

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

EVENT DATE/TIME: AUGUST 09, 2017 / 4:00PM GMT



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

CORPORATE PARTICIPANTS

Andrew Woodward

Gregory J. Goff *Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC*

Steven M. Sterin *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

CONFERENCE CALL PARTICIPANTS

Brian Joshua Zarahn *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Corey Benjamin Goldman *Jefferies LLC, Research Division - Equity Analyst*

Jeremy Bryan Tonet *JP Morgan Chase & Co, Research Division - Senior Analyst*

Justin Scott Jenkins *Raymond James & Associates, Inc., Research Division - Research Analyst*

Ryan Michael Levine *Citigroup Inc, Research Division - Equity Analyst*

Sunil K. Sibal *Seaport Global Securities LLC, Research Division - MD*

Theresa Chen *Barclays PLC, Research Division - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2017 Andeavor Logistics LP Earnings Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded. I would now like to turn the conference over to, Andrew Woodward, Senior Director of Finance and Investor Relations. Please go ahead.

Andrew Woodward

Good morning, and welcome to today's conference call to discuss our second quarter 2017 earnings. Joining me are Greg Goff, Chairman and CEO; and Steven Sterin, President and CFO.

The earnings release, which can be found on our website at andeavorlogistics.com includes financial disclosures and reconciliations for non-GAAP financial measures that should help 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. 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 Greg.

Gregory J. Goff - Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC

Thanks, Andy. Good morning, and thank you for joining us today. We are pleased with this quarter's results and have made significant progress on many of our strategic objectives. The results for the quarter were led by record volumes in our Terminalling and Transportation segment, driven by a strong refined-product demand and high refinery utilization, especially in Southern California.

We also successfully executed the sale of the Alaska Terminal, which generated \$25 million net gain for the quarter. The decision to sell was a result of a consent decree related to the Alaska Terminals we acquired in 2016 and the sale does not materially impact our revenue.



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

Gathering and processing was negatively impacted by slower than expected completion activity during the quarter and the planned, but extended maintenance at Andeavor's Mandan refinery, which not only lowered our volumes, but also lowered the average fee per barrel on our High Plains Pipeline System, due to shorter haul movements and drove higher maintenance expense. This had a negative impact of \$9 million versus our expectations for the quarter.

Despite this, late in the quarter, and into the third quarter, we are beginning to see higher volumes, driven by more drilling and completion activity, especially in and around our Robinson Lake processing facility in North Dakota. There is also no further planned maintenance at Andeavor's refineries and coupled with strong refined product demand, we expect improved volumes for this quarter.

Shifting to organic investments. We made significant progress on several organic expansion projects during the quarter, including the Los Angeles Refinery Interconnect Pipeline System and the Vermillion Compression project. The South Coast Air Quality Management District certified the environmental impact report on May 12, 2017 for the Los Angeles Refinery Interconnect Pipeline System, and we started to break ground this quarter. We expect the Interconnect Pipeline to be completed in July of 2018. We also remain on track to complete the Vermillion Compression project during the third quarter, which will lead to additional volumes in our Rockies business beginning in the fourth quarter. And finally, we were awarded and advanced several new projects in the Bakken region over the quarter, representing about \$150 million to \$200 million of potential investments over the next 2 years. These projects are direct result of our extensive assets portfolio and customer focus in North Dakota and our ability to offer crude and gas gathering and processing as well as water-handling services in the region.

Turning to strategic investments. During the quarter, the Andeavor board authorized its management to work with the board and management of Andeavor Logistics to consider and begin to negotiate a merger of Andeavor Logistics and Western Logistics and changes to the capital structure of Andeavor Logistics with respect to the incentive distribution rights. After evaluating many options related to the incentive distribution rights, both Andeavor and Andeavor Logistics preferred approach is to pursue a buy-in transaction in exchange for common units. The transactions require approval of the board of directors of all 3 companies as well as the conflicts committees of both MLPs. We believe we will be able to complete negotiations and announce the transaction during this quarter. We view these transactions as incredibly important to enable Andeavor Logistics continued growth plans and further strengthen Andeavor logistics as a premier customer focused, logistics company with an enhanced capital structure to better support long-term sustainable growth. With more stable market conditions and the possibilities to improve Andeavor Logistics competitive position, we're excited about our future and ability to grow value for our unitholders.

