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# EDITED TRANSCRIPT

## HFC - Q2 2016 HollyFrontier Corp Earnings Call

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**OVERVIEW:**

Co. reported 2Q16 net loss attributable to HFC shareholders of $409m or $2.33 per diluted share.





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## CORPORATE PARTICIPANTS

**Julia Heidenreich** *HollyFrontier Corporation - VP of IR*

**George Damiris** *HollyFrontier Corporation - President and CEO*

**Doug Aron** *HollyFrontier Corporation - EVP & CFO*

**Tom Creery** *HollyFrontier Corporation - VP Crude Supply and Refinery Operations*

## CONFERENCE CALL PARTICIPANTS

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

**Phil Gresh** *JPMorgan - Analyst*

**Doug Leggate** *BofA Merrill Lynch - Analyst*

**Ed Westlake** *Credit Suisse - Analyst*

**Brad Heffern** *RBC Capital Markets - Analyst*

**Paul Sankey** *Wolfe Research - Analyst*

**Jeff Dietert** *Simmons & Company International - Analyst*

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**Paul Cheng** *Barclays Capital - Analyst*

**Faisel Khan** *Citigroup - Analyst*

## PRESENTATION

**Operator**

Welcome to the HollyFrontier Corporation second-quarter 2016 conference call and webcast. Hosting the call today from HollyFrontier is George Damiris, President and Chief Executive Officer. He's joined by Doug Aron, Executive Vice President and Chief Financial Officer.

(Operator Instructions)

Please note that this conference is being recorded. It is now my pleasure to turn the floor over to Julia Heidenreich, Vice President Investor Relations. Julia, you may begin.

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**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

Good morning, everyone, and welcome to HollyFrontier Corporation's second-quarter 2016 earnings call. This morning we issued a press release announcing results for the quarter ending June 30, 2016. If you would like a copy of today's press release, you may find one on our website, HollyFrontier.com.

Before George and Doug proceed with their prepared remarks, please note the Safe Harbor disclosure statement in today's press release. In summary, it says statements made regarding Management's expectations, judgments or predictions are forward-looking statements. These statements are intended to be covered under the Safe Harbor provision of federal securities laws. There are many factors that could cause results to differ from expectations, including those noted in our SEC filings. Today's statements are not guarantees of future outcome.

Today's call may also include discussion of Non-GAAP measures. Please see the press release for reconciliations to GAAP financials.

Also please note that information presented on today's call speaks only as of today August 3, 2016. Any time-sensitive information provided may no longer be accurate at the time of the webcast replay or rereading of the transcript.

And with that, I'll turn the call over to George Damiris.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Thanks, Julia. Good morning. Thank you for joining us on HollyFrontier's second-quarter earnings call. Today we reported a second-quarter net loss attributable to HFC shareholders of $409 million or $2.33 per diluted share.

Reported results were impacted by non-cash goodwill and asset impairment charges, partially offset by a positive inventory valuation adjustment. The combined after-tax effects of these charges was $459 million or $2.61 per share. Excluding these non-cash items, net income attributable to HFC shareholders was $49 million or $0.28 per share.

Second-quarter adjusted EBITDA was $172 million, 68% below the comparable quarter last year. Consolidated refinery margin was $8.88 per produced barrel, roughly half the $17.42 reported in second-quarter of 2015. Our results were impacted by a materially weaker benchmark margin environment, tighter crew differentials and the impact of rising crude prices on secondary product margins.

Also impacting earnings this quarter were increasing costs associated with purchasing RINs to comply with the RFS mandate, which in this margin environment continues to have significant impact as a proportion of earnings. Before I discuss operational results and expectations, I'd like to spend a moment on the RFS program.

Obviously, this mandate has been receiving increased attention in recent months given the price of RINs and negative lending economics. We believe the constructs of the RFS do not align the ability to influence biofuel blending with the burden of compliance. Along with others in our industry and our trade association, AFPM, we're advocating for the EPA to address this mismatch at the point of obligation and to do so expeditiously.

The simple fact is that RINs were intended to be a certificate of compliance under the RFS, not a method of extracting value or creating winners and losers based on asset configuration in the value chain. A far more equitable structure would be to expand the point of obligation to include those parties that have the ability and desire to increase volumes of biofuel blending, as is the intent of the RFS.

Further, we agree with those advocating for oversight of the RIN market. We believe oversight is needed to regulate speculatory participation, which has caused RIN prices to trade well in excess of the cost of blend in a market that is thinly traded and where demand for RINs is already pegged against supply.

The current point of obligation carries severe unintended consequences from urgent refiners like HollyFrontier and does not advance goals set forth by the EPA. We believe the mismatch between the burden of compliance and the ability to influence biofuel blending is becoming more understood in Washington by other affected parties and by EPA officials. We ask the EPA move quickly in their analysis of the point of obligation and ideally, initiate a rulemaking process that will provide the quickest path to implementing an equitable solution.

Moving on to our operations, second quarter crude throughput was 429,000 barrels per day toward the top end of our 420,000 to 430,000 barrel per day guidance. We ran 27% sour and 17% WCS and Black Wax crude.

Our average laid-in crude cost under WTI was $1.54 in the Mid-Con, $4.09 in the Rockies, and $2.03 in the Southwest. For the third quarter, we expect to run between 440,000 and 450,000 barrels per day of crude with a potential upside in the 460,000 range which cracks spreads dictate doing so. We only have minor maintenance scheduled for the quarter and no large turnarounds.

Despite strong demand fundamentals, gasoline margins have disappointed this summer due to supply outstripping growing demand. Year to date, we've seen an unexpected 60 million barrel increase in US gasoline supply due to an increase in US refining throughput, a 2% yield share from diesel to gasoline, and rising imports. We've also seen a similar 60 million barrel decrease in diesel supply. As this debt illustrates, fundamentals in our industry can abruptly change.

