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MPC - Q3 2016 Marathon Petroleum Corp Earnings Call

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OVERVIEW:

Co. reported 3Q16 earnings of $145m and diluted EPS of $0.27.

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PRESENTATION

Operator

Welcome to the third quarter of 2016 earnings call for Marathon Petroleum Corporation. My name is Katie and I will be your operator for today's call. (Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Lisa Wilson, Director of Investor Relations. Please go ahead.

Lisa Wilson - *Marathon Petroleum Corporation - Director of Investor Relations*

Good morning and welcome to Marathon Petroleum's third-quarter 2016 earnings webcast and conference call. The slides that accompany this call can be found on our website at MarathonPetroleum.com under the Investor Center tab.

On the call today are Gary Heminger, Chairman, President and CEO; Tim Griffith, Senior Vice President and Chief Financial Officer; and other members of our MPC executive team.

We invite you to read the Safe Harbor statement on slide 2. It's a reminder that we will be making forward-looking statements during the call and during the question-and-answer session. Actual results may differ materially from what we expect today. Factors that could cause actual results to differ are included there as well as in our filings with the SEC.

Now I will turn the call over to Gary Heminger for opening remarks and highlights.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Thanks, Lisa. Good morning to everyone. If you would please turn to slide 3. We issued two press releases earlier today, our third-quarter earnings announcement and our strategic plan to enhance shareholder value.

Driving long-term value for our shareholders is a top priority. Despite the steps we have taken to create value for our investors, we believe that MPC's share price reflects a significant discount to the intrinsic value of our business, particularly as it relates to the evaluation described for our general and limited partner ownership interests in MPLX and to the midstream assets we hold directly.

First, we announced an aggressive drop-down strategy. By the end of 2017 we plan to offer to MPLX assets contributing a total of approximately $350 million of annual EBITDA with the first drop-down of assets contributing $235 million of annual EBITDA expected to occur by the end of the first quarter. The partnership's plans for funding these drops would likely include transactions with MPC, including the potential for a substantial amount of equity to MPC.

We also intend to execute on additional value-enhancing drop-downs, totaling an estimated $1 billion of annual EBITDA, as soon as practical, within the next three years.

As a reminder, we are still awaiting tax clearance on a substantial portion of this drop-down portfolio, which includes the revised treasury qualifying income regulations and a subsequent PLR for our fuel distribution business. Nonetheless, we are moving forward aggressively with other portions of the MLP eligible earnings available within MPC. This aggressive drop-down strategy is expected to support increased limited and general partner distributions from an MPLX and provide value creation for our investors.

These transactions are subject to market and other conditions as well as requisite approvals.

In addition, we are evaluating strategic opportunities to highlight and capture the value of our general partner ownership interests in MPLX and optimize the cost of capital for the partnership. We have retained independent financial advisors to assist with this evaluation.

We will be evaluating a number of alternatives aimed at highlighting the value inherent in the general partner, and will provide additional details to investors, once we have determined the path to providing the greatest opportunity to capture this value.

Finally, in connection with these strategic actions to unlock value from our midstream assets we plan to evaluate changes to our internal financial reporting, largely focused on assets and earnings associated with our future drop-down strategy that are currently reported in our refining and marketing segment. Our review is likely to result in changes to our segment reporting beginning in 2017.

These initiatives are designed to unlock additional value from our robust portfolio of Midstream assets and to further benefit from the value-enhancing platform we have established with MPLX. We will continue to analyze our businesses and portfolio to ensure we continue to deliver superior performance and returns, consistent with our track record of maximizing shareholder value over the long term.

We will be moving ahead expeditiously on each of these actions and look forward to communicating with our shareholders as we execute our strategic plan.

That said, let me turn back to our results for the third quarter. In our earnings release this morning, we reported third-quarter earnings of $145 million or $0.27 per diluted share. Earnings included $0.31 per diluted share charge related to the impairment of our investment in the Sandpiper Pipeline project, due to the withdrawal of regulatory applications for the project.

The lower earnings this quarter were due in part to lower crack spreads and compressed product price realizations in the refining and marketing segment. Despite a challenging quarter, we remain optimistic as we move forward into 2017, given the size of the market rebalancing and sustained stronger demand.

The combination of our niche in the refineries and large Gulf Coast refineries provide competitive advantages, including optimization potential and export access. We continue to recognize benefits from the diversified nature of our business as the Speedway and Midstream segments contributed more than $450 million of combined segment income in the third quarter.

Speedway delivered strong like product sales volume and record merchandise margin dollars. The higher merchandise margin is consistent with its strategy to realize marketing enhancement opportunities.

Having a strong retail business in Speedway is a valuable differentiator for MPC. Our integrated structure provides growing, stable cash flows across market cycles, enabling us to return capital to shareholders while reinvesting in value-enhancing growth initiatives. The stable cash flow also helps us maintain our investment-grade credit profile.

The Midstream segment, which includes MPLX, delivered solid results supported by increases in gathering, processing and fractionation volumes. MPLX continues to drive exceptional growth opportunities, supporting the diverse set of producer customers in some of the nation's most prolific shale plays and positioning it well to benefit from a rising commodity price environment.

Additionally, in October, MPLX commenced operations of the Cornerstone Pipeline on schedule and under budget. We believe our highly integrated and coordinated business model, comprised of refining, marketing, Midstream and Speedway, along with the strategic plan announced today, will enhance shareholder value and position MPC for future growth and continued attractive returns to investors.

With that, let me turn the call over to Tim to walk you through the financial results for the third quarter. Tim?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Thanks, Gary. Slide 4 provides earnings on both an absolute and per-share basis. MPC's third-quarter 2016 earnings of $145 million or $0.27 per diluted share were down from last year's third-quarter earnings of $148 million or $1.76 per diluted share. As Gary mentioned, third-quarter 2016 results included $267 million or $0.31 per diluted share impact from the impairment of our investment in the Sandpiper Pipeline project.

