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HFC - Q2 2017 HollyFrontier Corp Earnings Call

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OVERVIEW:

Co. reported 2Q17 net income attributable to HFC shareholders of $57.8m or $0.33 per diluted share.

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PRESENTATION

Operator

Welcome to HollyFrontier Corporation's First (sic) [Second] Quarter 2017 Conference Call and Webcast. Hosting the call today from HollyFrontier is George Damiris, President and Chief Executive Officer. He is joined by Rich Voliva, 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 Craig Biery, Director, Investor Relations. Craig, you may begin.

Craig Biery

Thank you, Melissa. Good morning, everyone, and welcome to HollyFrontier Corporation's Second Quarter 2017 Earnings Call. I'm Craig Biery, Director of Investor Relations for HollyFrontier.

This morning, we issued a press release announcing results for the quarter ending June 30, 2017. If you would like a copy of the press release, you may find one on our website at hollyfrontier.com. Before we proceed with prepared remarks, please note the safe harbor disclosure statement in today's press release.

In summary, it says statements made regarding management expectations, judgments, or predictions are forward-looking statements. These statements are intended to be covered under the safe harbor provisions of federal security law. 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 outcomes. The call may also include discussion of non-GAAP measures, and please see the press release for reconciliations to GAAP financial measures. Also, please note that information presented on today's call speaks only as of today, August 2, 2017. Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or rereading of the transcript.

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

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Thanks, Craig. Good morning, everyone. Today, we reported second quarter net income attributable to HFC shareholders of $57.8 million or $0.33 per diluted share. Certain items detailed in our earnings release, that Rich will discuss in his prepared remarks, decreased net income by $58.2 million on an after-tax basis. Excluding these items, net income for the quarter was $116.1 million or $0.66 per diluted share, versus $49 million or $0.28 per diluted share for the same period in 2016.

Adjusted EBITDA for the period was $306 million, an increase of 78% compared to the second quarter last year. This increase was principally driven by higher product sales volumes and margins, combined with earnings from our recently acquired Petro-Canada Lubricants business, PCLI. Due to strong refining operations and reliability during the period, we set a new quarterly crude chart record averaging 467,000 barrels per day, which generated strong financial results and positive free cash flow.

We're pleased to report the first full quarter financial performance from PCLI in our consolidated earnings. Adjusted EBITDA for the quarter was $30 million, with product sales averaging 23,720 barrels per day, and the operating cost at $53 million for the period. Our first 5 months of earnings equate to $140 million of annualized EBITDA, well within our guidance range. Production levels were lower in the quarter due to downtime taken to upgrade and maintain certain under-invested refining assets. Our plant is now back to normal operations and our go-forward plan is to run the plant at maximum capacity. As we progress with the integration of PCLI, we remain confident in our ability to achieve operational and financial synergies between our 2 lubricants businesses.

This morning, we also announced, our Board of Directors declared a dividend of $0.33 per share payable on September 20 to holders of record on August 23. Today's dividend declaration reflects our continuous commitment to returning cash to shareholders.

Looking forward, we remain focused on operating our plants safely and reliably, and executing on our business improvement plan and growth strategies. With no major planned downtime into October, we're well positioned to continue on the path of strong operational and financial performance for the remainder of the year. Now I'll turn the call over to Jim for an update on our operations.

James M. Stump - *HollyFrontier Corporation - SVP of Refining*

Thank you, George. As George mentioned, for the second quarter, our crude throughput was 467,000 barrels per day versus our guidance of 440,000 to 450,000 barrels per day, driven by strong refinery reliability. This represents our highest quarterly crude charge achieved by HollyFrontier. We also set a number of individual refinery throughput records across the fleet. Most notably, El Dorado and Woods Cross achieved record crude charges for the quarter as Tulsa and Navajo ran record monthly crude charges in June. Our consolidated operating cost of $5.18 per throughput barrel was an improvement of 23% versus the first quarter. We remain focused on improving operations and reliability at our Cheyenne plant, and are seeing positive trends in the Rockies region. The Rockies operating cost improved to $8.31 per throughput barrel adjusted for the ATP tariffs embedded in the Woods Cross Refinery OpEx.