We're planning for challenging market conditions and continued volatility in the months ahead, but remain prepared to respond to take advantage of any opportunities that arise. In this environment, it is more important than ever for us to stay focused on the things we can control.

We continue to make progress executing our business improvement plan. Our refineries are operating safely and reliably. The Woods Cross expansion started up successfully in June and in the current crude price and margin environment is on track to generate annual EBITDA within the expected range of $80 million to $100 million.

The new cat cracker is operating at full capacity of 8,000 barrels per day. With the completion of our large capital investment program, our grow capital will be allocated towards our smaller quick hit opportunity investments. During the second quarter, we completed our third and final FCC modernization, this one at our Cheyenne refinery.

Much like the work done at El Dorado and Tulsa, the Cheyenne modernization will add an incremental capacity and improve liquid yields. Our El Dorado refinery achieved a total crude record of 150,000 barrels per day in June, as well as a record heavy crude rate -- heavy Canadian crude rate of approximately 58,000 barrels per day.

As of the expectation for the opportunity project initiative, this achievement was accomplished using the combined intellectual capital of our engineering and refining teams. A key benefit in the strategic shift towards our quick hit opportunity capital project is the flexibility it affords us over the pace and timing of execution of our investments.

Based on our current outlook, we have elected to defer some planned 2016 capital spend and if necessary, have identified further opportunities for deferrals in 2017. Although the current environment for refiners is challenging, I believe HollyFrontier is well positioned to withstand the pressure and exploit potential opportunities given our complex refineries, advantage markets, our strong balance sheet and our excellent liquidity position.

With that, let me turn it over to Doug Aron, our Chief Financial Officer.

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Thank you, George, and good morning. Thanks to all of you for joining us. For the second quarter of 2016 our cash flow provided by operations totaled $304 million. Turnaround spending in the second quarter totaled $35 million and HollyFrontier's stand-alone CapEx totaled $126 million.

As George mentioned, we completed the Woods Cross refinery expansion project and successfully started up the new assets in the second quarter, increasing our nameplate capacity by 14,000 barrels a day to a total of 45,000 barrels a day. Looking ahead, our discretionary spend will be focused on quick hit capital projects which as George mentioned, gives us greater flexibility in managing the timing and pace of our growth CapEx.

We plan to defer about $40 million in capital spending this year, which will take our 2016 expected capital and turnarounds down to approximately $560 million, down from the previously communicated $600 million. With the completion of our Woods Cross refinery expansion and the majority of our tier 3 compliance pending requirement, we expect 2017 capital and turnaround spending to be approximately $400 million, which would be about a $160 million reduction versus 2016. However, please keep in mind this is not yet a Board approved number, and as we get closer to next year, we will obviously communicate what we expect that final number to be.

As of June 30, 2016 our total cash and marketable securities balance stood at $533 million, a $422 million increase from March 31 levels. We have $595 million of standalone debt and no drawings under our $1 billion revolving credit facility. This puts our current liquidity at $1.6 billion and debt to capital excluding, excluding HEP, at 11%.

This morning in conjunction with our results, we announced a $0.33 regular dividend to be paid in the third quarter putting our yield at 5.2% as of last night's close. We have $170 million remaining under our existing share repurchase authorization. We remain committed to returning excess cash to shareholders; however, the pace and volume will be dependent on free cash flow generation and cash proceeds received from HEP for dropdowns.

High energy continues to make progress, executing third-party acquisition opportunities with the purchase of a 50% interest in the Cheyenne pipeline. The Cheyenne pipeline is an 87,000 barrel per day crude oil pipeline that transports Canadian crude from Guernsey to our Cheyenne refinery.

In July HEP successfully issued a $400 million senior note due 2024 at a 6% coupon in order to repay borrowings on its revolving credit facility. The favorable capital market environment for MLPs should help facilitate a dropdown of the Woods Cross assets later this year. Our HEP units continue to perform strongly, up 11% year-to-date versus the AMZ at 6%.

As a reminder, HollyFrontier owns 39% of HEP, including 22.4 million common units plus the 2% general partner interest. The current market value of our LP units is approximately $772 million as of last night's close. HEP recently announced is 47th consecutive quarterly distribution increase and is gaining momentum and achieving their stated 8% distribution growth target.

Second quarter general partner incentive distributions were $13 million, a 22% increase over the same quarter last year. Overall, HollyFrontier is well positioned to manage through this current refining environment and take advantage of any opportunities that may arise given our strong liquidity position, best in class investment grade balance sheet, and our partnership with HEP.

Lastly, a reminder that you can find monthly WTI-based 3-2-1 indicators for our Mid-Con, Rockies and Southwest regions on our investor page. These regional indicators do not reflect actual sales data and are meant to show monthly trends. Realized gross margin per barrel may differ from indicators for a variety of reasons. You can find that data on our investor page www.HollyFrontier.com.

And now, Krissy, I believe we are ready to open the line for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Roger Read, Wells Fargo.

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

Hello, good morning.

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Good morning, Roger.

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

Thanks for the update on the RINs thing. And it definitely sounds like everybody is in the same boat.

I was wondering, though, what do you think the potential is for something happening -- let's say, before year end, just with the idea that during a election year all this becomes somewhat challenging?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

Realistically, Roger, by year end there is probably zero chance, given the election that you just mentioned. And really, I don't think we'll get any action until after the new administration gets in there.

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

All right, well how's that for killing optimism?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

Trying to be realistic, man.

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

I know. I know.

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Roger, I'd just throw in that, I would've told you the same thing about this time last year as it related to crude exports, and that ended up getting through. So while I agree with George, I think the chances are low, I would also tell you that I do think we're getting some momentum. We've got an audience now in EPA that's at least willing to consider the point of obligation, and we've seen some quotes that indicate that, that is something they are looking after. As an industry, this is a full-court press. I'm sure you saw some of our peers with similar commentary; and so, I wouldn't put it at zero, but maybe something in the low single digits. But I do think we're much further along today than we were six months ago even.