With that, I'll turn the call over to Steven to provide more details about the quarter.

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

Thanks, Greg. Yesterday, we reported second quarter net earnings of \$110 million, an increase of 45% from a year ago, and EBITDA of \$229 million, up 37% from the same quarter last year. Net earnings and EBITDA for the second quarter 2017 included \$25 million net gain related to the sale of the Alaska Terminal, a \$5 million negative impact from the settlement of a customer claim from the legacy Rockies business, \$9 million of lower margin and additional maintenance cost due to an extended Andeavor turnaround and \$2 million of integration costs. As we mentioned in yesterday's press release, our decision to sell the Alaska Terminal, which had 209,000 barrels of refined product storage capacity, was due to the Consent Decree and the divestitures not material to our past, present or future earnings or operations. The planned, but extended turnaround at Andeavor's Mandan refinery impacted our crude oil and water-gathering volume, but also reduced our revenue per barrel due to shorter crude oil pipeline movements. The impact of this extended turnaround in maintenance at Mandan, which returned to full operations by the end of the quarter had a \$9 million negative impact on earnings in the quarter.

Moving to more detail on our business segments. Gathering and Processing operating income was \$51 million in the second quarter compared to \$55 million a year ago, and segment EBITDA was \$91 million versus \$84 million last year. Included in that number was the previously mentioned settlement of the customer claim, integration costs and the impact related to the maintenance at Mandan. Crude oil and water gathering throughput for the second quarter increased 15% year-over-year and gas gathering and processing throughput increased 11%. This growth was primarily driven by contributions from the North Dakota gathering and processing assets we acquired earlier this year as well as contributions from organic projects and interconnects that we completed on our High Plains Pipeline system. Production of NGLs was lower year-over-year as Rockies volume slowed due to production declines, which was partially offset by volumes from our North Dakota Gathering and Processing Assets. Going into the



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

third quarter, we're currently seeing more drilling and completion activity in North Dakota. The current active drilling rig count is 57 rigs as of August 3, up from 34 a year ago and 46 on average during the first half of 2017, and we are seeing improvement in and around the Robinson Lake processing facility.

In that area, drilling activity has increased to 7 rigs currently, from 2 to 3 rigs in the first half of 2017. In the Rockies, volumes are expected to remain challenged yet revenue is stable due to a minimum volume agreements. We're also encouraged by the recent QEP Pinedale sale, which we believe based on our experience with similar asset trades should have a positive impacts on volumes as the new owners begin to realize that investment.

Turning to the Terminalling and Transportation segment. Segment operating income grew 78% to \$121 million from \$68 million a year ago, and segment EBITDA grew 64% to \$144 million from \$88 million last year. We saw record volumes for both terminalling and pipeline transportation with each increasing approximately 4% and 6% year-over-year, respectively, for the second quarter. Performance was primarily driven by new commercial terminalling and storage agreements, executed with Andeavor in connection with the Northern California and Alaska Terminal acquisitions in the second half of 2016. Also contributing to the segment was the gain associated with Alaska Terminal divestiture. Terminalling throughput increased 44,000 barrels a day since last year to approximately 1.1 million barrels per day in the second quarter. With PADD 5 gasoline demand at record highs, we saw higher throughput at our California and marine terminals. Volumes in our Transportation business increased approximately 51,000 barrels a day since last year to 918,000 barrels per day in the second quarter. This increase was largely driven by higher activity through our southern California pipeline system.

Now let me take a moment to discuss our balance sheet, cash flow and our strategic priorities for creating long-term unitholder value. Our balance sheet and financial flexibility remained strong. We ended the quarter with a consolidated cash balance of \$20 million, total debt net of unamortized issuance costs was \$3.8 billion. We have approximately \$1.6 billion availability under our revolving credit facilities. For the second quarter, net cash from operating activities grew 36% year-over-year to \$117 million, and distributable cash flow grew 40% year-over-year to \$177 million. DCF included \$28 million of proceeds related to the Alaska Terminal divestiture mentioned earlier.

During the quarter, we invested \$24 million in high return, growth capital projects and had \$10 million of net maintenance capital expenditures, bringing our total net capital expenditures to \$34 million for the quarter. For 2017, we continue to expect total net capital expenditures of \$295 million, including \$230 million of growth spending and \$65 million of net maintenance capital.

