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TSO - Q1 2017 Tesoro Corp Earnings Call

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OVERVIEW:

Co. reported 1Q17 net earnings from continuing operations attributable to Co. of $50m or $0.42.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Tesoro Corporation Q1 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

It is now my pleasure to hand the conference over to Sam Ramraj. Sir, you may begin.

Sam Ramraj - *Tesoro Corporation - VP of IR*

Good morning, and welcome to today's Conference Call to discuss the First Quarter 2017 Earnings. Joining me are Greg Goff, Chairman and CEO; and Steven Sterin, Executive Vice President and CFO.

The earnings release, which can be found on our website at tsocorp.com, includes financial disclosure and reconciliations for non-GAAP financial measures that should help you analyze our results.

Our comments and answers to questions during this call will include forward-looking statements that refer to management's expectations or future predictions. 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 - *Tesoro Corporation - Chairman, CEO and President*

Thanks, Sam. Good morning, and thank you for joining us today. We are pleased with the overall performance of our integrated business for the quarter. Although we delivered solid results, during the early part of the quarter, heavy rain on the West Coast impacted our marketing volumes and margins, as well as our refining operations in California. A third-party crude oil pipeline outage disrupted our Salt Lake City refining operations and the overall impact from severe weather across our business was approximately $40 million pretax.

Moving into April, these events have passed and we see our business performing well and in line with our expectations for 2017.

Turning to our operations for the quarter, first, with Refining. Total refinery throughput was 825,000 barrels per day or 92% utilization. Gross refining margin was $9.44 per barrel. We have strong operating performance during the quarter and throughput was at the midpoint of our expectations due to the third-party crude oil pipeline outage in Salt Lake City, an unplanned maintenance at our Martinez refinery.

In logistics, Tesoro Logistics is off to a good start in 2017 with strong operating income and EBITDA performance in the quarter. Results included contributions from the strategic acquisitions of the Northern California Terminalling and Storage Assets and the North Dakota Gathering and Processing Assets, as well as organic growth in our terminalling and transportation business.

TLLP's operations in North Dakota and the Rockies witnessed more severe than normal weather conditions. However, TLLP has strong performance in the quarter, driven by record crude oil and water gathering, terminalling and pipeline throughput.

In January, TLLP closed the North Dakota Gathering and Processing Assets acquisition for approximately $705 million. The acquisition is performing well and is meeting our expectations to deliver at least $65 million of annual net earnings and $100 million of annual EBITDA this year.

We also see longer-term growth opportunities for our logistics business, and we look forward to sharing more information as we continue to develop these projects.

Given the current commodity price environment, the progress on our planned growth initiative, integration of our acquisitions and expected drop down to TLLP in the second half of the year, TLLP is on track to delivering approximately $760 million of annual operating income and approximately $1 billion of annual EBITDA in 2017.

In addition, we recently updated our 13D TLLP ownership filing with the SEC, indicating our intentions to work with the Board of Directors and management of TLLP to consider, discuss and endeavor to negotiate a merger, consolidation or combination of TLLP and Western Refining Logistics and to consider, discuss and endeavor to negotiate changes to the capital structure of TLLP, including with respect to incentive distribution rights.

Now shifting to marketing. We remain committed to reaching our goal of $950 million of segment operating income and $1 billion of segment EBITDA by next year. We expect to achieve this goal primarily through organic growth through rebranding stations using our portfolio of brand offerings, reimaging and upgrading our station to enhance our customer experience and with the potential for some small acquisitions of high-quality stations.

These efforts are focused on delivering our goal of 350 new retail stations from our starting point of about 2,300 in 2015. We have made tremendous progress towards this target and have already added 224 new stations since 2015, including 77 over the last 12 months.

I would like to discuss one of our newer growth initiatives for the marketing business. Mexico recently announced its plans for deregulating downstream markets and a scheduled for liberalizing fuel prices in 2017.

We have been actively studying this market and evaluating relevant opportunities. Mexico presents a tremendous opportunity to optimize and grow our integrated footprint along the West Coast through both branded and unbranded retail growth and supply-related agreements.

Last week, Tesoro was awarded capacity on Pemex's oil products pipeline and storage terminals in the Phase 1 open season for Northwest Mexico. We believe the Baja California and Sonora regions of Mexico are an excellent fit with our U.S. West Coast system.

Now I would like to comment on our pending acquisition of Western Refining. As you know, in March, stockholders of both companies voted to approve Tesoro's expected acquisition of Western Refining. We remain committed to delivering $350 million to $425 million in annual synergies from operational improvements, value chain optimization and corporate initiatives with the run rate to be achieved by the end of the second year following the close of the transaction.

Each of our synergy ideas and opportunities have been further evaluated and studied over the last few months and as a result, we are confident in our abilities to achieve these targets. After close, we will share more information on the specifics behind our plans and our progress towards achieving these synergies. Integration planning is well underway and a planning team with representative from both companies has been working very hard in advance of our anticipated close, so we can rapidly integrate with no disruptions to our business operations and move forward with synergy capture.

Completion of the acquisition remain subject to the satisfaction or waiver of customary closing conditions, including the expiration or termination of the waiting period applicable under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. We are looking forward to closing the transaction by the end of the second quarter.

Now let me give you an update on our 3 major growth and productivity projects, which all continue to move along in different stages of permitting. We continue to work very closely with all of our stakeholders and regulators to provide all required information.

These processes have taken much longer than anticipated but what has not changed are the environmental, societal, employment and economic benefits of each of these projects. Starting with our Vancouver Energy project. The Energy Facility Site Evaluation Council or EFSEC, concluded adjudicated hearings in late 2016. The council continues its deliberation in order to make its recommendation and is also preparing a final environmental impact statement that will be reviewed by the Governor.