**George Damiris** - *HollyFrontier Corporation - President and CEO*

No question.

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

Okay. Great, thanks. And then the follow up.

So given the guidance -- 440,000, 450,000 -- upside to 460,000 -- a year ago the crude input was right around 460,000, so it sounds like you're looking for a similar potential third quarter, guiding maybe slightly below but potential to match up. We've heard a lot of talk about run cuts. Can you give us an idea of how you're operating? And whether or not you think you'd be at risk for run cuts or whether that's more of an issue for some of your peers in the regions in which you operate?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

I don't expect us to have economic run cuts. I think we have a good competitive position from both the crude supply and product distribution perspective. So I think that's going to be more of an East Coast phenomenon where the Bakken barrel doesn't fit anymore.

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

Thank you.

**Operator**

Phil Gresh, JPMorgan.

**Phil Gresh** - *JPMorgan - Analyst*

Hello, good morning.

First question is just on the Mid-Con performance. You ran well at 104%, but it looks like your margin performance, especially if I compare it to direct peers in that region, lagged by a decent amount. Could you talk a little bit about what happened in the quarter?

**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

Yes, this is Julia.

I think it continues to be a RIN burden, which significantly has an impact in the Mid-Con because we do tend to sell a lot of clear barrels there. Additionally, the co-product crack with the rising crude price went against us. Asphalt actually flipped from positive to negative. Those are the biggest impacts in the quarter.

**Phil Gresh** - *JPMorgan - Analyst*

Okay. Second question is, you talked about the Woods Cross project being $80 million to $100 million potential contribution. Could you talk about the timing over which you would expect to achieve that, as well as the other self-help-related EBITDA that you are thinking about over the next 6 to 12 months?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

As it relates to the Woods Cross expansion, I think you could start expecting that to click in starting in June or basically with this full quarter. And then everything else that we discussed on our -- this improvement plan is proceeding on schedule. So as we said before, opportunity capital we plan on investing $100 million per year there. Maybe slightly less in light of what we just discussed in our prepared remarks. And expect our two year payback metric to hold. So roughly an annual EBITDA contribution of half of what we invest annually.

**Phil Gresh** - *JPMorgan - Analyst*

Okay. And then, final question is just on the CapEx budget for 2017, does that -- remind me what the maintenance capital number is. It's in that $400 million? And how much growth capital you are planning on?

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

So we would see that broken down as follows: about $100 million for turnarounds, $100 million for maintenance, $100 million for environmental and sustaining, and $100 million for growth.

**Phil Gresh** - *JPMorgan - Analyst*

Got it. Okay, thanks.

**Operator**

Doug Leggate, Bank of America Merrill Lynch.

**Doug Leggate** - *BofA Merrill Lynch - Analyst*

Thanks. Good morning, everybody.

George, the comment about we continue to look for opportunities -- it's something Holly's said for quite a while now. Just wondering if you could give us a refresh on, given the challenges the whole industry is facing right now, what do you see those opportunities are? And what should we -- my question is, given the continued RIN issue and your lack of retail exposure, is that ever something strategically that Holly would consider changing as a consideration, maybe even moving more to a vertical-integrated model?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

We've covered this in the past, Doug. It's tough on the retail front. We don't particularly care to get into retail. As you say, the major attraction to consider getting into retail is RIN. I personally think that's a poor way to get RINs because of the mindset that when you buy the retail, you're going to be paying for the RIN at whatever the prevailing outlook is for RINs at that time. I tend to think that the RIN price is at the high end of the range now, so buying retail to take care of your RIN position, you basically -- you're buying RINs at today's prices for the 15- to 20-year life of the acquisition project you're looking at.

Having said that, I have come off of my position of never say never on retail. And it is something we're looking at, and as well as other strategies for better controlling our ability to blend and generate RINs, and that's more on the wholesale side of the business, if you will.

**Doug Leggate** - *BofA Merrill Lynch - Analyst*

George, I wonder if I could just take a quick follow up there. So obviously you and everyone else or talking to EPA about the situation. Just so I understand it correctly, but when you talk about the point of obligation, are you talking about the wholesale blend or are you talking about point of sale?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

It is right at the rack, Doug.

**Doug Leggate** - *BofA Merrill Lynch - Analyst*

Okay. Thanks.

Final one for me is, your dividend obviously has -- we think has been a pretty interesting source of support for your stock. I just -- for all the folks who are looking at your name out there -- I'm wondering if you could just reiterate your commitment to that dividend and any outlook you might have for shifting the distribution to shareholders back towards that as opposed to buyback?

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

I think our regular dividend is one that, if our research is correct, and with Holly being the accounting acquirer of Frontier Oil, we show having paid a consistent and never-stopped 28 years of dividends at Holly Corporation and now HollyFrontier. We feel strongly about continuing to support that dividend.

Obviously, in this margin environment we are distributing slightly more than what we earned in the quarter, and so, I don't think that if we saw this margin environment process for 36 or 48 months that we could be committed to it for that period of time. And it's a decision that our Board makes every quarter. But certainly, as you look at our liquidity position being in excess of $1.5 billion and our expectation for Woods Cross to be contributing additional EBITDA, as George mentioned, sort of starting at the end of June, we feel very good about the near to medium term at certainly the current rate.

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**Doug Leggate** - *BofA Merrill Lynch - Analyst*

Appreciate that, guys, thank you.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Thanks, Doug.

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**Operator**

Ed Westlake, Credit Suisse.

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**Ed Westlake** - *Credit Suisse - Analyst*

Good morning.