On July 19, of this year, we announced our second quarter distribution of \$0.97 per limited partner unit or \$3.88 per unit on an annualized basis, which represents our 25th consecutive quarterly distribution increase. The declared distribution also represents a 15% year-over-year increase. Our distribution coverage was 1.2x for the second quarter and 1.15x year-to-date 2017. As Greg mentioned, we've made considerable progress on the potential merger between Andeavor Logistics and WNRL, and an IDR buy-in with Andeavor. Our objective is to have one MLP, best positioned to efficiently and sustainably grow the business over the long term. We see tremendous growth opportunity across the business and in particular, organic growth and targeted acquisitions in Permian basin.

In addition, Andeavor's continued growth provides additional opportunities for the acquisition of Terminalling and Transportation assets. In order to capture the significant value from this growth, the potential merger and IDR restructuring will enable maximum value accretion and unitholders returns.

Our financial discipline and principles remain unchanged and helped guide us as we evaluated options for the merger and the IDR buy-in. These principles include the following: First, achieve an attractive cost of capital by removing the IDR burden and merge the MLPs to achieve near-term cash flow accretion, which will allow ANDX to aggressively grow the business; Second, immediately increase and sustain a coverage ratio of around 1.1x; Third, maintain debt-to-EBITDA below 4x and achieve an investment-grade rating in the near term; Fourth, sustain an attractive and competitive long-term distribution growth rate; and finally, significantly reduce new public equity issuances needed to achieve growth, resulting in more value creation and less dilution for unitholders.

As we progress with this process, we will share more details at an appropriate time as we feel this is a very important part of the future growth of Andeavor Logistics, and has the potential to unlock significant value for our unitholders.

AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

Looking at the remainder of 2017, we now expect the North Dakota Gathering and Processing Assets to contribute \$60 million to \$70 million of annual net earnings and \$95 million to \$105 million of annual EBITDA this year. The revised guidance lowered by \$5 million, is primarily due to slower-than-expected completion activity in the first half of this year. As previously mentioned, we already see improved rig counts, and see opportunities to further grow this business in 2018 and beyond.

For organic investments, we still expect to see \$100 million of capital expenditures, related to the Los Angeles Refinery Interconnect Pipeline System this year. However, because this project is expected to be constructed and funded by Andeavor, on a turnkey basis, actual cash payment will not occur until the project is fully complete in 2018.

The expected cost of the logistic's portion of the project is approximately \$150 million, and it's expected to deliver \$15 million to \$18 million of annual net earnings and \$22 million to \$25 million of annual EBITDA, beginning in the latter part of next year.

As for drop-downs this year, we expect the opportunity to acquire assets offered by Andeavor in the fourth quarter of 2017, which could add an additional \$30 million to \$40 million of annual net earnings and \$45 million to \$55 million of annual EBITDA. Given the timing for this expected drop down is now later in the year than originally planned, due to the merger and IDR buy-in, we expect post drop, we will achieve a run rate of \$525 million of annual net earnings and \$1 billion of annual EBITDA for 2017 versus our prior guidance of actual in-year earnings of these amounts in 2017.

Looking ahead, you can find details of our volume expectations and other elements related to our third quarter 2017 outlook in our earnings release issued yesterday.

This concludes our prepared remarks, and we'll now take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Theresa Chen of Barclays.

Theresa Chen - Barclays PLC, Research Division - Research Analyst

I wanted to follow-up on the comments related to the quantitative and qualitative financial targets for ANDX and what that really means for the growth strategy going forward. So in the context of maintaining coverage of 1.1x, 4x leverage or less, achieving investment-grade status and reducing public equity issuance needs, is your intention to grow primarily through organic projects going forward and possibly supplemented by acquisitions and fund that growth internally with the pertained cash flows and debt? And secondly, given that this is the kind of entity you envision Andeavor Logistics to be, post all the transactions, what kind of long-term growth rate do you think this strategy and capital structure can generate?