Last week, the council issued the draft notice of construction air permit. Comments are currently being collected and a public hearing is scheduled for June in Vancouver. We are committed to the proposed crude oil rail-to-marine terminal and are confident that a thorough evaluation will demonstrate that we can design, construct and operate a safe environmentally responsible facility that offers benefits to the State of Washington and the entire West Coast.

Regarding the Los Angeles Refinery Integration and Compliance Project. We are working with the South Coast Air Quality Management District on the certification of our environmental impact report. Additional required permits are expected to be attained within 90 days thereafter.

This project enhances our position on the West Coast and offer several benefits, such as, one, the full integration of the Carson and Wilmington complexes; two, yield flexibility of 30,000 to 40,000 barrels per day between gasoline and distillates; and three, a significant reduction in greenhouse gas and other criteria pollutant emissions.

As for the Clean Products Upgrade Project, we are progressing through the permitting process with Skagit County in the State of Washington. The public comment period for our Draft Environmental Impact Statement began in late March, and we effect -- expect the final statement to be prepared later this year.

Moving to our outlook for 2017. Our expectations for the year are unchanged from our last update a few months ago. These include the following market assumptions: first, a Tesoro Index of $12 to $14 per barrel with crude differentials similar to 2016; and second, marketing segment fuel margins either $0.11 to $0.14 per gallon.

Additionally, we are committed to delivering an estimated 475 -- $575 million of annual improvements to operating income in 2017, which is comprised of $395 million to $475 million from growth and productivity and $80 million to $100 million from higher throughput and other operational improvements.

I would like to point out that these estimates do not include any expected synergies from the proposed Western Refining acquisition. Our annual improvements to operating income for 2017, consist of $305 million to $355 million in refining; $125 million to $150 million in logistics; and $45 million to $70 million in marketing.

Before I conclude, I would like to acknowledge the excellent work of our people. Our teams are working hard in executing very well to deliver the plans and improvements I have outlined. They continue to deliver results, drive towards being the safest and most environmentally responsible operator in the industry, execute major projects that position the company to continue to grow and create value and prepare for the integration of Western Refining.

We all share tremendous enthusiasm for the pending acquisition of Western Refining, the delivery of our identified synergies and the significant value-creation opportunity for shareholders and other stakeholders. We expect to close soon and look forward to sharing additional information regarding our integration efforts.

With that, I'll turn the call over to Steven to provide more details of our first quarter and financial and operational results.

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

Thank you, Greg. Yesterday, we reported first quarter 2017 net earnings from continuing operations of $50 million attributable to Tesoro or $0.42 per diluted share compared to $58 million or $0.48 per diluted share a year ago.

Consolidated net earnings were $87 million for the first quarter compared to $109 million for the same period last year and EBITDA was $423 million compared to $411 million, a year ago.

First quarter 2017 results include $19 million of pretax cost and operating profit and $17 million of interest expense, associated with the integration and preparation of our anticipated acquisition of Western Refining and TLLP's completed acquisition of the North Dakota Gathering and Processing Assets.

First quarter 2016 results included a pretax loss of $147 million, related to a lower cost or market adjustment in the Refining segment. The effective tax rate for the first quarter 2017 was 19.4%, similar to last year and for the same reason, tax rate in the quarter was lower due to excess tax benefits related to equity compensation vesting of $14 million.

Turning to our business segments. Refining segment operating income was $34 million for the first quarter compared to a loss of $93 million a year ago and segment EBITDA was $181 million versus $53 million last year. Segment operating income and segment EBITDA for the first quarter 2017 were negatively impacted by incremental costs related to third-party supplier pipeline disruption in Salt Lake City. The pipeline is back in service and is no longer impacting our business.

The Tesoro Index was $12.40 a barrel for the first quarter, with a gross refining margin of $701 million or $9.44 a barrel. This compares to the Tesoro Index of $12.15 a barrel and a gross refining margin of $540 million or $7.59 per barrel last year.

When comparing our first quarter 2017 segment operating income, segment EBITDA and gross margins to the same period last year, please note that result from the first quarter '16 include a pretax inventory charge due to lower cost of market, valuation adjustment of $147 million or $2.07 on a per throughput barrel basis.

Other than the LCM impact, the year-over-year increase in gross refining margin reflects favorable market conditions and better operating performance, somewhat offset by higher energy prices and the crude pipeline outage in Salt Lake City.

Total Refining throughput for the quarter was 825,000 barrels a day or 92% utilization, which was in line with our guidance. In our California region, throughput was in line with our expectations, however, results were negatively impacted by unplanned downtime due to weather at our Los Angeles Refinery and unplanned maintenance at our Martinez Refinery.

In our Pacific Northwest region, throughput was higher than our expectations. During the quarter, we're able to successfully complete the planned maintenance at our Anacortes, Washington refinery, ahead of schedule and it's resulted in an increased throughput in gasoline production.

In the Mid-Continent region, throughput was at the low end of our guidance and we incurred additional cost and loss production, as a result of the third-party supplier pipeline outage that we already discussed.

Consolidated manufacturing cost for the quarter -- first quarter 2017 were $5.67 a barrel.

Moving to logistics. Segment operating income increased to $150 million in the first quarter from $190 million a year ago and segment EBITDA grew to $210 million from $175 million last year. TLLP's strong results for the quarter were primarily driven by contributions from the acquisitions of the North Dakota Gathering and Processing Assets that Greg described earlier and the terminalling and storage assets in Northern California and Alaska drop down in the second half of 2016.

TLLP results were also driven by year-over-year growth in terminalling and transportation throughput, primarily driven by higher California marine volumes as a result of increased refinery utilization. Performance for the quarter was partially offset by volume weakness in the Rockies natural gas gathering and processing business due to continued production declines.

The total general partner and limited partner distribution received by Tesoro were $77 million during the first quarter. This is an increase of $27 million from a year ago.