Coming back to the self-help, obviously Woods Cross we should see in Q2. You do have the other assets that you've built up -- the El Dorado naphtha frac and the Cheyenne hydrogen plants -- you've got obviously these FCCs. In terms of the total EBITDA, I just added up from your presentation, it's $180 million, $200 million. When do you expect that these will be fully reflected in the earnings in this type of program?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Well the first two, the El Dorado naphtha frac, should have been seen from the first quarter. It started up late last year. Recall we dropped that down, HEP, last year as well. The Cheyenne hydrogen plant really started kicking in, in the first quarter, so this last quarter was the first quarter you should've seen results there, although that was mitigated by the turnaround we took at Cheyenne with the cat cracker, so we didn't have the opportunity to see the full benefits in the second quarter. So that will occur in the third quarter. And as I said on the earlier question, the Woods Cross expansion really should start kicking in this full third quarter.





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**Ed Westlake** - *Credit Suisse - Analyst*

That's helpful.

And then just on the drops, you obviously have the opportunity to drop in HEP, it's been a good start. Maybe just update us in the terms of the next steps.

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

So we're in the process of working on a term sheet, both HEP and HFC's conflicts committees and boards going through that process as we speak. I think what we've communicated previously was something in the $200 million range. We think that actually, given the EBITDA profile of that project, and as George alluded to, that $80 million to $100 million of expected annual EBITDA generation, the dropping somewhere in the third or a little higher in terms of that EBITDA to HEP at a market multiple of 8 to 10 times, is sort of what's out there -- really more like 8 to 9, 9.5 times. So something in the middle of that range is probably an expectation. Again, not yet circled-up, but that would indicate something in the $250 million-plus or so total value for a Woods Cross drop down.

Still, something very much that's being worked between the two companies and nothing yet finalized, but for modeling purposes, that's probably a good walking around number. And it's something we would expect to close before the end of the year.

**Ed Westlake** - *Credit Suisse - Analyst*

Thanks very much, right there.

**Operator**

Brad Heffern, RBC Capital Markets.

**Brad Heffern** - *RBC Capital Markets - Analyst*

Good morning, everyone.

Doug, just as a follow on to that last comment that you made, what's the expected cash versus units proceeds?

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Brad, given that, that's a newly constructed unit with a high tax basis, we would see it largely if not all cash because there would be no tax leakage associated with that.

**Brad Heffern** - *RBC Capital Markets - Analyst*

Okay, got it. And then, following on, on the comment in the prepared remarks about the repurchase, can you talk a little bit about why the number was so low in the second quarter? I certainly understand it was a low cash generation quarter, but at the same time the cash balance was up $400 million, and you did the debt deal during the second quarter as well. So why weren't there more purchases; and then the outlook going forward on the repurchase front and thoughts around the strategy of adding more debt in order to do repurchases?

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Brad, it's really one of -- as we first, going back to being very committed to our dividend and making sure we have adequate liquidity for what we see as a very uncertain time in US refining and really no way to sugarcoat that, particularly with the rising RIN price in the quarter. I would also tell you, of the cash that was generated in the quarter, we generated about $160 million from working capital, and that's really purely driven by the rising crude oil price during the second quarter, which we have now seen reverse itself a little bit in the third quarter.

So I think certainly, until we get this dropdown completed and funded and we've seen a significant improvement in the MLP market and their ability to raise equity, which gives us a lot more confidence about getting that deal done in 2016, I think it's going to be slow in terms of share repurchases. But we will see. As we get that dropdown done, we'll take a hard look and compare that to the other opportunities that exist out there, and we'd obviously love, particularly at this price, to be buying more stock back, but also think it's prudent to maintain an investment-grade balance sheet. And so we're committed to doing that.

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**Brad Heffern** - *RBC Capital Markets - Analyst*

Okay, understood.

And then finally, on the yield front, I think you're probably one of the only companies that reported a substantially higher [distillate] yield during the second quarter. Where are you on the spectrum of max gasoline and max distillate, and how you thinking about yield through the end of the year, say?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

That's a tough one to call, because you don't know what the gasoline and diesel spread is. That's changed quite a bit over the course of the year. I think we started out seeing incentives to make diesel, then it switched to gasoline. It's probably gone back and forth a couple times in between. So we have the potential to make industry-leading percentages of gasoline, and then ship the diesel as the margins dictate. I think right now we've seen recent strength in gasoline that's caused us to shift back again.

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**Brad Heffern** - *RBC Capital Markets - Analyst*

Okay, I'll leave it there. Thanks.

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**Operator**

Paul Sankey, Wolfe Research.

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**Paul Sankey** - *Wolfe Research - Analyst*

Good morning, everyone.

Doug, going back to your comments on the changes that we saw in exports and the fact that there's been progress over the past six months on RINs, can you just highlight to me what that progress has been? Because obviously the dynamic here is important for you guys. Thanks.

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Sure. Paul, I think first was hearing from the EPA willingness to consider the point of obligation. Second is getting AFPM, the Association for Petroleum Manufacturers, is a diverse group and there was questions as to whether or not the group wanted to support moving the point of obligation or full-out repeal, and was going down the path of point of obligation, admitting defeat on full-on repeal. Instead, it was more of a view that, let's take an all-of-the-above approach, that the current system is just not workable and can't go on forever. And so, getting support of that trade organization was another big change, in my opinion. There are still challenges. Again, we see the likelihood low in this year, but again, as George talked about, the intent of the rule was not to create value out of the refining system and into retailers or blenders. And so, I think there is an acknowledgment the system is broken.

The last thing I'd say, Paul, is if you go back to -- my memory is a little fuzzy as to whether it was 2013 or 2014 when we saw RINs in that sort of RIN-sanity period, I think you called it -- or certainly someone did -- we were north of $1.00's price in RINs. You saw Congress wake up and realize that this was creating a burden not just on refineries but also on consumers, and called on the EPA to act. So I wish I had more concrete -- gosh, they've given us a hearing and that hearing date is three weeks from now; it's not that good. But I do think momentum is moving positively.