Gregory J. Goff - Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC

Thanks, Theresa, excellent series of questions and some of those, we can answer now and some of them will get answered when we complete our transaction. But the way you characterize our financial targets as allowing us to have flexibility to invest in the business by maintaining a strong coverage of around 1.1x, achieving the investment grade which will significantly lower our cost of debt. And as you said -- as we think about and is consistent with how we run the business since the IPO. Our primary focus because it's most accretive, and most valuable to investors is organic growth. And so that capital structure is really built around allowing us to go after the organic growth that we see, principally in the Permian, where we have a number of projects in each of our basins. Second to that, I would say is targeted and highly accretive acquisitions. Principally, likely smaller than some of the large transactions that you have seen out there. We've been very disciplined as we've watched those come through. We do think that there are potential acquisitions, particularly in the Permian that are at attractive multiples, that with this capital structure, we would



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

be very accretive to investors. And then finally, we do have a very strong and growing portfolio of drop-down opportunities that are available. And so, we think about it in that order. And certainly, with the elimination of the IDR burden, it allows for a significant amount of additional accretion from each one of those, but I'd still say, we think about the opportunities in that sequence.

Theresa Chen - *Barclays PLC, Research Division - Research Analyst*

Got it. And related to the IDR buy-in, just in terms of the steps of getting there, the sequencing and economics of the transaction clearly matters. As in if you roll up the remaining units of WNRL first, that would create a larger IDR cash flow resulting in more IDRs to buy-in versus taking out the IDRs first. But I understand that the quantity of the IDR cash flow is just 1 variable in the equation and if you change the valuation of them, this transaction could very well be the same from one scenario to another. Can you just help us -- how do we think about this?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

So we mentioned earlier on the Andeavor call that ideally, you would like to complete the merger and all the other financial restructurings at the same time. And although, orders are important, what's most important is the outcome. And as you said, you can approach it in different ways, but at the end of the day, what we're trying to achieve are the financial principles that I outlined. And so that's really what's guiding us. And so regardless of order, that's how we think about it, is achieving that outcome.

Theresa Chen - *Barclays PLC, Research Division - Research Analyst*

Got it. And lastly, just in light of your comments about improvement in drilling activity and such -- in North Dakota and -- but taking into account Whiting's recent news of reducing their CapEx and the slight downward revision in 2017. Can you just talk about the outlook for this business beyond this year? How do you see volumes and such trending for 2018?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

Yes. We'll certainly -- as we always do, towards the end of the year at Investor Day, because we're in our planning process now, share a lot more with you on that. In addition, upon successful completion of the merger, we'd be able to talk a lot more as well about potential opportunities in the Permian. But maybe, I'll highlight a couple of things. First, in the short-term as you mentioned, we do see rig counts improving even in spite of what Whiting had announced. The capital CapEx that they announced could have some modest impact to projects that would have essentially been in 2018. But as we look across the entire portfolio of opportunities that we see, we don't see that having a material impact this year. And next year, we think that the growth portfolio that we have is quite substantial and we'll be able to grow through that.

Operator

And our next question comes from Justin Jenkins of Raymond James.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I guess maybe just starting off at the top-tier. I'm thinking about the projects that the sponsors and the Anacortes refinery, we've seen your peers, maybe more directly involve the MLP and projects and like that. Is that under consideration here? Are we planning on keeping strictly logistics and assets inside ANDX?



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

Gregory J. Goff - *Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC*

Yes. Our approach if you're referring to the mix [salines] project or isomerization is to really focus on traditional Terminalling and Transportation Assets. And so when we talk about our drop-down portfolio, we focus on that. There could be some ancillary T&T assets around those projects. But they'll go into our drop-down portfolio, but the large processing investments and processing units, we would not consider at this time.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Perfect, that's helpful. And then I guess maybe following up with a couple of procedural questions, related to what Theresa asked. With the proposed merger here between the 2 MLPs, does that require a unitholder vote at WNRL?

Gregory J. Goff - *Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC*

Yes, it does.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

And then the IDR buy-in would not though, is that right?

Gregory J. Goff - *Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC*

That's correct.

Operator

And our next version comes from Corey Goldman of Jefferies.

Corey Benjamin Goldman - *Jefferies LLC, Research Division - Equity Analyst*

Just a quick question on gathering and processing, and we have about a half year now of the North Dakota acquired assets contributing. I understand there's some noise in there with some one-time items. But it looks as though EBITDA year-over-year is up, call it \$10 million-ish. Just wondering given that the expectations weren't all that much changed on the North Dakota side. If you can give us some color as to what's happening kind of in the other Rockies or Mid-Continent region there?

