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ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

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FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Andeavor Logistics Fourth Quarter 2017 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Andrew Woodward, Senior Director of Investor Relations. Sir, you may begin.

### Andrew Woodward - Andeavor Logistics LP - Senior Director of Finance & IR

Thank you. Good morning, and welcome to today's conference call to discuss our fourth quarter and full year 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](http://andeavorlogistics.com), includes financial disclosures and reconciliations for non-GAAP financial measures that should help you analyze our results. Our comments and answers to questions during this call will include forward-looking statements that refer to management's expectations or future predictions. These statements are made as of the date of this call and we are under no obligation to update these forward-looking statements in the future. 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 & CEO of Tesoro Logistics GP LLC

Thanks, Andy. Good morning, and welcome, everyone. 2017 was a transformational year for Andeavor Logistics. We generated \$373 million of net earnings and approximately \$1 billion of EBITDA, an increase of 18% and 40% versus 2016, respectively.

We also increased our distributions to unitholders by 10% and executed several strategic and financial transactions, which further position the company for long-term growth. I would like to take a moment to highlight our strategic accomplishments in 2017.



## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

During the year, we successfully completed our acquisition of WNRL, a transaction which strengthened Andeavor Logistics and provided an attracted entry into the growing Permian Basin.

At the same time, we also completed our IDR buy-in with Andeavor, which eliminated our IDRs in general partners economic interest. This transaction has significantly reduced our cost of capital and is expected to enhance the accretion all unitholders will see from our continued growth. Following the WNRL acquisition, we received an investment-grade credit rating, which enabled us to undertake several transactions in the fourth quarter that further reduced our cost of capital and extend our debt maturities, including refinancing \$1.75 billion of existing debt with new senior notes at very attractive rates and maturities. The completion of these transactions further strengthens Andeavor Logistics for long-term success with no near-term common equity needs and best positions the company to create significant value for our unitholders in 2018 and beyond.

Let me take a moment to discuss our recently announced strategic activity and organic projects that support our growth targets. In the Permian, we have made significant progress in executing our growth strategy. In addition to a refining logistics asset drop-down in 2018, Andeavor expects to offer the newly acquired Rangeland crude oil pipeline and crude oil terminal assets as well as the remaining Andeavor Permian Logistics assets, including the Bobcat Pipeline, Wink Terminal and Mason Terminal to Andeavor Logistics.

As we have previously said, Andeavor also expects to transfer the Conan Crude Oil Gathering System at cost plus interest in 2018. This integrated system combined with Andeavor Logistics' existing Permian assets is expected to see considerable volume growth and additional expansion projects in 2018 and beyond.

Exemplifying our Permian growth and competitive position, we announced yesterday that we have been awarded 2 new proposals to build crude oil gathering system in the Delaware Basin for high-quality investment-grade producers. The projects are supported by acreage dedications totaling 40,000 acres. Total capital expenditures are expected to be \$25 million to \$30 million with expected returns of 6 to 7x 2019 EBITDA and improving from there. We anticipate the systems will be commissioned in late 2018 and early 2019.

We are very excited about the opportunities we see in the Permian Basin and look forward to sharing more details as we execute our plans.

Also yesterday, we announced our intent to build and operate the North Dakota NGL Logistics Hub to further participate in the natural gas liquids value chain and provide alternative NGL Logistics solutions for increasing Bakken NGL production. The project will convert a segment of the Andeavor Bakkenlink crude oil pipeline into NGL service to enable the movement of mixed NGLs from a new third-party gas processing facility in central McKenzie County, North Dakota, to a newly expanded fractionation complex at the Andeavor Logistics Belfield processing facility.

Products from the fractionation complex will be transported via new NGL pipelines to the nearby Fryburg rail terminals for manifest and unit rail train movements and will be consumed with Andeavor's refineries as well as marketed, including international markets by Andeavor.

Through agreements with Andeavor, Andeavor Logistics will not assume any commodity exposure. Project volumes are supported by a long-term gas processing facility dedication and minimum volume commitments. The project also entails building a new connection from the nearby High Plains Pipeline system into the Fryburg rail terminal to maintain crude oil unit train loading capability. The capital investment is estimated to be \$140 million to \$150 million, and partial commercial operations are expected to begin in late 2018 with full operations commencing in early 2019.

The project is expected to deliver annual net earnings of \$15 million to \$19 million and \$22 million to \$26 million of annual EBITDA representing a 6 to 7x multiple.

Yesterday, we announced the acquisition of the Wamsutter Pipeline Systems from Plains All American Pipeline for total consideration of \$180 million. The system consists of 575 miles of active crude oil transportation pipeline that connect them to the Salt Lake City refineries, including our own refinery. Volumes on the system have historically been very stable due to the lower decline profile of connected conventional crude oil production and the strong demand for this advantaged crude oil in the Salt Lake City. In late 2018, we anticipate reversing a segment of the pipeline that currently transports crude oil east from Wamsutter, Wyoming. The reversal project is expected to increase the supply of advantaged crude oil to Salt Lake City refineries, including Andeavor's refinery.



## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

We expect Wamsutter to deliver \$8 million to \$12 million of annual net earnings and \$20 million to \$24 million of annual EBITDA, including synergies, which represents a purchase price multiple of approximately 8 to 9x annual EBITDA. The acquisition is expected to close in the first half of 2018, be funded by borrowings on a revolving credit facility and be immediately accretive to unitholders.

Additionally, we are currently executing multiple organic projects across our asset portfolio, including increasing throughput capacity at our Robinson Lake gas processing facility, expanding our Stockton, California product terminal and connecting third-party refined products volumes to our Southern California pipeline and product terminal system. These projects are expected to increase utilization and optimization across our integrated portfolio.

We remain confident in delivering the 2018 to 2020 targets announced in our 2017 Investor and Analyst Day, including generating 300 – \$685 million to \$785 million of annual net earnings or \$1.2 billion to \$1.3 billion of annual EBITDA in 2018.

With that overview, I'll turn the call over to Steven to provide more details about our business performance and results for the quarter.

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

Thanks, Greg. Good morning, everyone. We delivered strong results in 2017 and made significant progress that positions the company for growth and strong financial results in 2018 and beyond. Our performance reflected the successful execution of our strategic priorities to grow the business organically, through strategic investments and through drop-downs. Yesterday, we reported fourth quarter net earnings of \$59 million and EBITDA of \$277 million. Net earnings and EBITDA for the fourth quarter include \$9 million of transaction cost related to the WNRL acquisition, IDR buy-in and Anacortes drop-down logistics assets. Net earnings included approximately \$77 million of cost related to our recent debt refinancing actions, of which \$17 million was a noncash write-off of unamortized debt issuance costs. With the remainder related to the make whole provisions associated with early redemption of the notes.

Andeavor Logistics \$1.75 billion investment-grade debt offering is expected to provide \$25 million of annual interest expense savings, creating additional value for our unitholders through a lower cost of capital, extended maturities and additional DCF growth. Moving to more detail on our business segments. In the quarter, Terminalling and Transportation segment operating income grew 42% to \$121 million from a year ago, and segment EBITDA grew 38% to \$149 million versus last year. During the quarter, we acquired the Anacortes Logistics assets from Andeavor for total consideration of \$445 million. These assets include 3.9 million barrels of crude oil, feedstock and refined product storage, and Andeavor's Anacortes refinery, the Anacortes marine terminal and a manifest rail facility. For the quarter, terminalling volumes increased by approximately 68% to 1.7 million barrels a day from a year ago. Results were primarily driven by contributions from the WNRL acquisition, the Anacortes Logistics asset drop-down and contributions from the 2016 Martinez drop-down.

For the quarter, transportations and pipeline volumes increased approximately 8% to 946,000 barrels a day from a year ago. For the full year, Terminalling and Transportation segment operating income grew 57% to \$464 million, and segment EBITDA increased 50% to \$569 million. This growth was driven by contributions from the 2 drop-downs mentioned before, system optimization, organic projects and higher refinery utilization. Shifting to the wholesale segment.

Volumes were 292 million gallons in the fourth quarter. Segment operating income was \$6 million and segment EBITDA was \$8 million. Please keep in mind that crude oil trucking and asphalt trucking results are now included in our Gathering and Processing and Terminalling and Transportation segments, respectively.

Also note that Andeavor Logistics segment excludes wholesales that's reported in Andeavor's marketing segment. Shifting to the Gathering and Processing segment. Segment operating income increased 91% to \$86 million in the fourth quarter, and segment EBITDA increased 86% to \$141 million. For the quarter, crude oil gathering throughput increased 50% to 327,000 barrels a day over the prior year. Gas Gathering and Processing throughput increased 13% to 988,000 MMBtu per day, and NGLs sales volumes increased 61% to 11,400 barrels per day over the prior year.

This performance was primarily driven by contributions from WNRL as well as the North Dakota Gathering and Processing Assets acquisitions completed in early 2017 with increased activity seen in our Robinson Lake gas processing facility.



## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

Production of NGLs increased significantly in the Rockies, as our Blacks Fork gas processing facility entered ethane recovery for part of the fourth quarter. On average, crude oil and water revenue per barrel increased to \$2.68 from \$2.19 in the third quarter of 2017. This was primarily attributable to higher rates received from WNRL and minimum volume commitment fees received in the Bakken during the quarter.

In the Bakken, the current active drilling rig count is currently 58, up from 40 a year ago, representing a 45% increase. Crude oil production is up 27% through November 2017 and is only approximately 3% lower than the all-time high set in December of 2014.

Going into the first quarter, we expect to see continued strong drilling activity in North Dakota that is supportive of our growth plans. Our first quarter outlook for crude oil gathering volumes reflect lower volumes on our High Plains Pipeline. In 2017, we saw additional volumes on our system due to the line fill of DAPL. The sequential decline of volumes is a result of the completion of the line fill and the impact of recently completed third-party connections to DAPL throughout the basin. This volume guidance is consistent with our expectations and although not material to our overall results, these lower volumes were included in our growth plans outlined at our 2017 Investor Day.