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**Paul Sankey** - *Wolfe Research - Analyst*

That's the EPA hearing.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Well, if I could chime in a little bit, Paul. I think as Doug said, the industry is doing a better job of getting itself organized. You can see that through AFPM, as Doug said. I think especially the merchant refiners, led by Valero and their petition to the EPA; Coffeyville, PBF -- all of us that are not integrated into retail especially -- rally behind the point of obligation versus a myriad of other RSS reforms that have been proposed in the past. So by better organizing and better concentrating our message around the point of obligation, I think that's really what's led to the attention we're getting from the EPA, as well as Congressional leadership in Washington.

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**Paul Sankey** - *Wolfe Research - Analyst*

Understood.

If I remember rightly, if you can get somehow Washington to believe that the whole thing has been led by Wall Street banks and speculators, hedged on speculators, you can somehow blame those people as you've got a much better shot of getting rid of it altogether.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

We'd appreciate your help in that effort. I hear you've got friends in Washington, Paul.

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**Paul Sankey** - *Wolfe Research - Analyst*

That was a deadpan joke by me. (laughter)

And another broad, general one, because you've obviously answered a lot of questions over the call, but how far do you think Q2 was from midcycle, if you like the new midcycle? Are there elements to it that you think are unusual for the second quarter? Or do you now think that this may be the environment of the future? Thanks.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think the second quarter was below what we would consider midcycle. I think I would view it more towards the bottom of the cycle, but having said that, I think we could be here for three or four quarters. So we're planning for that, as we said. Got a lot of inventory to work off, both nationally and in the Group 3 market, which is our biggest market. But again, you never know. I think as quickly as things turned down unexpectedly this year -- I think everybody came in with the expectation that 2016 was going to be a repeat of last year -- it could turn back and improve.

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**Paul Sankey** - *Wolfe Research - Analyst*

I guess I would say that the inventory was above where you would expect it to be, probably because of the warm winter, the Canadian averages are not good for you. I mean, you obviously suffer from Canadian heavy, and then we're clearly also debating RINs, but if you got any other thoughts?

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

No, I think you hit it right on the head. What started the ball rolling here was the warm winter, which led to high diesel inventories, which led to weak diesel margins, which led to the shift to gasoline production, which again has overwhelmed continued strong demand growth in gasoline.

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**Paul Sankey** - *Wolfe Research - Analyst*

Okay, thanks very much.

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**Operator**

Jeff Dietert, Simmons.

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**Jeff Dietert** - *Simmons & Company International - Analyst*

Good morning.

Just on the RIN side, Bloomberg is not tracking RINs prices, so it's a little bit harder for us to see. Where are you seeing current RINs prices? And what does that imply for RINs cost for the third quarter?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think RINs are in the low $0.90s and I think it's going to put our RIN tab in the third quarter in the $60 million to $70 million range -- $60 million range.

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**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

Yes, Jeff, the RIN tab this quarter was $57 million. I would say probably going to tick up a little bit from there. $70 million is probably a very high end if it really were to stay in the $1 range.

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**Jeff Dietert** - *Simmons & Company International - Analyst*

Okay. And secondly, with the Woods Cross expansion, are there any expectations for feedstock changes as what you're putting in the unit? Could you talk about how that might evolve with the new capacity?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Sure. Obviously that unit was designed, intended to run the Utah West crude, and what's going on, on the crude price front and in the Uintah Basin specifically, we are modifying the plant to allow us to run more Canadian syncrude.

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**Jeff Dietert** - *Simmons & Company International - Analyst*

So the primary addition will be Canadian syncrude? Or are there local crudes -- not waxy crudes, but local crudes that will provide some of that feedstock as well?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think the local crudes will kick in as well, but I would expect the majority of it to be coming down from Canada incrementally.

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**Jeff Dietert** - *Simmons & Company International - Analyst*

Thanks for your comments.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Thanks, Jeff.

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**Operator**

Blake Fernandez, Howard Weil.

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**Blake Fernandez** - *Scotia Howard Weil - Analyst*

Folks, good morning.

George, I wanted to go back to the M&A question. I know you addressed retail and wholesale as a potential way to mitigate some of the RINs exposure, but I didn't hear you really comment on refining. Is there still appetite there? And if so, could you reiterate the regions you are most interested in?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Sure. We are definitely interested in growing. We would love to grow first in the midcontinent or internal US. I think secondary to that would be the Gulf Coast, and really would prefer not to go to either the East Coast or the West Coast, but we would look and if the proposition was compelling, we'd potentially do it. But again, far and away our preference is to stay inland.

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**Blake Fernandez** - *Scotia Howard Weil - Analyst*

Okay, got it.

And the second one is really more modeling-oriented, so apologize for the detail, but Doug, I noticed DD&A and refining was a little bit above our estimate. It ticked up to about $72 million. I know that you took some impairments or write-downs in the quarter. I'm just trying to get a general trajectory going forward. Should we see that start to come down a bit with those impairments? Or any guidance would be helpful?

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Sure. So I thought our total D&A was more like $90 million for the quarter. Oh, refining D&A. Okay.

So I think the impairment should be about $8 million and I assume that's an annual number -- quarterly number going forward. Okay. So J. Gann, our Chief Accounting Officer, is here and is telling me that the impacts of the write-down should be about $8 million. Okay. $8 million annually, so $2 million a quarter.

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**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

And that's going to be offset, obviously, by the incremental $4 million-ish from Woods Cross.

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**Blake Fernandez** - *Scotia Howard Weil - Analyst*

Got it. Okay. All right. Thanks, appreciate it.

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**Operator**

Ryan Todd, Deutsche Bank.

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**Ryan Todd** - *Deutsche Bank - Analyst*

Thanks. Good morning, gentlemen.

Maybe if I could ask one on OpEx. OpEx was certainly a bright spot in the quarter in our view. Can you help us -- in the past you've quantified the impact of the low nat-gas environment. Could you potentially do that as you did in the prior quarter? And then any other meaningful drivers from the quarter? And can you talk about sustainability and opportunities to potentially further lower cost going forward?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Ryan, we are kind of scrambling here on the natural gas sensitivity. I don't have that at my fingertips.