Gregory J. Goff - *Andeavor Logistics LP - Chairman of Tesoro Logistics GP LLC and CEO of Tesoro Logistics GP LLC*

Yes. I think if you look across the business, gathering and processing is where you see the impact of the Mandan turnaround as well as the other charges that were mention earlier in terms of a customer dispute. And so if you isolate those, we're up closer to \$20 million year-over-year, within the segment. The Rockies business is relatively flat. We've seen a bit of decline earlier this year in particular due to weather. And then, in other parts of the business, due to the outage of the pipeline that moved down into the Salt Lake City area. So as we look at those and we look at the impact of what we would expect from the acquired Whiting assets, and we're seeing really kind of the net impact drop-down from that acquisition and the rest of the business is relatively flat.

Corey Benjamin Goldman - *Jefferies LLC, Research Division - Equity Analyst*

Got you, okay. And can you comment now the 2018 EBITDA expectation, financial expectations have changed at all on the North Dakota acquisition?



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

We haven't updated anything for 2018 at this time. I think it's something as I mentioned earlier that would best be done after we complete the financial and merger transactions in the third quarter upon approval, then we'll give you a full outlook for 2018. That takes in account the full portfolio of opportunities, which would include obviously potential Permian growth, what's going on with our Los Angeles refinery project and drop downs, so we'll do that all one time.

Operator

And of the next question comes from Brian Zarahn of Mizuho.

Brian Joshua Zarahn - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Good to hear the formal announcement of the GP buy-in and just a follow up question on the how you're looking at it. Will the IDR base include or exclude the current \$50 million annual reduction?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

So we can't comment at that level of specific detail. And so -- what I will highlight again is the outcomes and if you kind of put all those into consideration, it gives you a bit of sense of what we're trying to do. And in particular, as I mentioned earlier, we want to make this transaction as accretive as fast as possible to our unitholders. And so we'll look at all the different options that are available to do that with those outcomes in mind.

Brian Joshua Zarahn - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Understanding those goals and the constraints given the negotiations, but I guess maybe from a high-level, given the weakness in the MLP capital markets and where the unit price is and how does that potentially impact the buy-in?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

I really don't think it does. It's -- because the basis of our approach is to achieve the objectives I laid out. The math kind of works mechanically. And as we've stated, we believe because of the IDR burden, that we believe -- and we believe our cost of capital is higher right now than our yields and -- than what we would expect overtime, if we were to eliminate that. And so, ultimately, that's what we're trying to deliver is a sustainable capital structure and unlocking the value that we think is not there in the units today. And so, we think about it more as trying to unlock the value and deliver it versus there being any constraints on our ability to do the transactions, given the current price level of the units.

Brian Joshua Zarahn - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

And then, given the Western merger will be taking place this year. Curious why a drop-down is anticipated as the merger will be significantly larger than the anticipated drop-down?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

What -- we had committed to doing the drop-down this year. And as we look at the drop-down portfolio, we look at what it does in terms of accretion. Waiting till after we complete the transactions is more accretive to our unitholders. So -- and it's also difficult to try to do something like

AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

that in the midst of the transaction. And so our aim is 2 separate decisions, but the timing is impacted and so we're committed to pursuing that drop-down, even though we're doing large transactions as well.

Brian Joshua Zarahn - Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst

Okay. Then lastly, any update on your drop-down EBITDA inventory, including the midstream assets that you acquired from Western at the parent level?

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

Yes. Last quarter, we talked about it being north of \$500 million to \$550 million. And Western had talked about -- you got to remember they included their wholesale business as well. But if you just look at traditional logistics assets, it would take that number up a bit higher. And that's something that we'll provide more of an update on too as we get closer to completing the transactions. And also keep in mind that in addition to drop-down portfolio, there's a number of projects that aren't in that number that are going to be TLLP projects, I mean, I'm sorry ANDX projects that are being funded turnkey at Andeavor. The Los Angeles Refinery Interconnect is one example, and then pending what happens with the potential merger we have a new gathering system in the Permian, that's being funded at the parent company level. That could -- that would be potentially another source of growth for the combined MLP.

Operator

(Operator Instructions) And our next question comes from Jeremy Tonet of JP Morgan.

Jeremy Bryan Tonet - JP Morgan Chase & Co, Research Division - Senior Analyst

Just want to follow-up on the line of questions with regards to the drop-down inventory. The \$500 -- \$550 million of EBITDA that you referenced there. How much of that is currently online versus -- will be online at a future point?