As Greg mentioned earlier, we're pleased to announce North Dakota NGL Logistics Hub, a project which will enable us to participate further in the rapidly growing NGL production in the Bakken. We anticipate the economics of NGL by rail to be highly competitive for our customers compared with current and planned takeaway options. This project is part of our strategy to growing the Bakken by expanding our value chain with the natural gas and NGL Logistics and by leveraging our partnership with Andeavor's commercial organization.

The combination of Andeavor's commercial organization to profitably market NGLs, along with the processing, transportation and storage capabilities of the logistics business, uniquely positions us to capture value at both companies without taking commodity price exposure at Andeavor Logistics.

Additionally, due to the increasing gas-to-oil ratio and production levels in the Bakken, we are seeing strong demand at the gas processing facilities we acquired in early 2017. As a result, we have reached full capacity at our Robinson Lake gas processing facility and are executing an expansion project to meet this production growth. Our first quarter outlook reflects lower volumes as we take this facility offline to expand capacity to support growth in 2018.

The project is expected to be completed late in the first quarter and we expect to immediately see higher volumes in the second quarter. In the Permian Basin, pipeline volumes on our system grew 7% over the third quarter 2017, which is a new record high. We are well positioned to continue to capture crude gathering, transportation and storage growth from the increased drilling surrounding our strong and growing footprint and capability in the Delaware Basin.

There are currently 52 rigs within 15 miles of our asset footprint in the Delaware Basin, which were capable of producing approximately 30,000 barrels per month of new production based on EIA productivity estimates.

Delaware Basin productions forecasted to rise as much as 20% annually or 640,000 barrels per day over the next 3 years at a WTI price of \$50 to \$60 per barrel. As Greg mentioned, we've been awarded 2 new proposals for crude oil gathering systems, demonstrating our ability to compete and win in the Permian, while maintaining attractive investment multiples.

After the anticipated asset transfer of Conan and the drop-down of remaining Andeavor Permian Logistics assets, including the newly acquired Rangeland crude oil assets, we will have a robust and integrated system with access to multiple takeaway pipelines and direct access to Midland. This competitive and well-positioned system underpins our Permian target of at least \$110 million of net earnings and at least \$200 million of EBITDA in 2020.

In the Rockies, we expect volumes to follow seasonal trends going into the first quarter with colder weather. We've seen an encouraging level of increasing activity and new well completions in our Pinedale acreage. Like the fourth quarter, we expect Blacks Fork gas processing facility to be in ethane recovery for part of the first quarter. And based on the forward curve, we see the potentials being ethane recovery for significant part of 2018 and beyond.



## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

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. Total debt net of unamortized issuance costs was \$4.1 billion. We have approximately \$1.7 billion of availability under our revolving credit facility. During the quarter, our general revolving credit facility was increased by \$500 million to \$1.1 billion, increasing our total revolving credit facility to \$2.1 billion. Our leverage in the fourth quarter 2017, as calculated per our credit agreements, was below our target of approximately 4x.

For the fourth quarter, net cash from operating activities grew 90% to \$160 million from the prior year and distributable cash flow grew 46% to \$191 million. Please keep in mind that the fourth quarter's results were impacted by the \$9 million of transaction cost, I mentioned a moment ago.

For the full year, net cash from operating activities grew 42% to \$709 million from the prior year, distributable cash flow grew 26% to \$668 million from the prior year, including \$23 million of transaction and integration cost. On January 19 of this year, we announced our fourth quarter distribution of \$1 for limited partner unit or \$4 per unit on an annualized basis, which represents our 27th consecutive quarterly distribution increase. The declared distribution also represents a 10% year-over-year increase.

Our distribution coverage was 0.92x for the fourth quarter and 0.96x for 2017. We remained highly confident in achieving our target annual coverage of approximately 1.1x based on our current performance and growth plans for the year. As we've previously stated, we expect our DCF growth to be substantially higher than our 6% distribution growth target. During the quarter, we invested \$59 million in high return growth capital projects and had \$17 million of net maintenance capital expenditures, bringing our total net capital expenditures to \$76 million for the quarter. For the year, capital expenditures were \$196 million, including \$140 million for growth capital and \$56 million of net maintenance capital.

For 2018, we expect capital expenditures to be \$400 million, including \$325 million of growth capital and \$75 million of net maintenance capital. These capital expenditures exclude the capital part to fund the transfer of the Conan Crude Oil Gathering System and expected future drop-downs. During the quarter, we continue to take actions to reduce our cost of capital by opportunistically refinancing \$1.7 billion of existing debt. In addition to the expected \$25 million of annual interest cost savings, we've increased flexibility from longer maturities and also in the quarter, we completed our inaugural \$600 million offering of perpetual preferred equity. Following these actions, our average debt maturity duration increased from 4.5 years to 9.4 years.