Turning to marketing. Segment operating income was $133 million, segment EBITDA was $146 million and fuel margins were $0.096 per gallon in the first quarter of 2017, reflecting normal seasonality and weather impacts. This compares to segment operating income of $227 million, segment EBITDA of $230 million and fuel margins of $0.139 per gallon a year ago. An abnormally rainy winter in California resulted in lower vehicle miles traveled in PADD 5. Consequently, our marketing business witnessed a decline in fuel volumes. Additionally, the gasoline street price per spot spread narrowly during the quarter and this had a negative impact on our results. However, we are already seeing demand growth and higher margins in the second quarter, and we continue to expect margins to be in the range of $0.11 to $0.14 per gallon for the full year.

Now let me take a moment to discuss our balance sheet, cash flow and our strategic priorities for creating long-term shareholder value. Our balance sheet and credit metrics remain strong. We ended the quarter with a consolidated cash balance of $2.3 billion, which includes $1.6 billion of proceeds from the senior notes issued during the fourth quarter related to the announced acquisition of Western Refining. This was down from $3.3 billion at the end of last year. This reduction was primarily due to the $700 million we spent for TLLP's acquisition of North Dakota Gathering and Processing Assets during the quarter.

Working capital also increased during the quarter, driven by the normal seasonality of the business, as well as turnaround activity at our Martinez Refinery and preparation for our turnaround activity at our Mandan Refinery. We expect working capital to reverse throughout the rest of the year and result in net positive operating cash flow for the full year.

Including the senior notes issuance late last year, to prefund the Western Refining acquisition, total debt net of unamortized issuance costs was $6.6 billion, or 44% of solo capitalization at the end of the quarter. Excluding TLLP debt and equity, total debt was $2.9 billion, or 34% of total capitalization. Keep in mind the consolidated leverage numbers include the $1.6 billion in borrowings for the pending acquisition of Western.

We remain on track for and are committed to achieving investment-grade ratings at Tesoro and TLLP this year. This has already upgraded both companies to investment-grade, and we are on credit watch positive for Tesoro by S&P and a positive outlook from S&P for TLLP. Moody's also reflect Tesoro 1 notch below investment-grade with a positive outlook, but TLLP is 2 notches below Fitch and 1 below S&P, but with a positive outlook as well.

Tesoro will continue to operate with keen financial discipline that enables our businesses to invest for growth, return cash to shareholders in a form of share repurchases and dividends and maintain a strong financial position. Our commitment to this is unchanged, and we expect our financial position to continue to strengthen following the close of Western Refining, given they're similar strong cash flows and our synergy delivery.

Although we are precluded from repurchasing shares at this time, following the close of the acquisition, we remain committed to executing on the $2 billion share repurchase authorization we already have in place, given the strong cash generative capabilities of both companies and our desire to repurchase shares, given both the current price of our stock and the issuance of the new units for the acquisition.

Tesoro generated cash flow from operating activities of $100 million in the first quarter. As I mentioned before, this was largely impacted by the working capital build during the quarter. During the first quarter, we invested $75 million in high-return growth capital projects at Tesoro and TLLP.

Our combined capital expenditures were approximately $226 million, consisting of $181 million for Tesoro and $45 million for TLLP. During the first quarter of 2017, TLLP closed the $705 million acquisition of the North Dakota Gathering and Processing Assets and this was entirely funded by TLLP debt and equity.

Additionally, we paid dividends of $65 million and TLLP distributed $63 million to its public unitholders during the quarter. As Greg mentioned, we have amended our TLLP ownership following with the SEC. We believe there's significant value in Tesoro's ownership of TLLP in particular, the incentive distribution rights, which we believe is the source of tremendous value.

Our intent is threefold: first, to have a very strong and growing logistics business that could sustainably access its own capital at a low cost; second, to generate significant cash flow for all investors; and third, for the value of this, to be realized by Tesoro investors, given the significant cash flows and value that results from our ownership of this business.

Although the LP unit ownership Tesoro holds, is significant and fairly clear to understand and value, we believe the intrinsic value for our IDR is substantial and by its nature, difficult to easily ascertain.

As we look to the future, we'll be very focused on ensuring all of these 3 objectives are achieved, including ensuring the intrinsic value of the IDRs is clear for investors, given the importance of this to our overall valuation.

As we progress through this process, we'll share more details in an appropriate time as we feel this is a very important part of Tesoro's full valuation potential.

Turning to our 2017 capital outlook. We had expected total capital expenditures for 2017 of approximately $1.2 billion, consisting of $870 million at Tesoro and $325 million at TLLP. However, given the timing of permit approvals for our major projects, we now anticipate full year 2017 capital expenditures to be approximately $1.1 billion, consisting of $770 million at Tesoro and $325 million at TLLP. Expected turnaround expenditures for the full year 2017 continue to be $360 million.

Looking ahead, you can find details of our planned throughput, manufacturing cost per barrel and other elements related to our second 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) Our first question will come from the line of Doug Leggate with Bank of America.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

I guess, can I start off with kind of an unusual one the Mexico acquisitions? I'm just wondering what the signals, Greg, as we think about looking forward to where this can go longer-term? What the incremental margin environment looks like compared to your base business? Just general kind of thoughts, is this an incremental or a more longer-term strategic shift that we could see you moving to that southern market?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So let me just -- you mentioned the word acquisition, so just to clarify, Doug, there is no acquisition. So what we've done to start with is we have been engaged in a process that was widely attractive to many people in the industry to acquire space in the distribution system in the northwest section of the country. And so, one, by being able to go in and acquire the space allows us to basically physically take product from our West Coast operations into the northwest part of Mexico, put it into the terminalling and pipeline system for further distribution to marketing customers. And it is our intent to use our ARCO brand in that part of the country and develop relationships with companies to market at the street-level in Mexico. So if you -- so that's what's going to happen. If you look at the dynamics of that part of Mexico, the North -- the Western part of Mexico, specifically around the northwest part, is short, more than 150,000 barrels a day of gasoline and diesel and it's about 2/3 gasoline, 1/3 diesel. And so from a total West Coast, if you look at the West Coast of the United States as well as the West Coast of Mexico, it's a natural fit to be able to supply that part of Mexico. And so in the past, where we would sell into Mexico through their PMI in Mexico, this basically allows us to go directly into the marketplace in Mexico. So we believe our rationale is -- the last part of your question is that when we look at the total flow of primarily gasoline, it allows us to really optimize our entire West Coast system by basically extending further south into a market that's naturally short. And what's important is that we see an opportunity, especially because of the ARCO brand, we believe the ARCO brand, all of our market studies would indicated that ARCO brand is very favorably received, especially in that part of Mexico that by extending south of the border into the United States, it's just a natural home for our business and all of our analysis on the liberalization of prices and margins and cost of doing business in that are relatively comparable to the United States. So we don't see a difference from that standpoint.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