The chart on slide 5 shows by segment the change in our earnings from the third quarter of last year. The $803 million net decrease in earnings was primarily due to lower income from our refining marketing segments. In addition, we had higher impairment expenses during the quarter as well as higher interest expense resulting from the debt assumed as part of the MarkWest merger. These negative impacts for the quarter were partially offset by lower income taxes and higher income contributed by our Midstream segments.

Turning to slide 6, our refining and marketing segment reported income from operations of $306 million in the third quarter of 2016 compared with $1.4 billion in the same quarter last year. The decrease was primarily due to weaker crack spreads in both the Gulf Coast in Chicago and less favorable price product realization compared to the LLS-based crack spreads.

The lower blended crack spread had a negative impact on earnings of approximately $711 million. The blended crack spread was $4.10 per barrel lower at $8.08 per barrel in the third quarter compared to $12.18 per barrel for the same period last year.

There were four primary contributors for the $463 million unfavorable other gross margin variants in this walk. First, we experienced narrower gasoline and diesel price realizations versus the reported marketing metric LLS-based crack spread in the third quarter of 2016 compared to the same quarter last year.

Second, our price realizations were negatively impacted by less favorable margins on non-transportation products, which includes asphalt. Asphalt realizations were exceptionally strong in the third quarter of 2015 and have not increased at the same rate as the rise in the price of crude.

Third, as I mentioned, we experienced weaker crack spreads during the quarter.

At the same time, our outright RIN purchase costs more than doubled when compared to third quarter of 2015. Our cost to purchase RINs to comply with RSS standards was $80 million this quarter.

Finally, the refinery volumetric gains also continued to be lower this quarter due to the lower commodity price environment we are in. R&M segment income benefited $79 million by the approximately $0.40 per barrel widening of the sweet/sour differential as well as higher sour runs in the quarter versus the same quarter last year.

The LLS/WTI differential narrowed by $2.14 per barrel from $3.72 per barrel in the third quarter of 2015 to $1.58 per barrel in this third quarter. This had a negative impact on earnings of about $69 million, based on the WTI-linked crudes in our slate.

The market structure contango effect during the quarter is reflected in the $32 million favorable variance on the walk and relates to the difference between the prompt crude prices we used for market metrics and actual crude acquisition cost in the quarter. The $35 million year-over-year increase in direct operating costs relates primarily to higher turnaround activity in the quarter versus last year. Turnaround and major maintenance costs increased $0.25 per barrel for over $46 million compared to the third quarter of 2015.

Moving to our other segment, slide 7 provides a Speedway segment earnings walk compared to the same quarter last year. Speedway's income was down $34 million compared to the third quarter of 2016, primarily driven by lower light product margins. Gasoline and distillate margins were $0.177 per gallon in the third quarter of 2016, which was $0.037 lower than the third quarter of 2015, which was a period of very strong margins.

On a sequential basis light product margin was $0.022 higher than second-quarter 2016. Partially offsetting lower fuel margins were higher gasoline and distillate sales volumes and higher merchandise margins. Gasoline and distillate sales volumes were up 20 million gallons over the same quarter last year. On a same-store basis gasoline volumes decreased [0.6%] over the same period last year.

Our focus continues to be on optimizing total gasoline contributions between volume and margins to ensure fuel margins remain adequate.

Increase in merchandise sales continue to be a focus, the results of which can be seen in the $28 million increase in Speedway's merchandise gross margins compared to the third quarter of 2015. Merchandise margins increased due to higher overall merchandise sales as well as higher margins realized on those sales. Merchandise sales in the quarter excluding cigarettes increased 4% on a same-store year-over-year basis.

In October, we've seen a decrease in gasoline demand that's approximately 4% decrease in same-store gasoline sales volumes compared to last October. The decrease we expect to be temporary and largely reflects the impacts of Hurricane Matthew at approximately 500 Speedway locations.

Slide 8 provides the changes in the Midstream segment income versus the third quarter last year. The $165 million increase quarter over quarter was primarily due to the combination with MarkWest at the end of last year, which contributed $121 million of incremental segment income to the quarter. The remaining increase of $44 million was primarily due to an increase in income from our equity affiliates and lower operating expenses versus third quarter last year.

Slide 9 presents some significant elements of changes in our consolidated cash position for the third quarter. Cash at the end of the quarter was just over $700 million. Core operating cash flow was a $1.1 billion source of cash. The $666 million use of working capital noted on the slide primarily relates to a decrease in accounts payable and accrued liabilities and an increase in crude and refined product inventory levels during the quarter.

The decrease in accounts payable and accrued liabilities was primarily due to the lower crude prices and volumes as well as timing of tax payments. Given the weaker refining margins we have seen this year, we took the opportunity to selectively prepay some of our debt during the quarter, which is reflected in the $516 million of net debt cash outflow shown in the walk. MPLX opportunistically issued equity through its ATM program during the quarter with net proceeds of $184 million, as shown on the walk.

Return of capital during the quarter included share repurchases of $51 million and dividends of $190 million. During the third quarter we increased our dividend 12.5% or $0.36 per share. We have increased our dividend six times since becoming a standalone company five years ago, Resulting in a 28% compound annual growth rate on the dividend. Our continued focus on growing regular quarterly dividends demonstrates our ongoing strategy to share in the success of the business with our shareholders, and this dividend increase just reaffirms that strategy.

Slide 10 provides an overview of our capitalization and financial profiles at the end of the quarter. We had $10.6 billion of total consolidated debt including $4.4 billion of debt at MPLX. Total debt to book capitalization was about 34% and represented 2.3 times last 12-month pro forma adjusted EBITDA on a consolidated basis for about 1.8 times if we exclude MPLX. We are showing the metric without MPLX, since the debt is nonrecourse to MPC and MPLX will maintain a capital structure which uses relatively higher leverage, making consolidated debt to EBITDA increasingly less useful, given the size and continued growth of the partnership.

