, given the growth and given the stability of the earnings, is a very comfortable place to be from a leverage perspective. So you have to build it up from that perspective, Paul, to get to a consolidated number.

Paul Cheng - Barclays Capital - Analyst

So we should not assume on a consolidated basis that your net debt would be flat to down? That your net debt would actually go up on a consolidated basis?

Steven Sterin - Tesoro Corporation - EVP & CFO

As we grow the logistics business, absolutely.

Paul Cheng - Barclays Capital - Analyst

Okay. Greg, do you have any update about the mixed Xylene in terms of the permitting process?

Greg Goff - Tesoro Corporation - Chariman & CEO

We talked earlier, Paul, about the Vancouver and we talked about Los Angeles and the project to make the Mixed Xylenes up in the Pacific Northwest, is also in the permitting process. As we indicated earlier, we hope to hear in the first part of next year about the permits, probably beginning of second quarter. But everything is progressing along from that standpoint. No news, I think, since last time we talked about it.

Paul Cheng - *Barclays Capital - Analyst*

Okay so that you hope to hear the news from the second quarter so that means you are probably not going to get the permit until the second half and the construction by late 2017. Is that the timeline at this point?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, from what all indications are we would receive the permit in the second quarter of 2017, and then we would progress after we get the permit from that point forward, like you said.

Paul Cheng - *Barclays Capital - Analyst*

Final question, Greg. When you are looking at your business over the next couple of years from an organic investment, or self-help standpoint, what is the area that you see the biggest opportunities at this point?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

We see very good opportunities in our logistics business. We've been very clear that we want to support our integrated refining and marketing business. We believe in logistics, that we have an opportunity to start to expand our presence geographically which will provide more opportunities for us in the Logistics area. That's the first thing.

Second, in marketing, our outlook is not a lot different as far as we are targeting to, and continue to, increase our integration between refining marketing, improve the quality of the integration that we have between refining and marketing, and then also to be able to strengthen our convenience store offering. So we see that also as a second area of growth after logistics.

And then we always continue, as you are very aware, Paul, that as a Company we like our business model. We like our geographic area and we would look at opportunities in our geographic area if they were available and they fit into our business model and our ability to create value from a refining standpoint.

Paul Cheng - *Barclays Capital - Analyst*

All right, thank you.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thank you.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

Hey, good morning.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Hi, Phil.

Phil Gresh - *JPMorgan - Analyst*

First question is probably going to be tying together a lot of the questions about the quarter, so I apologize if it's redundant. But I know on the last call you are expecting capture rates to be in the low 80% range for the quarter, and then they came in at 73%.

So it sounds like what you said is that the three main factors are RINs, the inventory reductions and the contracts. I just wanted to clarify that, if there's anything else at play here. Meaning that if, going into next quarter the inventory reductions and the contracts, some of them will be there, do you expect to have a more normalized capture again?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Yes, I think in terms of -- you exactly got it, the three drivers this quarter that affected gross margin. I think in the fourth quarter the capture rate, if you look historically, depends on where -- you got to start with where is the index and the effect of seasonality. But if you ignore that and you just think about this quarter on a more normalized basis, the three things you highlighted are things that you should think about, when you look forward, as being related to the third quarter.

Phil Gresh - *JPMorgan - Analyst*

Sure, okay. And then the second question, following up on the CapEx discussion for 2017. Greg, would you say that most of that reduction in capital is just the timing around projects? Or have you found opportunities to lower the sustaining capital requirements as well? Because I know, actually from your last Analyst Day, the sustaining CapEx was actually expected to be higher in 2017 than 2016, if I recall correctly.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Phil, we go back in every year and we look at our work plans and what we're doing regarding our sustaining capital, which includes both the money we spend to comply with the regulatory requirements and then our maintaining the integrity of our assets, and then our income capital on top of that. And we do that for both Tesoro and Tesoro Logistics.

So as we've gone through the budgeting and planning process, we've been able to go in and optimize how we been capital which impacts, sometimes, the timing. Just programs that we have that we may alter the timing on. In some cases we've seen improvements in our ability to lower the cost in our capital programs.

And then it's just the overall impact, really, from the major capital projects and how we will sequence those into our spend, is primarily what drives the change. And we will talk more about that when we do our Investor and Analyst meeting in December.