During the quarter, we ran nearly 75,000 barrels per day of crude charge and are encouraged about increasing our Rockies' throughput going forward.

We are very pleased with the overall performance of our refinery system during the period and remain confident that our ability to continue improving upon our operational reliability. I will now turn the call over to Tom for an update on our commercial operations.

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial and President of Hollyfrontier Refining & Marketing LLC*

Thanks, Jim, and good morning. For the second quarter, we ran 26% sour and 19% WCS in black wax crude oil. Our average laid-in crude cost under WTI was $0.39 in the Mid-Con, $2.97 in the Rockies, and $0.87 in the Southwest. We experienced tightening differentials, primarily, among our heavy and sour crude slates during the second quarter and was coupled with apportionment on various lines coming from Canada. Currently, we continue to see compressed differentials in both synthetic and Western Canadian heavy crude due to the Canadian synthetic production interruptions. However, apportionment has decreased as a result of the closing of the transportation arm.

While the crude differentials were challenging in the quarter, we were able to optimize our system accordingly and serve the barrels necessary to achieve the record product output. In future, we expect differential throughput to pricing based on both transportation and quality.

On the product side, gasoline inventories in the Magellan system have dropped by over 2 million barrels since March 31 of this year. This has helped to keep crack spreads in the second quarter higher when compared to the same period last year. Excluding the Cheyenne RIN benefit, second quarter consolidated refinery gross margin was $10.76 per produced barrel, a 21% increase over the $8.88, which was recorded in the second quarter of 2016.

Realized gross margin improved at all our refineries despite the less-than-favorable crude differentials during the period. We continue to see improvements in our Rocky Mountain region for an adjusted realized gross margin of $15.05 per produced barrel, which excluding the RIN benefit, represents a 50% increase from the second quarter of last year. RIN's expense in this quarter was $83 million before the RIN benefit, driven by higher production and sales volumes and higher RIN prices. For the second quarter, -- for the third quarter of 2017, pardon me, we expect to run between 450,000 and 460,000 barrels per day.

And with, that I'll turn it over to Rich.

Richard Voliva

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Thank you, Tom. Second quarter included several unusual items: pretax earnings were negatively impacted by an $84 million lower cost-to-market charge; $23 million of asset impairments; a $5.1 million inventory charge related to the purchase accounting at PCLI; the $3.7 million in acquisition-related charges.

These charges were partially offset by a $30.5 million gain, as a result of the waiver of Cheyenne's 2016 RFS obligation. The table detailing these items can be found in our press release.

PCLI's adjusted EBITDA for the second quarter was $30 million. We remain confident in our annual EBITDA range of $100 million to $200 million for 2017.

For the second quarter of 2017, cash flow provided by operations was $513 million, inclusive of [$38] million of turnaround spending. HollyFrontier's stand-alone capital expenditures totaled $56 million for the quarter. For the full year of 2017, we still expect to spend between $375 million and $425 million of stand-alone capital including turnarounds. Additionally, we expect to spend $40 million of capital HEP and $30 million for PCLI.

As of June 30, our total cash and marketable securities balance stood at $460 million. During the second quarter, we announced and paid a $0.33 regular dividend, putting our yield at 4.5% as of last night's close. As of June 30, we have $1 billion of stand-alone debt outstanding and no drawings on our $1.35 billion credit facility, which puts our liquidity over $1.8 billion and debt-to-capital a modest 18%.

HollyFrontier owns 36% of Holly Energy Partners, including the 2% general partner interest. HEP units continue to perform well, and the current market value of HFC's LP units is over $800 million. Second quarter general partner distributions were $18.7 million, a 43% increase over the same quarter last year.