We continue to assess other attractive financing alternatives, like our preferred equity issuance to support our long-term growth and eliminate any need for new public common equity issuances during 2020.

This is consistent with our commitment to continuing to deliver strong DCF per unit growth and creating accretive value for our unitholders. Looking ahead, as provided in yesterday's release, our volume guidance includes Andeavor refinery planned major maintenance activities as well as plant downtime at our Robinson Lake gas processing facility to expand our capacity. We expect approximately \$18 million to \$22 million impact to our results from these items in the first quarter. These events are expected to have no impact from the second quarter 2018 and were included in our previously communicated targets of \$685 million to \$785 million of net earnings and \$1.2 billion to \$1.3 billion of EBITDA this year. It's important to keep this in mind, as you consider our growth trajectory through the remaining quarters of 2018 and our higher exit rate.

You can find additional details of our volume expectations and other elements related to our first quarter 2018 outlook in our earnings release.

Finally, given our expected growth plans, continued financial strength and no expected public common equity needs, we expect to achieve all of our 2018 targets, including the EBITDA growth, I mentioned, annual distribution growth of 6% or greater, distribution coverage of approximately 1.1x and debt-to-EBITDA of around 4x.

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



FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Justin Jenkins of Raymond James.

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

A lot of growth announcements here and, Steven, I think, you covered this at the end of your prepared remarks. But curious for more details maybe on the funding plan. It seems like with the acquisition yesterday, the organic growth plan, the regular drop-down and then the Permian assets, you've got a bit over \$1 billion of growth investments for '18. So maybe in expectations in terms of how much equity ANDV is willing to take back versus debt versus the alternatives maybe you mentioned?

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

Yes, thanks for the question. We're excited about the new projects that we announced and how it positions us this year. So our funding plans for this year are unchanged, as you mentioned, at roughly \$1 billion of investment. And we expect to be able to fund that with debt, with some equity as part of the drop-downs from Andeavor. Usually, that 10% amount plus maybe another \$100 million to \$200 million from Andeavor, and so we don't see any need to go out and access the public equity markets at all.

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

Perfect. And then maybe on the Permian assets. It looks like a mix of somewhat mature and also some very high growth assets. Is it -- is there a way to maybe frame the blended EBITDA or multiple we can try to expect from the assets that are going to move from ANDV into ANDX later this year?

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

Yes. So all these assets that we talked about are interconnected. And so when we get closer to the drop-down, which we're trying -- we're looking to do our drop-downs in the middle of this year. So we're not far away, we'll provide more color on it. But as you look at our growth plans for the Permian, the integration of that system is critical and so that drop-down will facilitate the growth that we've talked about. And it will bring some additional EBITDA now, but it's really about the growth that's going to come through that system as we connect the Rangeland's pipeline to the Conan System, complete that project, as well as have the opportunity to do some looping and other expansions that really give us significant capacity to either go to Midland or to go to Wink where a number of long-haul takeaway projects that have been announced originate.

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

Perfect. Appreciate that color, Steven. Then maybe one real quick on the North Dakota NGL Hub. Looks like a great project on a stand-alone basis, but is there going to be any residual benefit to the legacy business or should we think about that just as the approach to the integrated value chain that you mentioned?

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

No. So there's benefit to both Andeavor and Andeavor Logistics. The EBITDA we talked about is going to be -- is the EBITDA, the \$20 million to \$24 million approximately of EBITDA. That's the Andeavor -- sorry, \$22 million to \$26 million, that's the Andeavor Logistics portion of the earnings on this. And so that will have some minimum volume commitments behind it and we'll be expanding our fractionation capability to enable that to happen. And so the commercial benefits will be at Andeavor as they market the various grades of gas liquids once we separate it versus putting white grade into long-haul takeaway.

## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

### Operator

Our next question comes from Jeremy Tonet of JPMorgan.

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

Want to start off with the Plains process, the assets being purchased there. Was that a negotiated with an auction process or is there any other background that you can provide there, and how this came together?

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

We typically don't talk about the process itself. But what I will tell you is, why do we did this and the strategic fit within our portfolio. So this is really about getting advantaged crude into Salt Lake for Andeavor and for other refiners in the area. And so that pipeline has got a very nice ratable amount of take on it already, and there is a portion of the line that we can actually reverse, so that we can get more of this advantaged crude, that's really light crude condensate into Salt Lake, which works really well given the waxy crude that you see there. And so that project is -- creates \$20 million to \$24 million of benefit after we reverse that line.

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

Great. And then just want to be clear with all the announcements today. Guidance wasn't updated or changed. Does that mean that, like, what was announced today was kind of contemplated at the time of the guide, is that the right way to think about this?