Slide 11 provides updated outlook information on key operating metrics for MPC for the fourth quarter of 2016. We are expecting fourth quarter throughputs to be down slightly compared to the fourth quarter of 2015, due to more planned maintenance in the quarter. Total direct operating costs are expected to be $8.05 per barrel on total throughput of 1.83 million barrels per day.

Beginning this quarter we are also providing our estimated percentage of sour crude throughput, which we expect to be 58% in the fourth quarter, due to the continued sour crude advantage. Our projected fourth-quarter corporate and other unallocated items are estimated at $75 million.

With that let me turn the call back over to Lisa. Lisa?

Lisa Wilson - *Marathon Petroleum Corporation - Director of Investor Relations*

Thanks, Tim. As we open the call for your questions, as a courtesy to all participants we ask that you limit yourself to one question plus a follow-up. If time permits we will re-prompt for additional questions. With that we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Gary, can you provide some early flavor as it relates to some of the strategic changes that you talked about, dropdowns to GP structure and some of the accounting changes? And then talk about how Retail fits into it, if at all.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

In our separate release this morning, and we have been working on this for quite some time, we spent the early part of the year in the transition to get MarkWest into the fold and to really get our businesses lined up and then really focused on what is the proper growth strategy and then how do we dance we have a tremendous portfolio of assets that can be considered over time to be drop down. And we felt that it was best to get into a very aggressive, strong rhythm on how to drop down the assets that we have.

And it's not just a drop-down strategy, Neil; we expect to be acquisitive in certain markets where it makes sense for the Midstream as well as we have a very good organic suite of projects to work on. But as we stepped back and looked at our total Midstream business, we felt that now was the time to take this very bold, aggressive action.

And then we have also stated not just the drop downs for 2017 of approximately $350 million, but we also, then, are talking about the future drop-down strategy of the approximate $1 billion of other assets.

Let me be specific, though, about that $1 billion of other assets. As you know, Neil -- you and I have talked about this many times -- we have a significant portion of those assets under the fuels distribution piece that we have a private letter ruling request in to the IRS. So we have to be careful and make sure we don't have any potential tax liability of dropping those down sooner than we would believe we have approval from the IRS.

An additional thing that we highlighted as the value of the general partner interests -- let me have Tim talk about some of the actions and the aspects that we would have around looking at the general partner interests.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes. Neil, as we outlined, I think the key for us is that we have seen pretty clearly that the value of the GP is not being fully recognized in the value of MPC. So I think we want to take a careful but aggressive look at exactly ways that we can highlight that value, capture it and optimize the cost of capital for the partnership.

So again, I would say that we really want to look at everything. There's no preconceived notion or conclusions as to where ultimately this may lead us. Again, with that objective of highlighting that value and optimizing the cost of capital for the partnership, it could include things like a buy-in of the IDRs at the partnership level, a public sale of some portion of the GP, other alternatives around restructuring the GP interest. Again, we want to make sure that we look at everything to understand what might be the best task to really have that value better reflected in the overall valuation of MPC.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Neil, to your question on Speedway, we've talked many times about Speedway as well. And you and other sell-side analysts have discussed how important Speedway is, along with Midstream, in trying to balance our cash flow across all cycles. And we really believe that a significant portion of the discount in our share price today really is reflected in the Midstream space. And Speedway is not the catalyst or the driver.

Speedway continues to perform very, very well, as indicated again in the performance for this quarter. So we look at the integration value, we look at the dis-synergy if we were to do something different with Speedway. And we still believe that it has a very strong fit in our system.

Neil Mehta - *Goldman Sachs - Analyst*

I appreciate those comments. And Gary, my follow-up here is that you cited for reasons that other gross margins were under pressure -- narrower gasoline and diesel, the non-transportation products, RINs and, I believe, volumetric gains.

How much of that is a third-quarter phenomenon here as opposed to a recurring point? And the reason I'm going here is that when I think about MPC's portfolio, historically you guys have outperformed your indicator margins by taking advantage of the logistics and the infrastructure advantages that you guys have.

I want to make sure that's going to be a recurring advantage for MPC on a go-forward basis.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Neil, you are spot on there with the outcome. Let's go back to look at the third quarter of 2016 versus the third quarter of 2015.

The third quarter of 2015 had a rapid drop in the price of crude. And when you have that, you are able to retain margins in all aspects of our business and all the way through asphalt.

Asphalt was one of the major contributors to our third quarter last year. This year when we started to see a steady climate in crude prices and with some of the problems that you had in the third quarter. You go back and look at Colonial -- while sometimes a dislocation in markets such as happened with Colonial -- sometimes you recognize different pockets of the country and worry about capture some of that value through the logistics arm that we have.

That did not happen with that downturn. And in fact, it backed [product] back into the Gulf Coast and in fact backed product further.

On top of that, we spent a lot of incremental money in order to be able to service our customers and keep our customers whole during that period of time. So that was a phenomenon.

But really, Tim mentioned the gas and diesel prices, the price realization. But it really got into the bottom components, and asphalt was a big marker that we saw as well.

So I would say those are the big things. I would say they are non -- expect them to be nonrecurring.

Kind of a follow-on to that here -- early in the fourth quarter with Hurricane Matthew, that had an upset across the entire Gulf Coast. Some don't think about the tropical storm Hermione that hit in the third quarter. That had an effect as well. When you lose that followings from these tropical storms, it's gone.

So all those effects, all those things affected the third quarter and some into the fourth quarter. But I would expect that they would be nonrecurring.

Neil Mehta - *Goldman Sachs - Analyst*

I appreciate the comments. Thank you.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Congratulations on the more aggressive strategy, I guess. In MPLX debt to pro forma adjusted EBITDA was 3.5 times on September 30. So when you think from the MPC perspective the cash versus units debate and maybe just give us some color as to what sort of expectation you could get from these drops of an extra year and maybe next three years.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Sure, it's Tim. This is something that I think we're going to carefully evaluate. The drops we've talked about here and contemplated

are certainly bigger than we've done in the past, but I think we'll always be mindful of what the market capacity is to absorb new units. I think we would certainly want to take advantage of opportunities that exist, but clearly would not want to overwhelm the market with the number of units.