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**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

Like 120,000 and then BTU a day, so about every dollar change, call it $25 million.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

I guess, what we're trying -- the question is, what are you trying to compare to? Previous -- quarter over quarter, Ryan, I would say that nat-gas was pretty flat, maybe even up just slightly. So the improvements you'd be seeing likely were going to be through improvements in our efforts to reduce operating costs.

**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

And keep in mind, Ryan, we do have some nat-gas hedges, so basically it's not a one-for-one basis when you're looking at the spot price on your screen with regards to our OpEx impact.

**Ryan Todd** - *Deutsche Bank - Analyst*

I didn't mean to make you scramble. Any other thoughts on drivers of your low OpEx and how sustainable that is going forward? And other opportunities potentially to get it lower?

**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

I think this quarter, the OpEx -- obviously there was a fair amount of our lower OpEx was from lower nat-gas. The rest of it was really split between lower maintenance materials and just other types of projects where we really cut spend.

**George Damiris** - *HollyFrontier Corporation - President and CEO*

Bigger picture there, Ryan: the best thing we can do to get our operating cost down, and we've been making progress here, is to get our reliability up. That decreases our maintenance expense, obviously. It gets our [full] barrel numbers lower, which is always a good thing. And then, as we've laid out in our business improvement plan, we've identified $100 million of OpEx improvements and lately we've identified another $30 million of improvements in addition to that, primarily through better management of contractors and other headcount.

**Ryan Todd** - *Deutsche Bank - Analyst*

Great, thanks.

And maybe one more -- just in terms of overall use of cash, you mentioned pulling back a little bit on discretionary capital spend. And potentially into 2017. Can you talk about how you think about allocating your use of cash between CapEx, return to shareholders? Is there a rough overriding target in terms of how much you like to return to shareholders versus spend on CapEx? And how we should think about the potential for that discretionary capital spend to ramp up and down given current cash flow?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think the way we think about it is that our CapEx is basically defending the fortress. So it's our first priority. We have to maintain our plants. We have to invest in the compliance projects that are required to stay in business. So a lot of that is not discretionary and things we have to do. We can cut back on the margin on some of the opportunity capital and growth capital, but we tend to think that those are better returns to the shareholders than even getting the dividend.

Second is the dividend, but again that's like 1A and 1B between our CapEx and the dividend. And as Doug mentioned earlier, our swing is really on returning cash to the shareholders through the repurchase option.

**Ryan Todd** - *Deutsche Bank - Analyst*

Okay. Thanks, I will leave it there.

**George Damiris** - *HollyFrontier Corporation - President and CEO*

Okay. Thanks, Ryan.

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**Operator**

Neil Mehta, Hollifield Corporation.

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**Neil Mehta** - *Goldman Sachs - Analyst*

Good morning, Neil Mehta from Goldman Sachs here. Just want to reach out on a couple questions here.

So the first is on capture rates: as oil prices have pulled back year, do you think that capture rates can start to become a tailwind again, similar to 2015, where you had the benefit of Contango but also less losses on resids and secondary products?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think the biggest benefit of lower crude prices and less of an impact on our liquids volume yield. So as you know, refiners don't produce 100% liquid volume yield. It's somewhere in the 93% to 98%; maybe sometimes 100% depending on how much hydrogen you add to your products. So when you take 5% times the crude price, that's really the impact of the liquid volume yield on your margins. Typically, like you are saying, when the crude price is lower, other secondary product margins are better. Having said that, we're still seeing weakness this year in asphalt and fuel oil, at least relative to prior quarters and prior years. So we're not getting the bump there that you would normally see in those secondary product WTI cracks than we have in the past.

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**Neil Mehta** - *Goldman Sachs - Analyst*

Appreciate that, George.

And then second question here is on tax rate. The adjusted tax rate in the release was 23%. Was there anything unusual in the quarter to call out?

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Well, there was just a couple things, Neil. First, obviously the biggest was the impairment and goodwill -- which, goodwill, you don't get a tax benefit from. It's not a rate driver. So what you saw happen was, even though we announced a large loss, and you might've expected even tax rate to be lower, you don't get to count that goodwill portion.

That said, our first quarter tax estimate was expecting better earnings through the first half of the year, which then reversed. So all of those sort of drilled us towards a lower number. The only other thing I'd point out is that with HEP being a larger percent of our earnings and HEP being the tax advantage structure, you just saw that rate, as you pointed out, being below what you would have maybe expected -- something closer to 35%.

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**Neil Mehta** - *Goldman Sachs - Analyst*

Perfect. Last question is just on turnaround season as we get into it. As you think about the Mid-Con, where do you think we're going to be from a turnaround perspective, based on what you're hearing? And just remind us again where you are in terms of your maintenance. I think you were front-half loaded, but wanted to double check.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Definitely. Our turnarounds were in the first and second quarter. We are going to have a turnaround at the older Woods Cross FCC unit in the fourth quarter, but other than that, we're pretty much done for the year. We think that the fall turnaround schedule in Mid-Con is going to be pretty heavy, as it typically is. There's some turnarounds as well in the Rockies, in the third quarter, early fourth quarter. But I don't think it's anything outside the normal preparation for winter type of turnarounds.

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**Neil Mehta** - *Goldman Sachs - Analyst*

Do you think that WTI can widen out during that period as it does seasonally sometimes? Or just because of the role in US oil production that's going to be tough to have?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Jon, got anything on there?

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**Tom Creery** - *HollyFrontier Corporation - VP Crude Supply and Refinery Operations*

This is Tom Creery, Neil.

RIN WTI -- I still think we're going to probably see the $2.00 mark for the balance of this year, somewhere in there. If something happens internationally it could do something, but we don't see anything on the forecast that's going to substantially change that.

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**Neil Mehta** - *Goldman Sachs - Analyst*

Great, guys, thanks for the comments.