Phil Gresh - *JPMorgan - Analyst*

Sure. And if I could just ask one last one, in your last Analyst Day you talked about \$850 million of proceeds from asset sales to TLLP. Obviously you had one in the third quarter, you have one in the fourth quarter here. Do you think there's any real change to the drop-down approach at this stage longer-term?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

When we came into the year, we actually, if you look at back at Investor Day, I think we had the \$850 million was actually over a three-year period. Because given where the MLP markets were at the time, and in order to support our logistics business through that environment, we have made an assumption that we would only get about 50% of the proceeds from drop-downs in cash versus units. And given the strength of TLLP's business and investor interest in participating in that growth, we've been able to actually get a lot more cash out of the logistics business. And I would think more about the 90%/10% as a basis of cash flows. So based on everything we know now, assuming there's not major changes to the market, we see potentially more cash flow than we expected back earlier this year.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, the 90% is 90% cash, 10% equity.

Phil Gresh - *JPMorgan - Analyst*

So you'd expect that on a go-forward basis as well?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Yes, based on the way things look today, that would be our assumption versus the 50/50 cash and equity.

Phil Gresh - *JPMorgan - Analyst*

Okay, got it, thank you.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thanks a lot.

Operator

Ed Westlake, Credit Suisse.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

Hi, it's Johannes. Thank you for taking my call. Just starting out, in recent industry conferences you all have talked about how retail organic efforts were better than expected. I was wondering if it be possible to flesh that out a bit to understand the nitty-gritty of how it's been better than expected.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

May be can help -- can you ask that question one more time? I'm not sure I understood.



Johannes Van Der Tuin - *Credit Suisse - Analyst*

It seems to be -- I'll change to a handset. It seems to be that in recent conferences you've talked about how retail efforts have been better than expected when it comes to a growing organic retail, or marketing in this particular case. Could you delve into what's been better than expected in a bit more detail? And flesh out what's been some of the upside in the retail space and the marketing space for you all?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Well, two or three things. One is we've been able to improve the volume through our overall network which includes both our retail business as well as our overall branded marketing business. So that accounts for a significant part of it. We were up about 4% year on year, so the volume growth is one area.

Two, is we continue to invest in our brands and in the quality of the stations which helps overall sales in there. And then the third is just our overall drive to improve how we operate the system, which includes lots of different changes to the business.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

Okay. And then going down to TLLP, seems like volumes have perhaps been a little bit sluggish in the gathering and processing business. Is this competition Rockies? Or is it low activity in Bakken? Or just low commodity prices? What are the big drivers there?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, the biggest impact is just the lower commodity prices and less drilling activity.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

Okay. Are you seeing anything changing in terms of dynamics in any of the two basins that were mentioned?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

We're seeing early discussions of potential changes, but they haven't materialized yet. People seem to be a little bit more optimistic on the potential to have more drilling.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

Okay. And that's for both regions? Or just the Bakken that you are referring to?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, it's both the Rockies and the Bakken.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

Okay. And the last thing is, there's been some discussion about the GP. Have you all considered an IPO of the GP? Or an IDR buy-in? And if so, what are the pros and cons that you think about?



Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, Steven addressed that question. That was an early question that was asked about the IDRs and that. And he talked very clearly about what our point is there, so we can follow up with you later on that. But he's already answered that question.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

Okay, sorry, I forgot that going back.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

That's okay.

Johannes Van Der Tuin - *Credit Suisse - Analyst*

All right, I think that's it from our side. Thank you very much.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thank you.

Operator

Roger Read, Wells Fargo.

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

Good morning.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Hi, Roger.

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

Hey, Greg, I'm going to throw one question there to you. I was curious, Pacific Northwest margins, I know we are dealing with narrower Bakken differentials. But has there been anything else? Q2 was obviously impacted by some turnaround activity and Q3 wasn't really -- directionally margins were lower indicators, or at least as we looked at them, fairly similar.

What's going on in that region? Is there anything that's transitory? Or is it, it is differentials and that's just what we're going to deal with until transportation comes back into the system?



Steven Sterin - *Tesoro Corporation - EVP & CFO*

I think over a long period of time, if you look at the last 18 months, you highlighted the Bakken differentials. But that hasn't changed in third quarter. The third quarter, as I mentioned earlier, that's where we mentioned the reduction in the inventories and the negative impact that had on margins from the sale of those products. And a lot of that is attributable to the Pacific Northwest.

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

Okay, so it was over-weighted to that region?

Steven Sterin - *Tesoro Corporation - EVP & CFO*

Yes.

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

All right, that's helpful. And then how is -- I know you don't like to break the two units apart within the sector, but how has Alaska been running? You had a big turnaround, I think a year ago, there. And then the market dynamics have changed a little bit up there. I was just curious how that's performed. And is that where we should think about the IMO having a significant impact as well?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

So Alaska has been running extremely well after the turnaround. And what we tried to achieve there worked out for us. And the overall business with the acquisition early this year in Alaska, from an integrated standpoint, is delivering exactly what we expected to be able to do. And the fuel oil portion of it is primarily in Anacortes. But there is a little bit of an impact on how we manage the system between Alaska and Anacortes, but is primarily Anacortes.