So we will assess as we go forward and make sure that we're being smart about it. I think from the overall enterprise perspective, we have a tremendous amount of flexibility here to take back units where we need to, and we will access the market in an opportunistic way as we go forward.

Ed Westlake - *Credit Suisse - Analyst*

And then you've just tapped this new 707 tax rule, which reduces the amount of debt that you can use in basis for dropdowns. So I don't know, it may be still early, but have you got any idea in terms of what tax leakage you would expect at the MPC level in terms of the drops or the impact that that ruling has?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes, well, obviously doing things as tax-efficently as possible will always be a primary focus. The changes to the 707 regs, to be honest, Ed, don't have a massive impact on our strategy. Utilizing debt finance distributions back would not have been part of our normal mode with regard to the drops, anyway. And frankly, even before the 707 regs, a more aggressive tax that the IRS has been targeting -- and obviously the change of regs demonstrates that that's where that focus has been. And so I don't think, from our perspective, we view the change in the regs under the Sky sale of substantially impactful to our strategy. But again, even the notion of taking back units and identifying assets with the greatest amount of basis to shield as much tax as possible will be an important consideration as we evaluate which and what timing we will undertake for the drop portfolio.

Ed Westlake - *Credit Suisse - Analyst*

And if I could sneak a quick one in, the cash flow was, before working capital, $1.07 billion. But your earnings collapsed. Obviously, there's the impairment, but even adjusting for that. So any color as to why cash generation is diverging from earnings would be helpful.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

There is nothing specific. I'd say we had, certainly, some working capital impacts on the quarter that, again, really build based on changes in prices and some inventory build in the quarter. And that was a relatively big use of working capital in the quarter. That's probably the biggest item of potential divergence that we would highlight.

Operator

Chi Chow, Tudor Pickering Holt.

Chi Chow - *Tudor Pickering Holt - Analyst*

Gary, can you talk about the specific aspects you are targeting for the 2017 drops?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Yes. Let me ask Don to cover that. Don has been doing most of the work on this.

Don Templin - *Marathon Petroleum Corporation - President, MPLX and EVP, Marathon Petroleum*

Yes. We would expect that, particularly the first drop that we are targeting, those assets would be predominantly pipeline and terminal assets, so very, very traditional midstream assets that we currently own. And then, later in the year we also have some joint-interest pipelines and others. So it will be in that vein of assets -- typical, straight down the fairway, Midstream assets that will be moving from MPC to MPLX.

Chi Chow - *Tudor Pickering Holt - Analyst*

Okay. And can you comment at all on what sort of multiple range you are targeting for the drop?

Don Templin - *Marathon Petroleum Corporation - President, MPLX and EVP, Marathon Petroleum*

I guess we are not targeting a specific multiple range. I think it will be a fact- and circumstance-driven function based upon making sure that the drops are appropriately accretive for MPLX. One of the really important things about these drops was that we don't believe that our yield is as low as we would like it to be at MPLX, and we are trying to take actions to lower that yield or lower our cost of capital.

So driving a distribution growth rate that is 12% to 15% and double digit in out years is important to us, and having a valuation or multiple on the drop that makes sense to support that I think is in the best interest of both MPC and MPLX.

Chi Chow - *Tudor Pickering Holt - Analyst*

Okay, great. Thanks. And then one other question. Can you comment on Marathon's interest in utilizing the reversal of the [Laurel] pipeline once that becomes operational? And what are the opportunities this might open up for you down the road?

Mike Palmer - *Marathon Petroleum Corporation - SVP, Supply, Distribution and Planning*

Yes, Chi, this is Mike Palmer. I can answer that for you. Yes, obviously, when you look at the Midwest, we have a lot of refining capacity. And in the wintertime, when gasoline demand goes down, certainly we have gasoline and distillate that needs to seek new markets. So we've been looking at a number of opportunities, but reversing Laurel such that Pittsburgh becomes primarily a pipeline supplied from the Midwest market is certainly big for us, and we would participate in that.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

And Chi, we've been saying for some time -- in fact, I think Marathon was one of the catalysts for this idea, that it really makes sense to go west to east in starting to supply the PADD 1 market. And it further balances all of PADD 2. So we won't get specific yet into how many barrels we might move. I'd just say that this open season that has been just completed is going to be a big event for the entire PADD 2 industry because it has another outlet for us to balance the Midwest.

Chi Chow - *Tudor Pickering Holt - Analyst*

Yes, I agree. And do you see enough demand from PADD 2 to eventually force the reversal all the way back to Philadelphia?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

I really believe long term, and I've talked about this long term, that this is something that needs to happen and is a big strategic move. So first I think we're looking to [Altoona]. But yes, eventually I would see it going all the way to the East Coast.

Chi Chow - *Tudor Pickering Holt - Analyst*

Yes, okay, great. Thanks, Gary. Appreciate it.

Operator

Doug Leggate, Bank of America-Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

The decision to take, or the potential to take, MPLX units in lieu of cash, obviously the quantity or the balance hasn't been determined yet, but what would that mean for your subsequent monetization of those units as it relates to your buyback strategy for MPC?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Doug, it's Tim. Obviously if we did take back units, the percentage and number of units that MPC holds becomes substantial. And I think the things like potential sale of those units is something we'll evaluate over time, again wanting to make sure that anything that we do around that is tax-efficient and we can minimize the amount of leakage around it.

Again, I think that our focus is much more around the total value getting realized within the system as opposed to the net cash. But I think we will look at if there are efficient ways for us to potentially look at those units over time.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Just for clarification on my question, so if you took MPLX units, would you expect your buyback pace to moderate?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Well, again, the dropdown itself is not predicated on producing a huge amount of cash for buybacks, necessarily. But the buybacks will always be a function of the cash that's been generated on operating basis and potentially some from what gets dropped.