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

Good question. So the NGL Hub was, as you know, in our organic growth plan, we announced 3 new things today. One is the Wamsutter Pipeline acquisition, you just asked about. The Rangeland pipeline as well as that we want to get our Permian asset completed drop-down this year, which would be in addition to our kind of normal TT&S drop-down. And so we're absolutely in our \$1.2 billion to \$1.3 billion of the EBITDA outlook. These things are incremental. They happen at different times during the year, so you don't get the full run rate. But we should be maybe moving more towards the upper end of that range. And our exit rate coming out of this year is definitely on the steeper curve than it would've been, if we wouldn't have done these and so yes, it does move our overall earnings profile up. Ultimately, the timing will, as we get closer, we'll be able to share you more of that. So see the quarterly impact and the exit rate, but it's definitely additive.

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

And then with the segment recast, would you be able to kind of help us with kind of segment breakdown within that guidance, now that we have kind of the segments recasted here?

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

Yes. Our IR team can help you do that because there's public information out there, this program, Western Refining Logistics. And so if you give Andy a call, he can help anybody out with that and break that down for you and show you where to look.

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

Great. And then just last one, if I could. With WNRL, has everything kind of proceeded to expectations so far with your ownership?





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**FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call**


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

Yes, that's been great. We -- the synergies -- synergy opportunities we've got a line of sight to those, and we continue to find more and more opportunities to operate this integrated value chain working with commercial and the scheduling groups and having a combined trucking fleet, rail fleet, and having one set of operations to run that is really going really well. That integration is very far along.

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**Operator**

Our next question comes from Kristina Kazarian of Crédit Suisse.

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**Kristina Anna Kazarian** - *Crédit Suisse AG, Research Division - Research Analyst*

You guys announced a series of great return projects. And what I think a lot of people think are very competitive basins. Could you maybe talk to me about timeframe to realizing the guided 6 to 7x multiples for the Delaware crude gathering and Bakken NGLs, and how I should be thinking about that?

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

Yes, that's the year 1 multiple and that will be 2019. We'll get those -- that system completed -- those 2 systems completed this year. And they had -- there is a lot of synergy -- one of the things we've said about our Permian position is our ability to grow of the footprint that we have there. And so our ability to leverage existing assets allows us to get those type of returns. And so by being very focused on going after and working with the top-tier producers in acreage that surrounds our assets, it lets us accomplish and get those returns.

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**Kristina Anna Kazarian** - *Crédit Suisse AG, Research Division - Research Analyst*

That's great to hear. How much better do you think it could get from there?

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

Well, we want to keep growing. So there is a lot of activity, I mentioned, the rig count within 15 miles of our system and the permit activity continues to be very, very encouraging. There is a lot of RFPs. We're in different stages with those. And kind of like we said at Investor Day, we continue to update you as we move through the year as we win business so you can see our growth trajectory. But we built this system, the existing assets, Conan, now the connectivity with Rangeland pipeline to allow us flexibility to be able to go after different projects, get high returns pretty quickly by bolting them into our systems, and bringing the strength of our commercial organization to be the first purchaser to market the crude if that's what the customer wants as well.

So that value proposition we talked about is delivering. We're early in it, but we're making good progress.

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**Kristina Anna Kazarian** - *Crédit Suisse AG, Research Division - Research Analyst*

And last one from me. On the ANDV call you guys talked or Greg talks about potentially moving wholesale back up to ANDV. Would you guys mind touching a bit on how this could be done and should I be thinking potentially about some sort of assets swap between the 2 companies? I'd love your thoughts here.

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## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

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

So Kristina, this is Greg. So let me just clarify that. Paul Chang asked if that was something that we would think about, and we will -- we look at everything as you already know. So we -- as I said, it's so early into the combination. We're aware the difference in how we do our business, but we haven't looked at it yet. So we actually can't tell you what -- how we would do that because of just haven't really looked at it. But I think it doesn't merit consideration.

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**Operator**

Our next question comes from Theresa Chen of Barclays.

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

I wanted to follow up on one of Justin's question about the valuation for the second drop-down related to the Permian assets. And Steven's comments about significant future growth potential and that's where your focus is. So as we think about it, when you drop that asset down, should we think about the multiple based on current EBITDA or are we looking for ANDX to really buy the ramp here?

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

No, we -- it'll be based upon the current EBITDA. The reason we want to get these assets down is they're still and most of are in early stages of development, and the commercialization and the growth that lies ahead is going to be executed by the logistics business. And so we are not going to do drop-down at those high multiples that you may have seen others do with some of these projects. We're going to do very fair market-based transfers. But knowing that the growth is really contingent upon our ability to go out there and commercialize it. So.

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

Got it. And to your guidance for the Permian EBITDA of \$200 million by 2020, now that we have a few more pieces of the puzzle of how to get there. Do you have a sense yet of what that EBITDA ramp looks like for 2018 and 2019?

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

Yes. It's a little bit too early for us to provide that, just because of the timing, the specific timing of when we get the drops done. And so we'll share that more with you as we move across the year. But our goal is to beat that \$200 million, that was the least number \$200 million plus. And so as we execute our plan, continue to make progress, we'll be able to continue to share more. But I think it will be helpful for us first to get this drop-down done, get the assets set complete, and then be able to kind of share with you where we are with the volumes. But we're -- we feel good about where we are.