I appreciate the clarification, the longer -- lengthy response. But if may and my follow up is Kenai related, so the $950 million goal for retail presumably didn't include anything any incremental earnings from Mexico. But at the same time, the volume in the pipe, on the balance of the West Coast market, I'm guessing, as you predicted, it could be optimum. Just wondering if you could walk us through those 2 issues. Obviously, there's potentially a low slight markets in the wintertime in the West Coast to improve, I'm guessing. I'm just wondering if you could give us some idea what it means for balances both for timing and retail and I'll leave it there.

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So I'll probably make 3 points regarding your question. The first point is the -- when we move into Mexico, that we see a potential there to take part of our -- of what we have been exporting and then moving it directly into our system. And so we have targeted a certain amount of volume that we would do in Northwest Mexico, which is probably commercially sensitive to not talk about that but it's a natural fit into what we're trying to do. And then we would -- we see it like you said, we see it being a very ratable secure supply of demand throughout the year now. So that would help us out a lot and we would intend to move product from our Anacortes refinery into Mexico because we're basically very balanced in the State of California to be able to do that. And ask to clarify anything else, Doug, I may have missed -- if you had another point in your question, I may have missed that.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Yes, this is a [purely] marginal point, but the $950 million retail (inaudible) , I assume that did not include anything from this?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So the answer is no, it does not. That was not into our thinking when we formulated that target, in marketing back in 2015. And I think in all honesty, this is a startup so you have to expect in the first year or 2, the growth and getting the rebranding and everything, it's going to take us a little time. So our expectations from a profit standpoint are absolutely not material in the first couple of years as we get everything established in doing business there.

Operator

Our next question will come from the line of Neil Mehta from Goldman Sachs.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil and Refining Analyst*

Greg, I want to get your perspective on crude differentials and 2 crude grades in particular. First, is just your thoughts on ANS. We are seeing signs of North Slope oil production declining here and ANS is now trading that a little bit for premium WTI, so thoughts there. And then also Bakken, especially post Dakota access coming online. Are those like 2 important crudes for your Refining?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, I think you are correct on ANS, Neil. I think if you look at first quarter of '17 versus first quarter '16, ANS -- we look at it relative to Brent crude oil, actually was pretty comparable on a year-on-year basis. However, in the second quarter, where ANS relative to Brent was weakened a little bit in 2016. This year, it's strengthened a little bit, I think you see that normal variability in that. So the differentials even though the production may be slightly declining with the competition from other foreign sources of crude oil, we don't see on an annual basis, material changes in how Brent would price relative to ANS. So we'd -- even though that it -- we'd just have other sources of crude supply that will supply the West Coast and price very competitively with ANS crude oil. So we don't see having a major change there on an annual basis. On Bakken crude oil, there is no question that the startup of the new pipeline to take crude oil out of North Dakota to the Gulf Coast ultimately, is going to have an impact on the supply and demand in that. I think we'll see a Bakken tighten up, which it has. You've seen that Bakken has been tightening. One is, production kind of came down and two is, people prepared to move on the Dakota access pipeline. We believe that the differential will stay relatively tight like that and that we'll need additional production to move back up to get closer to a discount, which is probably more reflective of the cost of moving Bakken out of there to the Gulf Coast from a discounts basis.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil and Refining Analyst*

I appreciate that. And the follow-up question was around share repurchases. And based on your comments, Steven, it sounds like you guys are willing to be aggressive around buybacks once the blackout period end. So first, I want to confirm how aggressive you guys are willing to be around that buyback program? Then second, any thoughts around what the market might not appreciate with the stock going still in the low-80s here?

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

Yes, as we've said, when we look at both the evaluation of the stock where it is today, our confidence and the ability to integrate and capture the synergies that we've laid out, the value that is intrinsic within our MLP, as well as our retail in marketing business and you combine it with the fact that we are issuing stock, if anything, as I said, it makes us want to lean harder into share repurchases. At this point, I can't be more specific than that but I can tell you from a directional incentive point of view, that's how we feel. We weren't able to buyback stock in the first quarter but we would have if we could. And as soon as we get through close and we'll able to talk more specifically about that, we absolutely will.

Operator

Our next question will come from the line of Spiro Dounis with UBS.

Spiro M. Dounis - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Shipping*

Just want to start off on IDRs. Realize it's difficult maybe to answer right here, but trying to get bookend around maybe timing. I know obviously, nothing of this really going to happen before the Western deal closes. But on the other side of that, you've also have this 2 year IDR waiver with TLLP. So would you expect to run the clock on that IDR waiver before doing anything? Or do you think it's more likely that maybe you'd address the IDRs and WNRL ahead of that IDR waiver expiration?