So again, we will evaluate it as we go forward. And as we said, even if there are a number of units taken back, there's probably still a fair amount of debt that gets undertaken at the MPLX level on those assets. So I think the cash opportunity around it is beyond just the equity units themselves.

Don Templin - *Marathon Petroleum Corporation - President, MPLX and EVP, Marathon Petroleum*

In 2016, one of the things that we were doing at MPLX was we had a leverage ratio that was noninvestment grade, in our view. And so we committed to taking that leverage down. And now we are in the zone that we want to be with respect to our leverage and to supporting and investment-grade credit profile. So we would likely be thinking about funding future growth, whether it is organic growth or whether it is dropdowns, with a more balanced 50-50 debt and equity type of arrangement.

So hopefully, that answers some of your question as well.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay. That's helpful, Don. My follow-up is probably also for you, Don, because the more traditional nature of the assets, pipelines, channels and so on, accelerating the drop-down obviously means accelerating the increase on a refining cost basis.

Can you quantify what that would look like, based on the plan you have? In other words, how much would you expect the cost basis for refining to go up as you monetize these assets? And I'll leave it there.

Don Templin - *Marathon Petroleum Corporation - President, MPLX and EVP, Marathon Petroleum*

I guess I'm not sure -- from the MPLX perspective, what we are trying to do is to build an EBITDA portfolio so that we can continue to support that high growth rate that we are committing to.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Right. But the EBITDA that you are transferring has an incremental cost to the refining business. Right? The refining business -- I know it's a wash at the consolidated level. But the refinery business has to now pay a fee for those assets that it's not currently paying. So I'm trying to understand what the increase in the cost base and the -- how you would account for -- I guess it's going to come out in the wash in the accounting. But order of magnitude would be useful.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Again, Doug -- and I know we've had a similar dialogue over time. We really are viewing this at the enterprise level with regard to the earnings that are available within the business and where ultimately they may reside rather that's as part of the traditional R&M segment or part of MPLX. And obviously, with the IDRs around them and the recycle of cash, we have tended to look at this and I think we will continue to look at this on an enterprise-wide basis as opposed to the specifics on the impact on a particular segment within the business.

Doug Leggate - *BofA Merrill Lynch - Analyst*

All right. I'll take it off-line. Thanks, guys.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Gary, just curious that -- do you have a timeline in terms of the strategic reveal when that -- when is the next time we are going to hear from you guys do you have order, it is just go along and that you really don't have a specific timeline?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

As far as strategic review, Paul, I'm not sure I understand. Strategic review for the MLP or --

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Paul Cheng - *Barclays Capital - Analyst*

For the MLP GP and the LP structure --

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Okay, okay.

Paul Cheng - *Barclays Capital - Analyst*

-- that that strategic review, do you have a timeline in terms of when that you think you are going to come through?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Oh, sure, sure.

Paul Cheng - *Barclays Capital - Analyst*

Just don't really have a timeline at this point. And also that -- what does that strategic review and timeline have any implications on your MPLX distribution growth target for 2017-2018?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Right. I'm sorry; I wasn't tying your question at first, but I understand it. We have already been working on the strategic review. I would expect that -- we don't have an end date in mind. But with all the work we have already done, I would expect some time midyear ought to be in that arena of where we should have this work complete.

Paul Cheng - *Barclays Capital - Analyst*

So at the December analyst meeting, we should not assume we are going to hear a lot of update on that?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Well, there's no analyst meeting scheduled for the sure. But --

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Paul Cheng - *Barclays Capital - Analyst*

Are you guys not going to do one?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

No, no. There's --

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

We do it generally every other year, Paul.

Paul Cheng - *Barclays Capital - Analyst*

All right.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

And I think that, Paul, maybe to provide a little bit of framework around that, we have identified this as one of the biggest sources of value discount with regard to MPC. So we have every incentive and motivation to move through this as expeditiously as we can.

Again, I think we want to be careful and disciplined around the way that we look at things. But we will be planning to move through this as quickly as we can. And certainly we will report back to investors, I think, once we have determined what the most appropriate path is. So stay tuned. This is something that is a top priority for us.

Paul Cheng - *Barclays Capital - Analyst*

Okay. And the second question that -- just correct me. A team on the -- I think it was the Colonial Pipeline down for 10 days. You incurred some additional trucking costs to supply your Speedway and Marathon network in the Southeast. Do you have a number you can share? How big is that trucking cost? Is that material? And also whether that is being reported, net of your refining margin?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes. We have not quantified or have anything to share. I think we would indicate there were some marginal increases on trucking and some logistics costs to accommodate the situation but nothing that is material that we would call out specifically.

Paul Cheng - *Barclays Capital - Analyst*

I see. And is it ended that margin, or is it below on the terminal costs and all the other, in the total cash all expense line?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes, this is what shows up in the other category with regard to the walks. So again, not amounts that we would come out specifically, but that's where we would have captured it.

Paul Cheng - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Brad Heffern, RBC.

Brad Heffern - *RBC Capital Markets - Analyst*

Gary, just circling back to some of the earlier questions about the general partner, I'm curious about the comments that you made specifically about reducing the cost of capital or optimizing the costs of capital for the partnership. I'm curious how that interacts with also unlocking value and how maybe having a public marker on the GP would help reduce the cost of capital.