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

Majority of it is assets that already exist. The assets under development, the largest part of it, I would say is the Los Angeles Refinery Project, a potential asset under development that we've talked about before is the Vancouver Energy project. But the majority of those are traditional, existing terminalling and transportation assets across the now combined Andeavor portfolio.

Jeremy Bryan Tonet - JP Morgan Chase & Co, Research Division - Senior Analyst

Great, thanks. And just wondering if you could talk about the Dakota Access Pipeline, now that it's online. Are you seeing any impacts on your system here, specifically High Plains or any way that influences your business?

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

Yes. I can share with you what we saw in the second quarter and kind of what -- how we see it at least now and that will evolve over time, given how significant this is to the region. In the second quarter, with the line fill we did see -- you can see it in our numbers, substantially higher volumes moving across our system, just given our Interconnects and ability for producers to get to DAPL. We offer quite a few strategic interconnect locations that we think are going to remain attractive long-term for those producers. They tend to be obviously shorter haul movements than they were before, and so you [saved] it of a lower revenue per barrel. As we move forward, there's a lot of announce as you know additional interconnects, which isn't a surprise, and we'll have to see how that develops over time. But I think in general, I would think of DAPL as being very healthy for

AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

Bakken, because it makes the economics for marginal production that much more attractive and so we'll -- as we continue to move past line fills and we see which interconnects gets built or not, and we look at our projects, we think we're positioned well and we'll just kind of keep updating you as that progresses. That's how we see it today.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Great, thanks for that. And then, if you look at Wyoming, I think there has been some kind of acreage changing hands recently. Just wondering around that area, others in the Rockies, if new owners stepping in could create either new opportunities or improve kind of utilization on existing assets, anything you can share with us there?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

Yes. We certainly appreciate QEP, and customer relationships and we look forward to working with the new owners, once that closes. QEP has talked about wanted to shift their production investments down into the Permian. And typically, when you see a new investor come to market like this, they're going to want to produce to obviously for the cash. And so they see it as an attractive investment. And so we're excited about the change and look forward to working with them. It's too early to kind of put any type of numbers around it. But we still see attractive economics, particularly in Pinedale, and we look forward to working with them. And if you look at similar types of transactions where somebody comes in like this as I mentioned in my comments, you tend to see more opportunities be presented and we're well-positioned to do it and we'll work hard for that business.

Operator

And our next question comes from Ryan Levine of Citi.

Ryan Michael Levine - *Citigroup Inc, Research Division - Equity Analyst*

Just wanted to clarify 2 issues related to the potential transaction. Do you envision that to be immediately accretive to Q4 '17 Bcf or an '18 Bcf? Or is it the intention that it would reach accretion over a longer period of time?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

So it's something that we'll share when we announce the transaction, specifically. However, I did mention that one of our principles is that we do want to make the transaction accretive quickly. I know that that's not a quantitative number. But you can judge it once we announce the transaction. But that principle of wanting that to occur was part of our logic as we went through the entire process. So as we roll out the entire transaction, in the third quarter, that'll be one key thing that we'll share with you our thinking when that will occur.

Ryan Michael Levine - *Citigroup Inc, Research Division - Equity Analyst*

Okay. And then regarding your thinking, is the expectation that you'll be able to communicate a long-term distribution growth rate? Or is the thought to achieve to be able to communicate as projects are developed and growth is -- becomes more visible?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

So I -- as I said one of the principles we have is that we do want to have an attractive and competitive long-term distribution growth rate. So that would typically be something we would talk about whenever you're doing any type of restructuring, just given how important that is. But -- and the reason why we feel confident in being able to do that is because we feel very confident in the amount of growth potential that we see for the



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

business, particularly if the merger is successful and we're able to execute on the projects we're already aware of and working as well as the significant backlog of potential projects in the Permian and other areas. So -- no, we wouldn't hold back on kind of that view because we feel confident in the growth. But can't share more than that at this time.

Ryan Michael Levine - Citigroup Inc, Research Division - Equity Analyst

Okay. And then moving back to the Bakken. With DAPL coming online and some indication of strengthening Q3 volumes. Where do you see the largest opportunity from an organic growth perspective? Is it more on doing extensions on existing infrastructures and building out gathering? Or are there forming or full projects that you envision as the basin continues to develop?