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**Operator**

Chi Chow, Tudor, Pickering and Holt.

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**Chi Chow** - *Tudor, Pickering, Holt & Company Securities - Analyst*

Thank you. Couple questions in the Rockies region.

First, can you give us the details on the asset write-down at Cheyenne? And second, following up on Ryan's question, actually operating expenses in that region on a per barrel basis looks to be still on the high end. What action can you take to lower the cost structure there?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

On the OpEx side, Chi, remember we had our FCC turnaround at Cheyenne in the quarter. So that on a per barrel crude basis makes those costs look lower because we ran fewer barrels. And then, even when we came out of turnaround, we had some gas oil inventory to run off. So that led to lower crude rates even after the turnaround was completed, so again makes the per barrel numbers look higher than it ordinarily would. But having said that, we have a lot of our opportunity that we have identified to improve our operating cost structure in the Company are in the Rockies, especially at Cheyenne. We've got the contractor headcount we talked about earlier, and we benchmarked ourselves to peer group and we have opportunities across the board to improve at Cheyenne.

**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

And Chi, by my math, just looking here -- I mean OpEx calculated from Q2 of 2015 and also Q1 of 2016 was pretty much closer to $60 million versus closer to $50 million for Q2. So directionally, moving in the right direction we just need to add the barrels now.

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

So Chi, following up on the goodwill impairment as well as the PP&E write-down, you will likely remember -- I'm not sure we broke it out by plant -- but we had about $309 million worth of goodwill associated with the Cheyenne refinery as a result of the HollyFrontier merger in 2011. We are required to actually test that for impairment every quarter. We do a major review every July, and what we found in that review, as you do a discounted cash flow analysis, look at the forward outlook, the operating history, RINs prices, as an example another overhang. We found that the Cheyenne refinery based on past results and future expectations certainly was impaired for goodwill.

There's been a second step that's required after you've done it to test on an undiscounted basis a look at your existing property, plant and equipment. Again, looking at those discounted cash flows as we went forward, found that there was an additional $300 million or so write-downs that needed to occur on book value versus enterprise value. Also taking into account our market capitalization. So all of that resulted in what was a little more than $600 million of non-cash impairments to the Cheyenne refinery in the quarter.

**Chi Chow** - *Tudor, Pickering, Holt & Company Securities - Analyst*

Okay.

**George Damiris** - *HollyFrontier Corporation - President and CEO*

Chi, one other thought on the OpEx question, tying in Woods Cross, that Rockies region number you are probably looking at -- we've been carrying the full load of the additional operators and other expenses for the Woods Cross expansion for the whole year, let alone the second quarter. And again, with us basically studying that unit up in the last month, the second quarter, that's going to contribute to per barrel numbers looking high as well.

**Chi Chow** - *Tudor, Pickering, Holt & Company Securities - Analyst*

Do you have any guidance on the per barrel OpEx there going forward -- what that might look like with Woods Cross up now?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think $7.00 would be a good walking around number.

**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

And Chi, that's a combination again of getting the Woods Cross barrels on, because we've had the OpEx associated with that layering in over the past couple of years, and reducing OpEx in general at Cheyenne.

**Chi Chow** - *Tudor, Pickering, Holt & Company Securities - Analyst*

Is Cheyenne still a core asset for you?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

All our assets are core assets. How's that for a standard reply?

It's a good refinery. With the hydrogen plant that we've added there, we have the capability to run up to 80% heavy Canadian crude. The Denver market's a good market. We've invested in a heavy oil rack that allows us to sell more bottom of the barrel asphalt and gas oil type of products. So we like the asset. We just need to get the reliability up at that facility, work on our operating costs, as you've highlighted for us here, and I think it could be a major contributor to HollyFrontier -- and no question, the key driver for that facility, though, is the heavy crude.

**Chi Chow** - *Tudor, Pickering, Holt & Company Securities - Analyst*

Okay. Thanks, George.

One final question here, it looks like a lot of your projects are leaning towards improving gasoline yields with all the FCC improvements and whatnot. Are you suggesting that you expect gasoline to be a better market than distillates, longer term?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

We don't really mean to suggest that with the projects that we are doing. Really, looking at projects that can increase our yield, and not necessarily preferentially gasoline versus diesel. And that -- those are the projects, like the FCC modernizations, are basically upgrading coke and gas and LPGs into gasoline and diesel. I don't think we're smart enough to pick the gasoline and the diesel spread, so we designed for flexibility. I think in the short to intermediate term, with all the diesel capacity that's been added worldwide, it suggests gasoline is going to be better than diesel. But again, like I said earlier, we've seen the gasoline to diesel spread flip about four times in the first six months of the year, and when it does we react accordingly by changing our cut lengths and things of that nature to make the right product at the right time.

**Chi Chow** - *Tudor, Pickering, Holt & Company Securities - Analyst*

Okay, great. Thanks, George, appreciate it.

**Operator**

Paul Cheng, Barclays.

**Paul Cheng** - *Barclays Capital - Analyst*

Good morning.

**George Damiris** - *HollyFrontier Corporation - President and CEO*

Good morning, Paul.

**Paul Cheng** - *Barclays Capital - Analyst*

George, and for Cheyenne for the reliability issue, is it a hardware or is it a culture issue? And what is the solution -- or the initiative I should say -- that you are taking?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

I would say, historically, it's probably been more of a hardware issue, especially in our utilities area where we've had less than reliable steam and instrument error and systems of that nature. I think a lot of that is behind us. We may have some incremental improvements from here, but the vast majority of those utility-related issues are behind us. I think going forward, more of our issues there are management- and culture-related, but we've just installed a new plant manager as well as a new operations manager earlier this year.

And we're just beginning to see the aircraft carrier turn at Cheyenne. So we are pleasantly pleased at what the plant has been able to do since it has come out of its FCC turnaround. The FCC project is performing as we expected, and we're excited by the blooms we're seeing on the roads at Cheyenne.