And really what I'm getting at here is, is there a chance that maybe there is an IDR waiver that comes out as part of this process?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Well, again, I don't think there's any preconceived conclusions to exactly the path we take. But think modifications to the GP interests or potentially IDR modifications -- again, the buy-in, the public sale -- these are all things that are on the table. Something we want to exclude anything from our considerations to make sure that -- again, the focus really here is on highlighting that value and making sure that everyone understands and the market can see and understand that value and making sure that we are focused on optimizing the cost of capital for the partnership, which obviously over time and certainly in the lifecycle of MPLX is at a point where the IDRs continues to be a cash flow that is to be covered with regard to growth. So I think we must be mindful of all of these considerations before we land on any solution, and we will certainly let the market know once we reach some conclusions.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, thanks for that. And then thinking about the drops that you were talking about before, I think pipelines and terminals were mentioned. I know that the RINs are generally internal within the refining and marketing business. But I'm wondering if any of these drops are going to include the RINs.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

No. And I think the drop -- and that we've got contemplated now with some of the private pipelines and the terminals would not have any reflection from an earnings basis on the RINs. Those are independent from how we are looking at things.

Brad Heffern - *RBC Capital Markets - Analyst*

And one more quick one, if I could. Gary, I think that a couple months ago you talked about a potential reduction in the scope of the STAR project from $2 billion to $1.5 billion. I'm curious where you are in that review and if you have any sort of updated EBITDA target for that new scope.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Right. Let me ask Ray to answer this.

Ray Brooks - *Marathon Petroleum Corporation - SVP, Refining*

Sure. Earlier this year, we completed feasibility engineering of all components of STAR. And what we concluded from that review was that one of the components, a new build, distillate hydrotreater did not meet our internal minimum returns.

So at this point we are not progressing engineering on that portion and we are looking for other opportunities, evaluating opportunities of unit revamps within the refinery to accommodate distillate desulfurization.

So that's a long way of saying that we do anticipate a drop in the That we were looking at before, of the $2 billion range. We are looking at something south of that now and we will continue to progress our engineering and just to do, really, what makes sense there.

I might add at this point that the STAR program really is a multiyear, multifaceted project. And earlier this summer we brought on the first part, which was a resid desulfurization unit repurposing an expansion. That is played out very well for us. That was Of about $65 million and it delivered the results and performing as expected.

So we will continue to look at the program and just do what makes sense economically.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay. But no new EBITDA target?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Not at this time. We are still finalizing the components of the project. And when we have that finished we will put it into our deck.

Brad Heffern - *RBC Capital Markets - Analyst*

Okay, thanks.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

First question is just in capital spending -- I saw there's a budget out there for MPLX for 2017. Wondering if you could just comment on the overall total MPC level capital spending outlook relative to this year, which I believe was tweaked up to 3.1 from 3.0.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes. So we haven't given specific guidance at the MPC level. Again, that's something we will provide probably sometime in the fourth quarter here.

At a macro level I'd probably suggest that we are unlikely to see major changes from where things tracked in 2016. And again, you saw the MPLX guidance in terms of the range that we might expect at the partnership.

Phil Gresh - *JPMorgan - Analyst*

Right. Okay. The second question is, just on the drop a little EBITDA pool and the $1 billion that includes fields distribution, in the past you have mentioned that there might be an opportunity for that pool to potentially increase for fields distribution. Is that accurate? Or would you say that that fully encompasses the total opportunities in fields distribution?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Yes, Phil. I don't recall saying that there's a chance for that to increase. That's volume dependent. We sell approximately 20 billion gallons today of material that we believe would qualify for this fields distribution. But I don't recall of ever saying that we were looking at that as possibly increasing.

Phil Gresh - *JPMorgan - Analyst*

Okay. And then my last question -- there was recently MPC filed a lawsuit with respect to Texas City. And I was just wondering, Gary, if you could comment on that a little bit, just provide more color?

Phil Gresh - *JPMorgan - Analyst*

Sure, Phil. And I'm sure, as you respect, we cannot openly talk about litigation ongoing. So I'll just have to defer that to a later date.

Phil Gresh - *JPMorgan - Analyst*

Okay, fair enough. Thanks.

Operator

Jeff Dietert, Simmons.

Jeff Dietert - *Simmons & Company International - Analyst*

Tim, on your slide you do the walk of the basic components of refining segment income, that other gross margin, 287. I assume that they are probably the same variables that you talked about on the 3Q 2015 and the 3Q 2016 slide.

On the narrower gasoline/diesel margins, was that primarily a factor of Colonial Pipeline outage? Or were there other factors that impacted?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes, there's a number of factors. And as you suggest, the drivers that led to the full quarter are really a lot of the similar ones that we saw in the year-over-year with regard to there were gaps in diesel price realizations. Colonial -- a piece of that, but I wouldn't say the major driver. But again, a component of the total change.

Jeff Dietert - *Simmons & Company International - Analyst*

Okay. But Colonial was not the major driver there?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

No. No, it was not.

Jeff Dietert - *Simmons & Company International - Analyst*

Okay, thank you. And you also mentioned building inventories during the third quarter as a negative hit here. How significant a inventory build did you have? And is that going to be a positive offset in 4Q?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Well, again, the inventory actions that we took in the third quarter, not unlike other years, in large part, for hurricane builds and positioning the business into the season. So nothing unusual.

And again, I think a lot of those effects we will always manage into the LIFO targets that we've got for the business. So that was probably the bigger driver in the quarter was refined products and crude build that were not unexpected, relative to how we manage the business.

Jeff Dietert - *Simmons & Company International - Analyst*

Got you. In talking about alkylation, any updates to your -- Garyville -- FCC alkylation project scheduled for the end of the year and perhaps any change to your octane outlook going forward?

Ray Brooks - *Marathon Petroleum Corporation - SVP, Refining*

Yes. In the third quarter we actually initiated some work on the cap alkylation revamp at the Garyville. So that still stays well on target and could be completed on schedule.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

As far as octane, Jeff, we still believe as you talked to the autos and you talk about the overall demand, we still think octane into the future is going to be a product in great demand and it should be a valuable -- should have some incremental value to the entire slate as we go forward.

Jeff Dietert - *Simmons & Company International - Analyst*

Thanks for your comments.

Operator

Blake Fernandez, Howard Weill.