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

So in the Bakken, it would be more gathering type projects. And -- but when we look across the portfolio, we've got a host of terminalling and transportation projects we're working on across the West Coast as well as some compression projects on the gas side. And so I'd say it's balanced overall. And one of the things that we possess is a capability is to be able to expand our array of services we offer producers. We've got very strong capabilities as you know in crude, but also now [getting] gas-gathering and processing, also now in water in the Bakken. And so when we look at working closely with key producers, we see opportunities to broaden the portfolio of services we offer them as well.

Operator

And our next question comes from Sunil Sibal of Seaport Global Securities.

Sunil K. Sibal - Seaport Global Securities LLC, Research Division - MD

A couple of questions from me. When you take into account all the puts and takes which impacted the Q2 results, where do you think the normalized EBITDA run rate is -- was for Q2? And the leverage levels?

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

Yes. I think the items that we -- that I talked about in the prepared remarks and Greg mentioned that were affecting the second quarter. Obviously, we had the gain, we had a customer settlement some transaction related costs. But also, Mandan went through it once every 7-years full turn around. And unfortunately, that turnaround started sooner than planned due to some third-party power interruption. And so, if you take those into account, I think that gives you a -- I think a very clear view of what our performance was in the second quarter. And just mathematically, you can decide those and I think that gives you a pretty clear picture. And it's also good number to build off of as you roll into the third quarter, as you look at our volume guidance and a couple of key areas you'll see sequentially a bit higher volumes. And also in a couple of areas, we expect to see higher [tariffs] just based upon mix, now that Mandan is back online and the DAPL line [pulls] nearing completion.

Sunil K. Sibal - Seaport Global Securities LLC, Research Division - MD

Okay, got it. And when you think about leverage longer-term, I think you laid out 4x -- as a goal of getting below 4x. Do you kind of see yourself going further below that, like 3x to 4x kind of a number? Or how should we think about your target range?

Steven M. Sterin - Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC

Yes, I think, right now, I would say that it would be below 4, maybe better said at or below 4. And I don't see us going materially below that, because we have so much growth potential, and we really want to -- and that we think that's a good level because once as I mentioned, one of our key



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

principles of our capital structure -- restructuring that we're evaluating and getting close on is to minimize the amount of new equity we've got to go out in the market with. And so, when we balance that out, although, we could potentially raise more equity and delever more than that, we don't think that, that creates as much value. And importantly, we want to get to investment -- and we believe we've had plenty of conversations with the rating agencies about that level of leverage and feel that, that gets us investment grade. But getting to investment grade and having a lower cost of capital as a result of that gives us even more Bcf's to play with for investment.

Sunil K. Sibal - *Seaport Global Securities LLC, Research Division - MD*

Okay, got it. And then the last question for me in terms of you, I think, you previously also talked about looking at opportunities in Permian. I was wondering you know if you could kind of talk a little bit about what kind of assets would be really kind of more attractive to you guys whether the gas or crude or water space?

Steven M. Sterin - *Andeavor Logistics LP - President, CFO, Principal Accounting Officer & Director of Tesoro Logistics GP LLC*

So I'll talk it at a very high level, because I think it's important that we complete the merger process, because many of the key assets that we can build off of exist in the form of Western portfolio and some within the WNRL portfolio. So that's why we believe a combination allows the strength of our balance sheet and the assets that exist in WNRL and the former Western, our parent company, now Andeavor is where we think we're well-positioned. And in general, more in the Delaware basin than in Midland, just given the infrastructure that exists around that. And we're always focused first on crude, but we do want to be a full-service provider, and in Delaware, there's a plenty of gas there as well. So we'll look at the full suite of opportunities, and we have quite a backlog of opportunities that over time as we get through the proposed merger, we can come back and share more information with you.

Operator

Thank you. And that concludes our question-and-answer session for today. Ladies and gentleman, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.