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

Yes, without commenting specifically on the mechanics of the waiver, I can tell you that we're not waiting for that to expire before we act. That's why we filed the 13D that we did because we're working on this right now. When we look at TLLP and post-close WNRL, we think there is significant amount of value that's there, by probably a value -- we're going through a proper evaluation of the potential merger of the 2 companies. What we do with the IDR and as you know, it takes a large percentage take that has a high intrinsic value. We'll take into account the waiver as we go through that, so we don't have to wait for that to happen. But as we look at that, we do think that the GP value and the IDR value is so significant that we want to move on this properly but as expediently as we can. And so we'll update you as we can but we certainly not -- we are not waiting.

Spiro M. Dounis - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Shipping*

Okay, that's very clear. Second one, just around marketing. I appreciate your comments on potential expansion at the Mexico. But may be just coming back here domestically. Just wondering if you can give us an update on the M&A landscape and then maybe the convenience store market. Are you seeing opportunities coming to market more? And how would you describe valuation right here?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, so it has been -- there is a fair amount of activity of retail marketing assets, convenience stores, out on the market in that. So I would say that, in the last few months, we've seen a fair amount of activity and as you probably are very aware is that the value seem to be very attractive for the sellers for sure, very strong values, which I think reflects the quality of the business that we see. Our outlook on the overall profitability of the convenience store business and that is very, very positive and the values are reflecting that in the marketplace.

Operator

Our next question will come from the line of Corey Goldman with Jefferies.

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

Just to start. My understanding is, we are still waiting for some antitrust clearance of the merger but maybe if you can give some more color to exactly what they're looking at? Or perhaps is the lack of clearance to date unrelated to specifics for Tesoro (inaudible)? And perhaps is this a function of any change in the administration. Apologies for the ignorance here, but just any color would be helpful.

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

I think the very -- the most clear way to state it is that there's a process that you have to go through with the FTC to get, so that you can move forward and close the transaction and we've been engaged in that process since the end of last year. And now the time is probably not unusual for what we're trying to do and in the energy business. So everything, that we see is moving along and has worked really well and as we anticipated when we announced the combination of Tesoro and Western, we said it would take us until about the first half of 2017 to be able to close the transaction. And where we sit today, that will be very, very true from that standpoint.

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

Okay, understood. And may be just as a follow-up to spare those question. We're hoping to get a little bit more on the 13D, you mentioned in your remarks and we understand you're probably limited in what you can say at this point. So perhaps if you could just provide color, as it -- kind of where it relates to TSL? And specifically, can you comment if, one, any combination of WNRL and TLLP was already included in your $350 million to $425 million synergy guidance? And two, if not, can you perhaps outline some of the merits of having a one equity class, as opposed to dual?

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

Yes, so I wouldn't say that there's anything material in our synergies related to merger because we have to go through the analysis, and we still are and precisely what that would look like. And so any synergies that we see there, we'll talk about at the right time. The real focus of what we're trying to do there, includes a couple of key things. First, we see a tremendous amount of growth still within the midstream space. Principally, within the Permian but potentially longer-term, beyond that. We also have a substantial drop down portfolio on a combined basis. And we fully expect to continue to drop down assets into TLLP, WNRL. We -- If you look back historically, we've averaged somewhere between $400 million and $450 million a year of drop downs, which brings a lot of cash back to Tesoro side, that's an important aspect of the value proposition for Tesoro's shareholders. The second, and as I mentioned earlier, most important aspect is when you look at the valuation of our IDRs that are intrinsic within the value of the company. And we've realized it's very difficult to value that. And we also know that the IDR is based upon the maturity and make it difficult for TLLP to access capital, establishing a capital structure that makes that intrinsic value of the GP clear and recognizable to Tesoro shareholders, we think it's extremely valuable. And being able to do something with the IDR to liberate that burden on TLLP, we think it's also attractive not only to support the growth but also to support the unit value in TLLP. And so the combination of those things, if you think about that from a value-creation perspective, aren't in the synergies per se but there's certainly value enhancers that come from doing this properly.

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

I guess we understand the IDR portion, but just the combination of the 2. Do you look at that as kind of in connection with the IDR supports that way you are mentioning in the same comments or is it kind of mutually exclusive between the 2?

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

So when we can, we'll be very, very specific about those connections and relationships, it's just too soon to do it, but all of those are being evaluated and that's way we disclosed them both within our 13D. And they obviously have to be considered in conjunction with one another.

Operator

Our next question will come from the line of Chi Chow with Tudor, Pickering, Holt.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

There's been a lot of discussions in this earnings season, about RINs and effects on wholesale realizations. Can you discuss whether the lower RIN prices so far this year impacted marketing segment result at all in the first quarter?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So first, our overall marketing business from how it's performing in our outlook on the margins and marketing are unchanged relative to anything that happens with RINs. We see -- if you go back historically and you look forward, particularly over on an annual basis, you'll see kind of some ups and downs primarily related to the changes in crude oil prices and the normal following, our lagging of retail prices. But from a retail marketing standpoint, we see the margin environment basically unchanged. The competition in the markets particularly, from a wholesale marketing for gasoline and more importantly, for diesel is -- those markets are just a very, very competitive. And how the RINs are ultimately reflected in the market, it depends in different parts of the country and the degree of competition out from everything that we've seen. So the lower value for RINs, definitely help out when you're a net buyer and you have to buy a RIN, paying a lower price for the RINs. But the impact on the profitability of our retail marketing business is unchanged by the RIN values. We don't see any impact there, so even though in the first quarter of this year, our marketing margins come as Steven said in his comments, which are probably picked up, our marketing margins were a little bit weaker than we expected them to be on an annual basis. Typically, assuming that crude prices are bouncing around, that's kind of a normal way margins are in the first quarter for us, primarily as a result of switching from winter-grade to summer-grade gasoline during the quarter. But our margins in marketing are back up to kind of where we would expect them to be in the second quarter and very consistent with the guidance that we provided.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Okay, so you're saying that in your markets, the RIN is reflected in gasoline diesel prices? Is that what, what you are saying?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, what we're saying is in our retail marketing business, the margins are not impacted by the RIN value. And that the -- when you sell either whether be -- our branded business, where we offer brands and it's also unchanged but in the unbranded business, it's more tied to the competition of the different arts of the country where you are marketing, whether it be gasoline and/or diesel.