Blake Fernandez - *Howard Weill - Analyst*

Gary, historically you have talked about the benefits of control and basically maintaining a decent amount of control with regard to the MLP. And I'm just curious with the announcement today and some considerations on changes at that level, has there been any change in your appetite with regard to control and maybe potentially foregoing a bit in an effort to drive that value at the GP level?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

No, Blake. That's still a very, very big piece of our strategy. As we sit back, when we first initiated the MLP, being able to control and having all the pipeline assets, terminal assets that are really the key to our integrated model is very, very important. And we continue to expect to control those.

Blake Fernandez - *Howard Weill - Analyst*

Okay, great. The second question, and this is really more just clarity from a reporting standpoint, but obviously you have already got a Midstream segment. Is it fair to think that the impetus behind this is to really reallocate some of that EBITDA that is coming out of the refining segment into Midstream? And if so, assuming we will get some restated historical growth margins, etc.?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes, Blake. I think that conceptually is how we are targeting that. There's a fair amount of what we've identified is MLP-eligible earnings that really have been in the R&M segment historically. So certainly for those portions that we think are and will be MLP eligible, identifying them independent from the R&M segment is conceptually, I think, what we are really targeting here.

Blake Fernandez - *Howard Weill - Analyst*

Got it. Okay, thanks, Tim. Appreciate it.

Operator

Roger Read, Wells Fargo.

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

To come back to the overall strategic plan here, if we could, as you've mentioned about the GP, we should consider almost anything as a possibility here from potentially elimination of the GP, a resetting of the IDRs or even an IPO of the GP? Or is there something that's not on the table here? I just want to make sure I understand all the potential here.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Again, I think we want to be careful that we have looked at everything and have evaluated things, again with a real focus on highlighting that value and optimizing costs of capital for the partnership.

Again, I think, as we suggested, this is an evaluation that we will only take over the course of the next several months. Again, it could include things like the buy-in of the IDRs. It could include a partial public sale of the GP. It could include some restructuring of the GPs interest or the IDRs.

Again, we want to be careful that we have evaluated everything. We will look at everything and pursue the path that we think makes the most sense relative to those objectives.

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

And along those lines, you mentioned in the strategic plan optimizing the cost of capital for MPLX, which presumably applies to the GP, the IDRs, etc. Is there an ideal cost of capital that you would plan to have there both pre- and post the $1.3 billion of drop-downs?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

I don't know if there's a specific number, Roger, that we would focus on. But as Don alluded to earlier, we have been generally unhappy with where the units have traded at the LP level. And certainly, as the partnership moved into the high splits and certainly with the addition of MarkWest we know that the IDR burden on the partnership is significant and obviously impacts the level of growth and things that we can pursue.

So I think we focus around things that will improve both in terms of the LP yield and where things are at as well as ways to optimize the cost of capital for the overall partnership again and the cash requirements that the IDRs bring a part of exactly what we're going to look at here.

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

Okay. And my last question, just as a follow-up of all that, presumably the majority of the capital raise, the drop-downs we should expect goes towards, what, share repose, paying down debt, combination of the two?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

It all will come into the total. I think to the extent that, again, we are comfortable with the liquidity position of the Company and we have got cash beyond the needs, then share purchase is high on our list. Debt paydown, we will evaluate as we go forward. We did a little bit this quarter just to calibrate the cap structure relative to the refining environment we've seen. But I'd say the priority is probably more around share repurchase and again, certainly where the shares trade we think there's tremendous value there.

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

Okay, I appreciate your comment. Thank you.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Congrats on today's strategic actions. A follow-up to that last point -- accelerated drops would be a significant cash windfall, $1.4 billion times nine is $12 billion before tax, before considering any GP potential monetization proceeds which dwarf any capitalized costs again referenced earlier today.

Shouldn't we assume that most of that is going to support a buyback, given your history, given your impetus for announcing today's actions that your equity is undervalued?

And secondly, if drops are on the come, would you buy shares, use the balance sheet, before they occur like in the 4Q? Your stock is down 5% today. I know you didn't acquire much in the third quarter. And with that size of monetization -- you got a lot of shares to put away, potentially.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

I think you are right, to the extent that there are big cash proceeds that will come back either from equity or debt that get raised through the drop process, that share repurchase continues to be a priority for us in terms of where that money gets spent.

Again, our focus is, I think, primarily and starts with the notion that the value has not been recognized. So we want to make sure that that value recognition occurs. And to the extent that that produces cash at MPC level, that can be used for share buyback, all the better -- again, provided that we have done that tax efficiently and managed it relative to the total needs of enterprise.

But I think the notion that a substantial person could take the form of share repurchase is not unreasonable.

Evan Calio - *Morgan Stanley - Analyst*

Great. And then as a follow-up to that and the prior questions on taking back equity as well as your theory in terms of how this would be recognized by the market, you mentioned dropping as soon as practicable. And then you drop and then you define drops per year. So is the limiting factor on the pace that you selected here, the capital markets or the equity capital markets for MPLX?

So, meaning your actual drop-down pace could be faster if access or market depth or counterparty side proved to be greater? And secondly, that your goal is really to sell units for cash, right? Because that's what compresses your multiple? And that's ultimately, in my opinion, what forces an unlock of value versus potentially taking back units.

So what's the limiting factor to the pace? And I guess, is your goal to optimize the equity?

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

Yes, I think our goal will definitely be to optimize it. The market capacity to absorb transactions is certainly a consideration among others that we have evaluated.

But again, this is really a look as to obviously there's a piece of the drop-down portfolio that we are just not going to get comfortable with until we can get through the QI regs and a PLR around it.

So let's set those aside for a moment. The remaining piece we're moving pretty aggressively here. We're talking about dropping down up to half of those and setting a schedule for the remaining pieces, again provided that we can get tax comfort on the rest, at a pretty good clip.

So, I think the considerations around it certainly involve market capacity to absorb larger transactions, but also just in terms of the pace and the capacity to manage the growth at the partnership and making sure that we can optimize that total equation with regard to how fast we grow the partnership at the LP level and ultimately the cash when it comes to the GP as well.