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

Okay that's it for me here at the end. Thank you.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thanks a lot.

Operator

Brad Heffern, RBC Capital Markets.

Brad Heffern - *RBC Capital Markets - Analyst*

Good morning, everyone.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Hi, Brad.



Brad Heffern - *RBC Capital Markets - Analyst*

Greg, we talked a little bit about M&A on the marketing side already. I was wondering if we could talk a little bit about it on the refining side. It seems like there are a lot of assets in the market right now, a couple that would seem to be in your neck of the woods. So I'm curious how you think about the options that you see in the refining M&A market versus other uses of capital.

Greg Goff - *Tesoro Corporation - Chairman & CEO*

We, I think, Brad, we've been clear for quite some time on how we see the market. First, our interests are in our geographic area because that supports our integrated business model. That's very, very important to us. Second, if we found an opportunity to acquire something, if we did, we'd have to be able to create value from that business. Because our only purpose to acquire anything, really, is where we feel like we can capture value from it.

And so we are very much focused and driven by being able to do those two things. Like you said, there is some talk that there are a few assets across the country up for sale and we would look at anything that would meet our criteria in our market. But it's not that active in our geographic area, really.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay. And thinking about your geographic area, there's a lot of places where you have pretty high concentration. So are a lot of the assets that would be attractive to you precluded from an antitrust standpoint? Or do you feel like there's more freedom than might be perceived?

Greg Goff - *Tesoro Corporation - Chairman & CEO*

Well, if you are talking about the State of California, we have the position we want in the State of California. And we are working to strengthen and continue to improve that position so we would not be interested in anything in the State of California.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, that's clear. And last one for me on the drop Q. I was wondering if you could give an update on how much of EBITDA is available to drop today, given the large number of drops you've already have this year?

Greg Goff - *Tesoro Corporation - Chairman & CEO*

Well, we've only had one drop and we're going to do a second drop. The first drop we did was a little bit of the Alaska assets but the other part of it came from our acquisition up in Alaska. And then we do have, as I stated, a drop which has between \$40 million to \$50 million of EBITDA attributed to it.

You can almost back into the amount of inventory we have remaining from what we previously said. And off the top of my head I don't recall what that is. It's probably in the \$500 million-ish range of EBITDA remaining. You can see that we've done -- we have one upcoming and a little bit of the Alaska. So that gives you a pretty good idea, Brad, of what we have left to do.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, thanks, Greg.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thank you.

Operator

Corey Goldman, Jefferies.

Corey Goldman - *Jefferies & Company - Analyst*

Hey, guys. I have a quick follow-up on the last question. Wondering if there's an update on the Great Northern midstream assets, if there's an update on that timeline. I think that was supposed year end of this year and got pushed out, deferred. Is that still looked at in 2017?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Yes, it was originally planned to do in 2016 as we've continued to commercialize the business, that's in our work plan to do in 2017.

Corey Goldman - *Jefferies & Company - Analyst*

Got you. And then for the quarter guidance on to TLLP's terminalling and transportation. It looks to be a sequential decline there. Is that just based on seasonality? Is that a reduction of producer activity? Wondering what could be ascribed to that.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

I need to go back and refresh myself, but I think on terminalling and transportation it was an improvement. In terminalling and transportation are talking about crude gathering?

Corey Goldman - *Jefferies & Company - Analyst*

I just meant for 4Q guidance it looks to be down sequentially from 3Q. Wondering if that was seasonal or if that's a result of producer activity.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Corey, can we talk about that in the TLLP call, because I don't have that off the top of my head (multiple speakers).

Corey Goldman - *Jefferies & Company - Analyst*

Yes, that's fine. And then the last one is, I think is in response to Paul's question on expanding logistics. I think you were talking about perhaps moving geographically away. Can you comment on whether or not that would be done through M&A? Or are there organic opportunities on that front? And then any particular regions that you would look to expand to just to beef up your presence there?

Greg Goff - *Tesoro Corporation - Chariman & CEO*

It can be done through both of those areas. We just have to look at if it fits what we're trying to do. Our geographic focus would be the same as for Tesoro really and west of the Mississippi River and over to the West Coast.



Corey Goldman - *Jefferies & Company - Analyst*

Perfect. Thanks, guys.

Greg Goff - *Tesoro Corporation - Chariman & CEO*

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone have a great day.

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