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

And just to give you a little bit more kind of specificity in context around to Greg's point, the reason why we believe as we see the numbers, if you look at January and February, they reflect typically lower seasonal margin realization, mostly due to seasonality but this year also due to whether. That is we moved into March, our overall margins were in the middle of the range and they continue to trend upward. As we look at April and May, with the overall marketing business, even though RIN prices are flat to declining. And so as we look at our marketing business and our $0.11 to $0.14, a decline in the RIN prices doesn't change that.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Okay, and the second question on Vancouver. Can you tell us how important is the -- I'm not sure, did you receive the permit or is it just a draft? But how important is that event to the overall success of the project in your view? And hypothetically, if that terminal moves forward, do the project economics still make sense to move Bakken and Canadian barrels down, given your view on the Bakken differentials?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So the permit is part of the overall process that we need to go to get the final clearance to build the project. So it's very important that, that permit be out for public comment and that's because it's just part of the process that we have to go through. And like we've said, and you probably heard us many, many times, it's been a very, very long process. I think we're over 4 years now of working on this. The second part of your question about the overall value and maybe viability of Vancouver Energy, we still see Vancouver Energy as being a critical link to moving crudes from the inland market into the West Coast of California. And even though if you go back in and I think when Neil asked earlier about crude differentials for Bakken, and you see this change in the market, our view is it over time, that the differentials just on -- forget about the crude quantity advantage that you get on the West Coast by running Bakken versus alternative crudes, which is unchanged. We've always said that's $3 to $5 a barrel, but we also believe that the differentials with a slight increase in production, the Bakken will be also be very attractive from that standpoint. So yes, we see the projects deal as being both economic and valuable to our overall crude supply on the West Coast.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Does the issuance of the permit -- do you think that have any sway on the Governor's decision?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Chi, it's just part of the process. They need to -- they're just going through all the steps that they need to, to get to the final point to make the recommendation. And so I don't -- I can't judge that. Everything that we see and everything that we've done, we are very optimistic that we will be successful in obtaining the permit to build Vancouver Energy.

Operator

Our next question will come from the line of Brad Heffern with RBC Capital Markets.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

Greg, in your prepared comments, I think that you mentioned that you're starting to see demand growth in the system again. So I was wondering if you could put a little quantification about that and may be just give your outlook on the California market in general from the context of we're seeing, obviously higher pump prices at this point, inventories are higher than sort of at the top end of the 5-year range. So how are you thinking about it for the summer?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, I think if you look at after several years of very favorable growth, basically, strongly tied to the improving economy in the State of California. We've experienced good growth for a few years in a row. And we've talked about the vehicle miles traveled, the employment rate and everything and they're kind of getting to a point where there's not a lot of upside in them from our stand point. I mean we'd --, I think it's unrealistic to expect the growth that we have seen in the past to continue with the same pace. So we see, one, a very favorable market environment for demand. That we absolutely see that, both for gasoline, diesel and jet fuel and so overall, tied to the economic environment, we see very favorable demand for all 3 products. Second, you're right, inventory is built quite a bit actually in -- I think it was probably in March, about a 4- or 5-week period of time, we saw the stock's build from a relatively low position, especially gasoline to where it is today. But when you look at it on a day-supply basis, it's kind of where the 5-year average is. So we have seen the refineries after the winter weather staying primarily in February and the heavy rains in that refineries across the whole system. It ran really, really well. We built some stocks but overall, with favorable demand. And what we see going on from a maintenance standpoint and that from now to the end of the year, we see a very attractive West Coast market.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

Okay, thanks for that color. And I was wondering if you could also put a little more detail into what's going on with the permits for the L.A. integration? Obviously, I think it was supposed to be online by now and it seems like there's a lot of stuff in the project that the regulators would like. So is there any particular stumbling block? Any color will be helpful.

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

I think, Brad, from our experience on all of the projects that we've been working on, if the process, one, is considerably longer and more demanding for the request for information that we ever expected. I think there's -- the fact is there's just a lot of pressure from a lot of different stakeholders that force us to be able to honor their request for information and get all of that out into the public domain. And that in itself takes a lot of time, specifically, with the Los Angeles project. We've been going through all that. We actually believe we're very, very close to getting to a point where will be able to move forward on that. But we just experienced a lot of demands for information that we've had to honor those requests and that just takes a very -- unfortunately, it takes a very long period of time. But we do not -- we absolutely do not see anything that will preclude the project from going forward.

Operator

Our next question will come from the line of Roger Read with Wells Fargo.

Roger D. Read - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Greg, maybe just a follow-up on some of the discussion on Mexico. Can you give us an idea may be the initial size of that market? And then I know generally speaking, the West Coast of Latin and South America aren't huge markets, but maybe an expectation of where your exports are today and could go over time?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, I think, like I mentioned earlier, Roger, with the hard view of the supply demand for the Northwest part of Mexico and that is the market short about 150,000 barrels a day. And as we look at crude runs in the refineries in Mexico and the distribution of products from the refineries, where they are located both on the Gulf side and on the Pacific side, we see that shore being there. We've always said that we participate in the market to move a product down to, not just Mexico but Chile and Peru on the West Coast of South America, like you mentioned. And so part of what will happen is we will see trying to move some of that product directly to the street, like I mentioned in my comments. And so we have a targeted amount of volume that would fit into our system that we would like to be able to optimize across our system and move into Mexico. And I think the other point is, is that because it's a -- the market is going through a tremendous change with the opening of the market to other companies to come in and compete, this hasn't happened. And it will take some time in that -- for that to shift. But we see ourselves being in a position to capture potentially a sizable portion of that market in Mexico, but it's going to take a little bit of time because of the tremendous changes that you have to go through to be able to introduce competition. I mean, for years, Pemex has been the supplier for everyone there. And now other companies will have the opportunity to come in. We have to be fortunate that we're one of the first ones to get in and be able to go directly to the street. We've had conversations with marketing companies and have targeted actually retail stations that will allow us to sell to them in the markets. So we're very encouraged from that standpoint.