Editor

FORWARD LOOKING STATEMENTS

This communication contains certain statements that are "forward-looking" statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. Words such as "may," "will," "could," "anticipate," "estimate," "expect," "predict," "project," "future," "potential," "intend," "plan," "assume," "believe," "forecast," "look," "build," "focus," "create," "work," "continue" or the negative of such terms or other variations thereof and words and terms of similar substance used in connection with any discussion of future plans, actions, or events identify forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding the proposed acquisition by Andeavor Logistics LP ("ANDX") of Western Refining Logistics, LP ("WNRL"), synergies and the shareholder value to result from the combined company, and the proposed buy-in of ANDX's incentive distribution rights by Andeavor ("ANDV") in exchange for common units of ANDX. There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements included in this communication. For example, the negotiation and execution, and the terms and conditions, of definitive agreements relating to the proposed transactions and the ability of ANDX, WNRL and/or ANDV, as applicable, to enter into or consummate such agreements, the risk that the proposed transactions do not occur, expected timing and likelihood of completion of the proposed transactions, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the proposed acquisition that could reduce anticipated benefits or cause the parties to abandon the transactions, the ability to successfully integrate the businesses, the occurrence of any event, change or other circumstances that could cause the parties to abandon the transactions, risks related to disruption of management time from ongoing business operations due to the proposed transactions, the risk that any announcements relating to the proposed transactions could have adverse effects on the market price of ANDX's common units, WNRL's common units or ANDV's common stock, the risk that the proposed transaction and its announcement



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

could have an adverse effect on the ability of ANDX, WNRL and ANDV to retain customers and retain and hire key personnel and maintain relationships with their suppliers and customers and on their operating results and businesses generally, the risk that problems may arise in successfully integrating the businesses of the companies, which may result in the combined company not operating as effectively and efficiently as expected, the risk that the combined company may be unable to achieve cost-cutting synergies or it may take longer than expected to achieve those synergies, the risk that the combined company may not buy back shares, the risk of the amount of any future dividend ANDX may pay, and other factors. All such factors are difficult to predict and are beyond ANDX's, WNRL's or ANDV's control, including those detailed in ANDX's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are available on ANDX's website at <http://andeavorlogistics.com/> and on the SEC's website at <http://www.sec.gov>, those detailed in WNRL's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are available on WNRL's website at <http://www.wnrl.com> and on the SEC website at <http://www.sec.gov>, and those detailed in ANDV's website at <http://www.andeavor.com> and on the SEC website at <http://www.sec.gov>. ANDX's, WNRL's and ANDV's forward-looking statements are based on assumptions that ANDX, WNRL and ANDV believe to be reasonable but that may not prove to be accurate. ANDX, WNRL and ANDV undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances that occur, or which we become aware of, except as required by applicable law or regulation. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

No Offer or Solicitation:

This communication relates to a proposed business combination between WNRL and ANDX and the proposed transaction between ANDX and ANDV. This communication is for informational purposes only and is neither an offer to purchase, nor a solicitation of an offer to sell, any securities in any jurisdiction pursuant to the proposed transactions or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Additional Information and Where to Find It:

In the event that the parties enter into definitive agreements with respect to the proposed transactions, ANDX and WNRL intend to file a registration statement on Form S-4, containing a consent statement/prospectus (the "S-4") with the SEC. This communication is not a substitute for the registration statement, definitive consent statement/prospectus or any other documents that ANDX, WNRL or ANDV may file with the SEC or send to unitholders in connection with the proposed transaction. UNITHOLDERS OF ANDX AND WNRL AND SHAREHOLDERS OF ANDV ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE FORM S-4 AND THE DEFINITIVE CONSENT STATEMENT/PROSPECTUS INCLUDED THEREIN IF AND WHEN FILED, AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. When available, investors and security holders will be able to obtain copies of these documents, including the consent statement/prospectus, and any other documents that may be filed with the SEC in the event that the parties enter into definitive agreements with respect to the proposed transactions free of charge at the SEC's website, <http://www.sec.gov>. Copies of documents filed with the SEC by ANDX will be made available free of charge on ANDX's website at <http://andeavorlogistics.com/> or by contacting ANDX's Investor Relations Department by phone at 1-800-837-6768. Copies of documents filed with the SEC by WNRL will be made available free of charge on WNRL's website at <http://www.wnrl.com> or by contacting WNRL's Investor Relations Department by phone at 1-800-837-6768. Copies of documents filed with the SEC by ANDV will be made available free of charge on ANDV's website at <http://www.andeavor.com> or by contacting ANDV's Investor Relations Department by phone at 1-800-837-6768.



AUGUST 09, 2017 / 4:00PM, TLLP - Q2 2017 Andeavor Logistics LP Earnings Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.