Again, I think we're moving very aggressively here. I think there are still, certainly, pieces of the drop portfolio that we will need to spend some time on the readiness for. But they are all, from our perspective, likely going to be part of MPLX. And we are moving very rapidly on it.

So, I think this is an aggressive schedule. Even the drops that we've suggested for the first quarter would be the largest transaction for MPLX in its history. Again, we recognize that that value is not getting picked up. And this increased clarity around the drop portfolio and when it comes in, we think, will help address that valuation gap.

Evan Calio - *Morgan Stanley - Analyst*

Just maybe one more, if I would -- in terms of your statement of taking back units in conjunction with the drop, is that just a pragmatic statement that if that's what's necessary to fund -- and I realize there is a debt piece that provides cash to the parent. Is that statement essentially there as if that's necessary? Or is it a goal to take units back? That's what I'm trying to get to.

Tim Griffith - *Marathon Petroleum Corporation - EVP and CFO*

I wouldn't call it a goal. I would say that we want to be mindful of the market's capacity to absorb transactions and where we can efficiently raise that capital. I think we would be inclined to do so.

We have the flexibility to take back units to help alleviate any of those issues. And again, we will manage it prudently as we go here.

Evan Calio - *Morgan Stanley - Analyst*

It's a big source of cash, guys. Again, congratulations.

Don Templin - *Marathon Petroleum Corporation - President, MPLX and EVP, Marathon Petroleum*

Evan, this is Don. Just one more comment on that -- one, you know historically we have managed tax leakage by taking back units, so that was one aspect of it. And the other is we are a substantial holder of MPLX units.

So the value in the MPLX unit status, we want to make sure that we are not doing anything in the market that puts an overhang on those units that causes the value of our investment to decrease. So those are all things that get into the consideration.

Evan Calio - *Morgan Stanley - Analyst*

In the future, if you could share an aggregate tax basis for the drop (inaudible) to EBITDA I think that would be helpful as well.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

Having said all that, I'm still a little perplexed by the timing here. If I look at the MPC share price or even the MPLX share price, they don't look that troubled. I'm sure you would want them higher. But I'm still not clear why we have to have this announcement right here, right now.

Could you just remind me why you decided that now is the moment that this needs to be announced?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

As I said earlier in my comments, the first nine months or so we worked very hard at getting the MarkWest transition in place, really working with the producers. MarkWest had an outstanding reputation in the producers field. So meeting with producers and really, as I say, getting these assets under wraps.

But then, as you step back and look at how MPLX has performed and how the value has really been transparent or, we believe, lack of transparency of that value back into MPC and the value to MPLX as well, that we felt it was important to really take a bold move here to increase the drop-downs, increase the pace of the drop-downs. So it was a very bold move around this to reflect and attempt to reflect what we believe is substantial value that is tied up inside both components.

Paul Sankey - *Wolfe Research - Analyst*

So, Gary, basically -- I'm stating the obvious here. Apologies. But do you see this as a major change in strategy that is a much more aggressive drop-down outlook, and you felt the need to announce it right here, right now?

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Right. And Paul, it takes you back to prior to MarkWest our strategy was to be a Company-sponsored MLP and all we have are drop-down components and a few organic projects. At the time that we did MarkWest, we stated that we looked out into the future and could easily see that the rate of dropdowns from a sponsored MLP was not infinite. And as you get out over time it was going to be much more difficult. And at that same time the pressure from others in the marketplace of attempting to be able to find growth opportunities was going to continue to be challenging.

So that's why we did the merger with MarkWest, to begin with. We have been very pleased with the assets. Don has talked about the rate of growth, the volumetric increases. And the gathering and processing business is very solid as well as the logistics and storage business that we have as well.

But still, we were not seeing that value transferred in the yield component of MPLX. And in talking to a number of unit holders, they wanted to have a better understanding of how we were going to drop-down assets. And we felt at this time it was -- after getting all this under our belts, we felt it was compelling, that we needed to move forward, back in line with where we said we would grow, middle double digits, where we said we would grow when we first started the discussion on the merger to begin with.

Paul Sankey - *Wolfe Research - Analyst*

Yes, I get it. And I know we are over the hour. But Gary, could I just changed subjects and ask you about the dreaded RINS thing? You've highlighted a cost here in the quarter to you guys. But I get the sense there's a slight difference of view among refiners as to what should be done next.

Could you first talk about what you anticipate to happen at the end of November, if anything? And then, secondly, [talk about how you view the] issue, the way the issue should be resolved.

Gary Heminger - *Marathon Petroleum Corporation - Chairman, President and CEO*

Right. Well, I know that anything is going to happen at the end of November, Paul. But what we've said for quite some time and I know you have reported it as well, that we believe on Marathon's position, we have optionality and the flexibility. And with our retail component, our branded component and our very large blending component as well as some ethanol production capacity, we have the ability to capture RIN value and probably, more so, to lessen the cost of RIN value from all the different components of our business.

The change, the point of obligation -- we think that is fraught with many ramifications. Today you have -- I don't know, probably the number is less than 50 of refiners and big blenders who are managing -- really step back and look at this. We are managing the whole RIN cycle for the EPA today. If you are going to put this into the hands of 150,000 people, just consider what those ramifications are.

We believe the RIN cost is captured in part of the crack spread today and that part of it is in retail, part of it is in blending. So we just think that changing the point of obligation is a bigger distraction.

Operator

And with that, let me turn the call back over to Lisa.

Lisa Wilson - *Marathon Petroleum Corporation - Director of Investor Relations*

Thank you, Katie. And thanks to all of you for joining us today and your interest in Marathon Petroleum Corporation. If you have additional questions or would like clarification on topics we discussed this morning, Teresa Homan, Doug Wendt, and I will be available to take your calls. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating and you may now disconnect.