Roger D. Read - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay, great. When you mentioned Northwest Mexico, does that include -- when you think about the Western acquisition, when it closes, is that part of that as Northwest Mexico? Or are we thinking about where the El Paso unit is, that's more central and so there'd be a opportunity in Mexico from those assets as well?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, so you're exactly right that the country is divided up in regions. And if you follow the opening up of the markets in Mexico, their approach has been to open up the markets regionally, which just so happened to be that they opened up the Northwest Part, which is the part we're talking about, which is not the part that is supplied out of the El Paso market. So that will open up at a different point in time. So that presents other opportunities down the road to look at the total Tesoro system on how we meet not only the supply in our market area, but then potentially moving South across all of the northern part of Mexico, not just the North part of Mexico.

Roger D. Read - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Okay, great. Sounds like you might be one of the refiners with actual growth opportunities for gasoline here. If I could just follow-up on the retail discussion. I understand from the earlier questions the margins have improved at the retail marketing level. It sounds like volumes are better but is there any specificity you can offer on kind of same-store sales if we think about April-to-April versus what was obviously a weak Q1.

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Just that they're up slightly on a year-on-year basis, so they look good to us from an overall stand point but there's not a substantial increase on year-on-year. I think partly, Roger, it's just going back to the overall, when you need to factor in employment, the movement of people and the vehicle miles traveled, I mean, there's just -- there's actually just not that much more upside other than just a normal growth in the population of the state as things change. But we see it being up slightly year-on-year for the second quarter.

Operator

Our next question will come from the line of Paul Sankey from Wolfe Research.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Back to Mexico again. When we met last year, you were saying that there were a lot of challenges there. And that you have to overcome them, I'm surprised that you've managed to advance so quickly. What is the timing on actual activity going forward? And what did you overcome if you like in terms of some of the challenges as opposed to operating in the U.S.?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, I think probably 3 or 4 points there. One, we have been investing a tremendous amount of time, understanding and evaluating the whole, the market from all factors, just like you would expect, which includes the political environment in Mexico, how you do business, the risk of doing business, the economics, the drivers, particularly because it's kind of been happening right in front of us as the liberalize the markets and open up the markets for competition and all that. So you're exactly right, there were a number of things, and we devoted a lot of time to have been able to do that and have become very comfortable with everything that we've been able to understand about the markets. And when we look at the risk of what we're trying to do, we feel very, very comfortable. The risk reward is attractive to us, particularly at this early stage of entering the market. So it has moved very quickly, like you said. It's very likely that in a very near term here, we will be selling product in Mexico. So we're moving to hopefully be ready within the next 60 to 90 days kind of at the latest that we would start up our businesses there. And we believe we are well positioned with everything we need to, to get a good start on the business and as I mentioned earlier, the overall -- we see the market unfolding to be relatively comparable to at least the West Coast part of the market from a cost standpoint, from a profit, by margin standpoint and all that. And so we believe it's a very good fit into our business. And we'll see what the upside is as we get further into it over time. And I think in fairness, it's going to take us some time to get everything running like we wanted to and to deal with the challenges of that marketplace and that. So I want to just reiterate that in the first year or 2, it's not a -- it doesn't have a big impact on the company but we believe it does position us for a good future down the road.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Sure. And then my second, if I could, might take you an hour to answer but over a year ago, you spoke about your view -- and I know you've said that the company's not dependent on the market in anyway. You are not expecting anything from the market. But you haven't talked about, what you saw going on globally in terms of what it meant for Tesoro in for all other markets. I wonder if you could just give us your latest thoughts. If I remember back then, point #1 was ethanol with some renewable fuels. I'm not sure, would it still be, for example, just any updates you have on OpEx and all the rest of it?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

There's adequate capacity to make refined products in the world. There's no question about that. The markets are somewhat regional but the flow of products around the world happens all the time. I think the U.S. in particular, it's very important that we be able to export product down the United States and be very competitive from that standpoint. That's key to the health, overall health of our industry because we need as an industry to be able to run at high utilization rates. Our assets are designed and managed and maintained to be able to do that. And so our view is that from an economic standpoint, things look pretty good around the world. So we see pretty good demand. We aren't forecasting any different from the big groups that forecast demand on that. So overall, we see a very attractive market and probably the biggest thing that would be a boost for the refining business is when demand for or the growth in production of crude oil could help from a feedstock advantage standpoint, which is really important to the industry. So we hope we don't see significant upside there. But even getting differentials to widen out that a little bit to reflect more of the cost to move to market to us would be very, very attractive. And finally, on renewable fuels, I think that you'll see changes with the new administration as we work through and approach to take a more balanced view of the value of renewable fuels and how they fit into the fuel supply and the economic cost and benefits will all be factored in. And in over time, we'll get to a very good place on the use of renewable fuels and to their fuel supply for the U.S. that will probably be different than what we've had in the past, but it's going to take some time.