**Paul Cheng** - *Barclays Capital - Analyst*

And when you did the grade-down, did you base on the historical comps with reliability? Or did you base on what you think the reliability may be able to achieve in the future?

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Both, Paul. You have to -- one has to drive the other. I mean, if you had specific reasons as to why it passed operations, we're going to be different that you can point to, that's one answer. But the answer is, there is a combination of both that goes into that.

**Paul Cheng** - *Barclays Capital - Analyst*

But which is more of a primary -- I'm trying to understand if the write-down is really because of historical data, re-sell is just bad, or that even after you think the kind of improvement that you have you still cannot justify whatever is the offset.

**George Damiris** - *HollyFrontier Corporation - President and CEO*

No. It's not a matter of justification, Paul. And it's not just crude throughput, as an example. You also have Brent-TI that, as you look backwards 3 to 4 years, you saw something that probably averaged $6.00 or $7.00. As you look forward, we use something in the $2.00 to $4.00 range. And so that causes impairment because Brent-TI was a driver of profitability, historically.

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Paul, I think the major reason for the write-down is just, frankly, the curing value on our books for Cheyenne has been too high ever since the merger. We've been skirting on the question of whether we should take the write-down even through great margin periods like last year. So I think we've just decided to bite the bullet and do this, and obviously the weaker margins this year were the catalyst for doing it.

**Paul Cheng** - *Barclays Capital - Analyst*

And what caused, George, since you have the expansion and just wondering, since June? And so far what you can see, do you have any problem facing the additional product? And whether you have caused the local market margin or the pricing to move?





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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

No. We have been very pleased by the market's ability to absorb the additional production out of Woods Cross. Granted, it is the summertime, when [solid] demand is stronger than it is obviously in the winter. Got strong cracks in prices in the Salt Lake and Idaho markets right now. Up until recently, we've seen strong cracks in the Vegas market as well. I think it's been in the last week or so that Vegas has gotten weak along with the West Coast. But overall, we've been very pleased in our ability to place the product at nice margins for Woods Cross and for us.

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**Paul Cheng** - *Barclays Capital - Analyst*

And for winter, does that mean that you need to cut back the run to tailor to the local market? Or you think you can actually ship that out with new or UNEV pipeline in northern --

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

We fully expect to place that product using the UNEV pipeline. That was why that pipeline was built -- to be a relief valve, if you will, especially in the wintertime.

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**Paul Cheng** - *Barclays Capital - Analyst*

Final one for me. Yesterday one of your competitors was actually talking about how strong the asphalt market in the Southwest and in the Minneapolis market. I may have been surprised that since you guys see a totally different market, maybe that you can now come up a little bit. Is it really such a big difference?

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

I think it's the difference between wholesale and retail, Paul. I think much of our discussion today has been wholesale-related. What we basically sell out of our refineries to asphalt customers. We are seeing what you're talking about beneficially within our Holly Asphalt division, where we have great margins at [more than] retail level through Holly Asphalt. But again we're talking -- most of our discussion today has been at the -- regarding the net-net of asphalt to the refinery producer.

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**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

Just remember, our retail business profitability does not layer into our refining results. You can find the details in the reconciliation.

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**Paul Cheng** - *Barclays Capital - Analyst*

Okay. All right. Very good, thank you.

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**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

One last thing I'd offer, Paul, as to the write-down question that had an impact timing wise, was our market capitalization. So down 50% or so from the end of last year, also plays into that equation, sort of when measuring your market valuation and book valuation.

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**Paul Cheng** - *Barclays Capital - Analyst*

Thank you.

**Operator**

Faisel Khan, Citigroup.

**Faisel Khan** - *Citigroup - Analyst*

Thanks for taking my question.

Going back to the RINs for a second, what percentage of your gasoline did you blend?

**Doug Aron** - *HollyFrontier Corporation - EVP & CFO*

Roughly half.

**Faisel Khan** - *Citigroup - Analyst*

Okay. And then is all that half through the ATP-owned terminals that you guys have?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

No. I would say most of it is in the Magellan system, where we sell the majority of our products.

**Faisel Khan** - *Citigroup - Analyst*

You blend it into the -- after it gets on the Magellan system, but you can't blend it before it goes into the system, right?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

That's right. It goes in unblended and then when it comes out at the rack level, that's where we blend.

**Faisel Khan** - *Citigroup - Analyst*

Thanks. So then, at the terminals where you have rack capacity -- I take it that you do have rack capacity there -- if those contracts are with other marketers, and as those contracts roll off, can't you take back that capacity and sort of market your own gasoline and blend it through there?

**George Damiris** - *HollyFrontier Corporation - President and CEO*

That's getting a the very core of what the issue is regarding RINs, you know? Obviously, refiners would love to blend as much of their product as possible. But unfortunately, our customers are pretty smart guys, and when they see the opportunity to get into the blending business, or to grow their existing blending business, so that they can generate RINs and turn around and sell them back to us, that's getting at the core of this point of obligation we're talking about.

**Faisel Khan** - *Citigroup - Analyst*

I understand that. I was just thinking that in order to mitigate through your current costs, an opportunity take back some of that capacity as it comes up for re-contracting.

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**George Damiris** - *HollyFrontier Corporation - President and CEO*

Again, that's the negotiation and friction between the refiner and his customer.

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**Faisel Khan** - *Citigroup - Analyst*

Okay. Fair enough. Thanks for the time.

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**Operator**

And that was our last question in queue. I'd now like to turn the call over to Ms. Heidenreich for any closing remarks.

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**Julia Heidenreich** - *HollyFrontier Corporation - VP of IR*

Thanks, everyone, for joining us this morning. If you have any follow up questions, Craig and I will be available all day. We look forward to speaking with you in November to share our third quarter results. Thank you.

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**Operator**

Thank you. This does conclude today's teleconference. Please disconnect your lines at this time and have a wonderful day.

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