As a reminder, we have published benchmark margins for Group I, Group II and Group III base oils. Going forward, we will continue to publish these lubricant indicators monthly along with the WTI base 3-2-1 margins for each of our operating regions. These regional product and base oil 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 all this data on the investor page of www.hollyfrontier.com. And with that, Martha, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Doug Leggate from Bank of America.

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

I got a couple of things, if I may? First of all, the throughput was, obviously, pretty strong and it really looks like you've turned the corner operationally. So as we go forward, how would you characterize any additional steps you think you need to take to sustain that? Is there anything unusual about options of maintenance or reliability or something that is driving that change? Just characterize what do you think really turned the corner on reliability? And I've got a follow-up, please.

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

We -- like you said, we're very pleased with our results in the second quarter and it's basically -- it's basic blocking and tackling. So our focus is on continuing to sustain the levels that you've seen in second quarter. I don't think there's any plans or programs that we haven't previously discussed, that we haven't been working on. It's just a matter of, again, continuing to focus and setting that high expectation for our operations team and having them maintain second quarter tight performance.

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

I guess, I was just looking at the delta between actual throughput on guidance, which is, obviously, well ahead, actually is what I was getting at in Q2. Okay, I'll leave that one. My follow-up is just, hopefully, a housekeeping question for Rich. Just on the cash flow, Rich, can you walk us through -- there was extraordinary cash flow in the quarter, just walk us through what -- if there was anything unusual in there and I'll leave it at that.

Richard Voliva

Yes, there's nothing really unusual in there. It's -- typically, we catch a little bit of a working capital benefit at second quarter and we catch -- get the flip of that in the first quarter, so we saw that this year. We did catch a tax carryback in the second quarter of about $80 million or so. So that helped a little bit [also] for 2016, those are the only 2 items that I'd call out.

Operator

Our next question comes from Blake Fernandez from Scotia Howard Weil.

Blake Michael Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Question for you on the lubes business, the full quarter of reporting was broadly in line with what we saw last quarter, which was kind of a partial quarter despite the fact that some of these benchmark indicators that you published here were up pretty strong. Can you give us some, I guess, some help or guidance on how to think about using these indicators and kind of modeling or kind of how do you figure directionally going to move the earnings going forward?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think, I'll start with a couple of general comments and maybe Craig or Rich can help you on the modeling-related questions. But again, like I said in the prepared remarks, we had some downtime in the second quarter that impacted production. As we learn more about the plant, we're finding -- where some of the soft spots are in the plant where it's been under-invested in recent times, especially, as the previous owners prepared this asset for sale. So we're taking the time to fix and improve we're seeing as we learn about the plant. Then the second comment, Blake, is, although the base oil indicators that we published were stronger quarter-on-quarter, I think it's important to remember that this is an integrated business that takes the base oil and sells it as a finished product. And those finished products' pricing is lagged versus the base oil, which itself is lagged versus crude oil price movements. So there are lags in the system that don't necessarily catch up to the base oil pricing that you saw in the change in our indicators from quarter-to-quarter. Rich, if you want to say anything.

Richard Voliva

The only thing this I want to say is, this is the benefit of having integrated business is that we're closer to the customer, the downside of that, right? Is that you can't -- this not like selling gasoline, you don't change the price every single day, so.

Blake Michael Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Without getting too far ahead of our SKU's here but would that suggest 3Q maybe you have some upward momentum given the move from 1Q to 2Q?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

I think we'd hope so but we'll see what base oil markers deal and everything else so.

Blake Michael Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Okay. The second piece is on CapEx, I don't think it looks like you're falling too far out of line with the guidance, but based on my numbers, you've done about [$223 million] first half of the year when you include turnarounds? And if you extrapolate that just kind of forward it seems like maybe there's a chance you go below, especially, given that you don't really have any downtime until November. So is there any downward pressure on CapEx that you can see? Or any color there?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

No, Blake, we're still comfortable with the range, it's actually -- timing and turnaround was a big part of it. So...

James M. Stump - *HollyFrontier Corporation - SVP of Refining*

We also completed some big capital projects early this year, which inflated our first half capital spend.