Operator

Our next question will come from the line of Phil Gresh with JPMorgan.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

First question, just on the annual improvement targets. And as I think about the $305 million to $355 million for refining and the $45 million to $70 million for marketing, how would you characterize the first quarter relative to those targets. And I guess, wondering if some of those targets, I think ramps as you progresses or if you think they are pretty linear, you've obviously talked about some offsetting factors like higher OpEx and the onetime cost in refining this quarter?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, so I think typically, our experience in the past has been that on a lot of the ideas that we're implementing, they start to ramp up in the first part of the quarter. We typically, that's how we usually wait until the second quarter to be get more feedback on how we are progressing. But our expansion in the first quarter this year is probably not any different from what we have seen in the past. They are a little bit slower to develop. Then when we come into the second quarter, we'll be -- we'll then share at the end of the second quarter, we'll share the progress that we've made as we'll have then a 0.5 years of progress under our belt to be able to talk about what we're doing there. And so we see a very high probability that we'll deliver everything that we've said. And there's nothing out there because we know most of the ideas that we are working on. And so there's nothing out there that gives us any concern from that standpoint. Probably the more interesting part for us will be to be able to then go after the synergies that we expect to achieve between the combination of the 2 companies, which as we said, are additive to what we're doing there. So that's also going to be very exciting to be able to go after those and we'll share more about what our views are on each of those 3 areas that we've kind of broadly categorized today as the operational commercial and corporate areas.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Sure. So I guess, so bigger picture if I think about these improvement targets for this year. You made the comment that the Tesoro Index should be similar to last year and that the crude differential should be similar. So we shouldn't see, I guess, there's many offsetting factors in 2017 relative to 2016 in terms of actually being able to see the improvements, whereas last year the crude differential tightness and other factors were offsetting. Is that a reasonable way to think about that?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

I think, that's a very good way to think about it.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay, great. And then just second question. Steven, you made some comments in your prepared remarks about Anacortes. I just want to -- I look at the guidance in the second quarter, so I understand kind of what you're baking in there with some downtime, I believe that's going on there.

Steven M. Sterin - *Tesoro Corporation - CFO and EVP of Corporate Development*

Yes, I think, if you look at our second quarter guidance, I think there's 3 things to keep in mind. First, we have a full site turnaround taking place right now at our Mandan facility, that's a once every 5 to 7 year turnaround, 5 to 6 year turnaround. So It's a major. When you look at the Mid-Continent, that's why you see the throughput levels you see there. We have Martinez, scheduled coming up late in the summer part of this year and so you see that on the West Coast. And then Anacortes, as you mentioned, we do have some maintenance issues that we're working through. In our view of those is already baked into the numbers that you have seen, so nothing to add to that.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

And just in terms of what is the expected timing, I guess of the resolution at Anacortes?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So Anacortes, like Steven said, Mandan is actually in the final stages of getting ready to start back up. So it was a complete plant turnaround, as he mentioned, and it will be starting up very shortly here. it's likewise for Anacortes. Anacortes, we have some issues with the reformer at the Anacortes refinery, and we're in mechanically complete and we will be starting that unit back up very, very shortly here.

Operator

Our next question will come from the line of Paul Cheng with Barclays.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Greg, in Mexico, what is the business model you're going to use in the ARCO station? Is it going to be company (inaudible) Primarily? Or you're going to be primarily droppers?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, to start with, Paul, because it's a market entry. We will brand stations with the ARCO brand and so it will be more like, what we would think of a traditional job our tight market here in the United States to start with. But we will then as we get kind of more of our feet on the ground then we will evaluate other opportunities to participate in the market but that's going to take us a little bit of time.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

So the initial capital cost per se is going to be pretty minimum? (inaudible)

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, it will be low, right.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

And do you have a target, say of 5 year, how many ARCO station, that you may want in that market?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

We don't have a -- we can kind of get into all of that but what we do know, Paul, is we have a targeted amount of volume that I mentioned earlier between gasoline and diesel that we would like to be able to sell into Mexico and that's just a commercially sensitive number for us. So we look at it more from a volume that help allows us to optimize our entire West Coast system that recognizes the short that's in that part of Mexico that we believe we can carve out a place for us to not only go in and market initially, like you said, kind of a U.S. job or type model. But then open the door up for other opportunities to sell product into both gasoline and diesel into other channels in the marketplace.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

And in by passing Pemex now that with this arrangement, can you share what is the cost saving on the export?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

So the cost saving on the export or by not selling to them?

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Right. (inaudible) You'll be able to buy -- is that a number you're willing to share?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

No. I mean, that's not a very good question, Paul. You know we wouldn't talk about that type of number out there. I think what's more important, Paul, to look at it is, what we see is, with about may be 20 -- up to about 24 months, we see being able to set up a marketing business because of the reasons that I described earlier that we can get to a place of profitability. There's going to be some start-up cost in that, they're not major by any means. But because of the proximity and our approach to it, we see that will be able to have profits in a relatively short period of time about 24 months. And then we'll talk more about that from that standpoint. I think that's a better way to look at it than what we do from the supply-cost standpoint.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Okay. All right. Final one for me. Once you complete the Western transition, what's the 2 messages that you will give to the employee as the highest priority and how you're going to measure or penalize whatever you call it? Over the next 6 months?

Gregory J. Goff - *Tesoro Corporation - Chairman, CEO and President*

Yes, that's -- we've working a lot on that as on the integration. But I think that 2 most critical things we want everyone to be very much aware of. The first 1 is around our core values. And it's not that there's any difference in values between the 2 companies, but the foundation for how we do things, particularly around environmental health and safety performance, we think we want everyone to be fully, fully aware of how important that is to us. So particularly around -- we have 3 core values, integrity, respect and our commitment to environmental health and safety. And we just want to get everyone aligned with our core value. And then the second thing will be the importance of driving improvements in the business, which we talked about the synergies. But we want -- we believe that -- we truly believe that there is this powerful benefit of combining the 2 businesses because of the way they're located, how we do business and when I say how we do business I mean, our integrated approach to business. And then the proximity of the different businesses so that we just see tremendous synergy benefits there, like we've said and it will to be able to go in and we've set up the systems to start implementing those ideas and measuring and tracking the benefits and the reward for everyone in the company will be our success in delivering the benefits of the combined companies.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session for today. We would like to thank you for your participation in today's conference. You may now disconnect. Everybody, have a wonderful day.