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

Got it. And shifting gears to your NGL project announcement. Are you -- so from here, are you looking to do something bigger, long-term in your NGL footprint, either additional fracs in different basins or long-haul takeaway solutions? What's your view on how that business shapes up over the long term?

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

Yes, this project was an example of when we talk about our creativity and innovation, in our driving improvements that the team came up with by looking at what's changed in the Bakken, taking advantage of, even though some volumes moved away with DAPL, how to take an existing crude

## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

line and leverage that to bring gas down south in the Bakken and making expansion to the plant that we just acquired, and be able to do that very cost effectively and get very nice paybacks. And so this was a very creative and I call it a bit of a niche and unique to us, idea that we've come up with. And so I wouldn't take this to mean that we're going to now build long-haul takeaway pipeline, that's not in our strategy. But we certainly see significant demand in the Bakken for gas processing. The gas oil ratios continue to widen, production continues to pick up, producers want optionality, being able to fractionate and distribute the different liquids out of the basin versus just going out. White grade is an exciting opportunity. And so we hope to grow the business over time. But even as it is, it's a very attractive business.

### Operator

Our next question comes Shneur Gershuni of UBS.

### Shneur Gershuni - UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

Really just more of a bunch of clarification questions to some of the answers that you've given. So with respect to the guidance question. The acquisition of Plains in the Permian drop-downs in theory should be incremental to your guidance. And I think you said towards the top end. Has there been any deterioration in your base business expectations for this year that that's partially offsetting or is it 100% completely incremental?

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

No, there is no deterioration at all to what we have planned for this year. In fact, I had said before that I'm cautiously optimistic about the Rockies. And if you look at that we are in partial, I think, recovery more for a period of time and saw those volumes through our system. As we look at things going forward, that part of the business actually right now it looks like there is 86 well completions versus 76 last quarter and 58 compared to year-over-year, and there is 15 rigs working in the Rockies versus 10 in Q1 of last year. The Bakken, we talked about the increasing rig count there, same with the Permian. And then in the first quarter, it's -- we're taking our gas plant down. That was planned, so we can expand. And Andeavor has these major turnarounds on the West Coast, but the West Coast demand profile and fundamentals are very strong. So no, it's not a -- there's nothing to do with our base business. It's just like we always try to do, continue to accelerate our plans and create more value faster. And so base plant still looking really good.

### Shneur Gershuni - UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

Okay, fair enough. Your no common equity statement, is it fair to assume that ANDV is still taking back some units, so there is a change in total unit count and higher claim on cash flows for units for distribution purposes?

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

So we're going to look at -- so yes, that's part of the drop-downs for tax efficient, therefore, keeping the multiple attractive. We'll take some equity. And we don't -- I think, we like owning the MLP. And if there is opportunity to take a bit more equity to support the business and take a bit higher ownerships and yes, there could be modest share count increases. But as we look out on a relative basis, it's relatively immaterial to the overall share count of the company. And obviously, those units don't float and we want to hold them. But don't see any need beyond that, just doing as part of drop-downs.

### Shneur Gershuni - UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

So retained DCF will pay for part of these acquisitions?



## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

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

Absolutely. Yes, we -- if you look at our DCF growth rate relative to our distribution growth rate, you can get a sense for our ability to generate some cash and make that happen. Yes.

**Shneur Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay. And at the Analyst Day, you had said that there were some capital that you might do at ANDV and then drop it at the cost. Is that part of what we're talking about today or is that incremental?

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

So there's 2 projects and those were always in our plan, that was the Conan Crude Gathering System in the Permian and the Los Angeles Refinery Interconnect Pipeline bundle. And those are transferred at cost plus the capitalization of our people's time and labor and interest. So that's unchanged, and that was always part of the plan we laid out at Investor Day. So no change there.

**Shneur Gershuni** - *UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst*

Okay. And then finally, with the plan to rail NGLs to the West Coast, I think you answered in earlier question that ANDV is effectively wearing the risk of spreads if they ever move upside down versus the coal. How long is ANDX protected for, like, is this for the life of the asset? Is it 5 years, 7 years, 10 years, I was wondering if you can give us some color on that?

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

Yes, it will be long term because -- so first, our refineries need most of several of these gas liquids. And as we've studied the market, our commercial group studied the market, we see a long-term ability to continue to market and be profitable on those products. And so it is a long-term view that Andeavor's commercial organization will market those gas liquids.

**Operator**

Our next question comes from Tristan Richardson of SunTrust.

**Tristan James Richardson** - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

One quick one on the Rangeland and legacy Permian plan to drops for later this year. I mean, given that the Rangeland acquisition just occurred recently and the parent indicated you guys paid around 9x on an '18 EBITDA and then in your prepared comments, you mentioned this will be dropped at a multiple reflecting current EBITDA. I mean, should we think of the Rangeland and legacy Permian assets being dropped at cost, at ANDV's cost?

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

In the past, we've done acquisitions like that. You can -- that's typically the case. And keep in mind that the Rangeland business that we acquired has 2 components to it. One is sand hub that we're not going to be dropping down. The other is the pipeline. But yes, you can expect that to be on the track to multiple.



## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

**Tristan James Richardson** - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

That makes sense. No, helpful. And then just on the NGL project. You may have addressed this a little bit. But just kind of curious, you said that the multiple you guys talked about is a year 1 multiple. So is that sort of just based on the current level MVC level that you have to justify the project or is there incremental capacity utilization wedge in to the 6 to 7x?

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

No -- that's the -- so the project will basically get a full year in '19 and so that is a view for 2019. And there are volume commitments behind that. And so yes, that's a stable number for us. We want to grow off of that. We have additional capacity to do so, both in the pipe to bring it down as well as processing and rail capability. So I hope to be able to grow the business more, but that's based on what we plan to do right now.

**Tristan James Richardson** - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Okay, that's helpful. And then just last one from me. It seems as though railing NGLs is -- maybe currently advantage. But given some of the infrastructure that's been talked about being added to the basin, long-haul infrastructure. Does that change over time from the standpoint of rail being attractive?

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

No, we took that into account. We went back -- our commercial group knows these markets really well, because we're a big buyer of these products for our refinery. And so the disposition locations that we have planned for these liquids, we've looked back over the course of time, we pressure tested it, we know what our cost structure looks like. And we're not trying to compete with a white grade long-haul takeaway. We're actually trying to optimize and provide higher-value products into markets that they're being served from other locations and we could be competitive with. And so we took that additional expansion of takeaway into account and it doesn't change our view at all, because the goal, as I said, is to be able to fractionate and distribute from Fryburg.

**Tristan James Richardson** - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Okay. And then, I guess, just curious if the \$400 million of CapEx you guys have talked about at ANDX. Does that include any sort of organic spend at the asset level once some of these assets are dropped?

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

Yes. I mean, that takes into account -- the TT&S assets don't have a lot typically in my first couple of years. And the Permian assets, yes, that \$400 million covers pretty much all of it. But if we -- once we get the package done, we kind of decide specifically what and when, in which quarter they fall in. It could be a little bit, but materially that's close to the number.

### Operator

Our next question comes from Brian Zarahn of Mizuho.

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

On the Rangeland assets, is the pipe capacity 145,000 barrels a day, is that currently or additional horsepower needed to reach that level?

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**FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call**


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

That's current.

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

Okay. And is there -- is that capacity able to be expanded above the 145,000 barrels a day?

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

Yes, there is different things we can do to increase how much crude we get move in that direction, either through line looping or other things.

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

I guess, along those lines. I know the asset hasn't -- the transaction hasn't closed yet but I think maybe you brought (inaudible). How do you think about the organic opportunities that with the range on assets?

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

Yes. It's actually has closed already. So when we look at that pipeline, when we look at our Permian growth plan, we know how much crude we need to move. And so -- and there is proration on existing pipelines going to Midland. And so we think we're going to be able to fill it up pretty fast and so feel good about. That's how we talked about the multiples that we did from '18 to '19 moving from 9 to 6.

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

Yes, effectively we connect Rangeland into the Conan Gathering System and then the 2 smaller gathering projects that we recently announced also fit into that area there. So that's the -- like Steven said, that's the upside opportunity that we see of the utilization of Rangeland is the -- and the reason we bought it is because it fits in with the Conan Gathering System.

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

I appreciate that, Greg. And then shifting to the drop-down inventory understanding, there will be drop-downs, including Rangeland this year. But as of now, how does the addition of Rangeland, the asphalt terminals, but the removal of Vancouver Energy, does that impact previously announced drop-down inventory of at least \$700 million of EBITDA?

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

If you look at traditional logistics assets, kind of like the ones you mentioned, asphalt versus Vancouver Energy as well as other things we've done, not a material change to that category of our drop-downs.

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**Operator**

(Operator Instructions) Our next question comes from Dennis Coleman of Bank of America Merrill Lynch.

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## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

**Dennis Paul Coleman** - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Just a little bit of on the Wamsutter Pipeline. Can you give a breakdown as to sort of how the customers, is it mostly just serving the ANDV refinery in the Salt Lake City area and are there any commitment -- volume commitments or any kind of contractual things that might support the economics there?

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

Yes, the pipeline is an important part of crude supply for our refinery in Salt Lake City. We are a major customer on the pipeline. But there are other refineries in Salt Lake City who also use the pipeline for their supply. So it's a pipeline that's really kind of critical to movement supply into the refinery. And like Steven mentioned, our intentions are to reverse the pipeline basically to get to Guernsey and bring barrels back from Guernsey to get access to some other crudes that will supply the Salt Lake City refinery. Just -- it is a FERC-regulated pipeline. So the pipeline operates pretty much full because of the supply to the refinery, but there are no committed volumes on the pipeline, and we don't see a need for that on a go-forward basis.

**Dennis Paul Coleman** - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Okay. And, I guess, just because it is a FERC pipeline, so is there any anticipated tax impacts or anything like that, that you might have factored in?

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

Yes, we factor those in, but it's not material. We look at our overall business, we don't -- the amount of FERC pipeline movements we have is not material. So that won't affect our outlook.

**Dennis Paul Coleman** - *BofA Merrill Lynch, Research Division - Global Head of High Grade Debt Research and MD*

Okay, okay. And then just to -- you're sort of along the lines of gauging third-party customers across the system and whatnot. Is there anything more you can say about some of the customers that you've signed up in the Permian or in the Bakken? Can you be more specific about who they are, investment-graded, those kind of things?

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

Yes, there's certain confidentiality for obvious reasons. But we have been focusing on investment-grade, the larger producers that we tend to actually work with across multiple basins. That's our primary focus. And so the majority of our customers are investment-grade.

### Operator

Our next question comes from Corey Goldman at Jefferies.

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

Sorry, if I missed this on the ANDV call or even on this call. What did Rangeland 2 cost to acquire when the deal closed?

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

Corey, this is Greg Goff. We didn't disclose. Rangeland was bought from private equity. So there was no disclosure on the purchased price.



FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

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

Yes, we can't disclose until it's required to be disclosed, and we closed on it in the first quarter. So.

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

So it won't be in the 10-K, might be in the 10-Q maybe?

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

It'll actually show up in cash flow forecast. So look in our cash flow.

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

From the first quarter.

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

And just remove out the asphalt acquisition and the should be Rangeland?

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

Well, those -- the only closures that we've had in that first quarter is Rangeland Pipeline. We specifically said the others would close in the first half.

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

Got you. Okay. No, that's helpful. And then the Wamsutter reversal. Did you guys give an estimate for if there's a cost, is it something that's material or?

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

It's an immaterial cost of what we need to do to be able to do that. So it's not material.

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

Okay. And then just the last question from us on just gathering and processing. It looks like there is a good step-up in just the equity take that ANDX got from other process NGLs looks about 10 percentage points higher than historical. Is there anything that changed in 4Q? Is that the right amount of equity that we should think, you should see from your process NGLs there?

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

Yes, I mean, the step-up is primarily due to ethane recovery. As I mentioned earlier, we saw that for a part of the quarter. And so far through the year, we have -- we're not in ethane recovery. But based upon the forward curve and the demand for ethane, there is a high likelihood that we will be here shortly and if the forward curve proves true, probably the whole year.





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**FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call**


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

Got you. Okay. No, that's helpful. And then maybe one last one if I can just squeezed it in. The -- pretty sure, I don't know if it's still the case, the keep-whole arrangement with ANDV, I think that was on evergreen since 2016. Is there an update for what that contract looks like in '18? Is it similar to what it was in '17?

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

No changes.

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**Operator**

Our next question comes from Sharon Lui of Wells Fargo.

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**Sharon Lui** - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Just following up on the Permian Logistics drop-down. I believe one of your slides before had Permian growth investments of about \$750 million to \$850 million. Just wondering with this drop-down, what could the organic growth spending look like in 2019 related to these assets?

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

Yes, I think, that amount as you mentioned is over a 3-year period of time. And the drop-down would be in addition to that. So that organic growth was based on what we see, our ability to capture growth around these assets. And so that number is unchanged, as the Permian was in our drop-down.

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**Sharon Lui** - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Okay, okay. But, I guess, since you mentioned that these assets are in early stages of development, I'm assuming that the spending would be front-end loaded of that amount then?

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

What I meant by the future growth is, a number these are existing portions of pipe, in between pipe that we own, and it's the volume growth that comes from organic that's going to be the growth that flows through these assets. But there is some existing EBITDA on the assets as well.

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**Sharon Lui** - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Okay. No, I was referring to, I guess, in terms of the \$750 million to \$850 million was the capital spending.

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

Yes, there will be some modest capital to maintain the drop-down assets. But we're -- we'll still be within our \$1.1 billion of year average over the next 3 years of capital spending. Hope that helps answer your question.

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## FEBRUARY 16, 2018 / 5:00PM, ANDX - Q4 2017 Andeavor Logistics LP Earnings Call

**Sharon Lui** - Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

Yes, it does. And then, I guess, following up on the NGL Logistics Hub. Just wondering is the bulk of the capital investment tie to the conversion of the pipeline. Maybe if you can talk about, I guess, the total frac capacity that you have and, I guess, any potential to accommodate any growing processing volumes in the region?

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

Yes. We -- the pipe at Bakkenlink that Greg mentioned in the script is actually is an Andeavor asset. And so you can assume that most of that is connectivity to Belfield, and the Belfield expansion and connectivity into Fryburg that doesn't exist today that will do within the MLP. And there will be some capacity due to grow, but we haven't disclosed that yet.

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

And then the other part is the building the fractionation down in the Belfield area to handle the gas liquids. And we do think that there are some other opportunities that we can bring in over time, but they're not built into the economics.

**Operator**

I'm showing no further questions. That does conclude our Q&A session and our program. Ladies and gentlemen, thank you for participating in today's conference. You may all disconnect. Everyone, have a great day.

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