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

We feel good with the range, at the end of the day.

Operator

Our next question comes from Justin Jenkins from Raymond James.

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

I guess, maybe, if I could start on crude differentials and maybe your crude slate in the quarter. It seems like the overall feed stock mix was pretty similar to what we've seen recently, and I guess it's a bit different than what your peers have been saying. Is that the just a function of running more volumes through the Rockies? Or any color maybe on mix of crude utilization going forward?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, that's probably right. We did have a little bit of a change in the -- I think, we ran more black wax at Woods Cross but, by and large, we do have crudes in longhaul pipelines that we have to run off in inventory, we try and regrade it at Cushing, but...

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

Okay, perfect, that's helpful. And maybe moving over to Navajo here. I know we talked last quarter about some operational uplift if we get more Delaware crude in, but maybe just curious on what you're seeing, today, in terms of opportunities up there and how the barrel quality is trending in your system?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think, directionally, the incremental barrel is lighter due to the shale source of the crude oil. And again, we did make some modifications to the plant, and our second quarter turnaround allow us to run more of those lighter barrels.

Operator

Our next question comes from Paul Cheng from Barclays.

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

I actually have one request and maybe couple of questions. The request is that, Rich, in the future, if you can include a table on the special item by segment and by line, because when we're looking at, in this quarter, the impairment, your goods, we are not seeing impairment in your income statements so 19.2 but you say it's 23.2 so we have about $4 million, and we don't know where we should put it. So it would be extremely helpful that if you can help us out to have maybe break it down in the table, so that we can know where to take those special items out.

Richard Voliva

Yes, fair enough, Paul, we can discuss to clarify that, that missing $4 million, if you will, is in the Mid-Con segment. So...

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

But I mean, we don't even know that Mid-Con is in the cost of goods sold or if it's in the G&A, so that's why I'm saying that it would be really helpful...

Richard Voliva

Okay, fair enough.

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

It will be extremely helpful that if you help us that so we don't have to keep guessing. And, George, just wondering, I understand what you say about in this quarter that, that didn't change but more importantly is that the differential remain narrow, in terms of your configuration, your capability, how much you can shift from heavy into light if the differential stays at where we are for an extended period of time?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Well, I think, we have flexibility but we still have economics even sees narrow differentials to run heavy crude to fill our cokers.

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

Even at today's differentials that you're still better off to run heavy in your...

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Exactly. Up to the point, at which we fill our cokers and then from there it becomes an economic trade-off between heavy and light and, directionally, we are switching from heavy to light with this type of differential once we've filled the cokers.

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

But not at today's level, today is still better off. Because most of your peers seem to suggest that at today's level that they're better off switching to light already.

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Again, there's a certain incremental volume at both Cheyenne and El Dorado that we will switch from heavy to light. But again, we'll fill the cokers first, and even at today's differentials like we've got (inaudible), we're still going to run that heavy crude to fill the coker. After the coker's full, the next increment, we'll switch from light -- from heavy to light.

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

Okay. And the second question is that, at the time of your acquisition that one of the maybe big prize you're looking at is how you will be able to integrate and move the fix stock from maybe Tulsa, into -- up in Canada so that you can upgrade into a Group III or that you move the fix stock, maybe from one of the fix stock from crude slate to -- into Tulsa that you're happy to maybe move into Group II or the other. So just curious that there after the last 5 months, is there any update you can provide on that?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Okay, so it's still very early there. But we have run some initial trials, they've been short in duration, the initial results are encouraging but there's still a lot of analytical work that we need to do to test the product that's been made. To see what exactly it looks like and what exactly we can do with it in our downstream businesses and sell them in the base oil market. So we don't have enough results that we feel comfortable in sharing at this point in time. But again, everything is encouraging from what we've seen to date.

Operator

Our next question comes from Philip Gresh from J.P. Morgan.

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

Couple of clarification questions. First, just in terms of the [loose] with that $150 million, do you say you're still expecting to achieve that for this full-year? Or is that more of a run-rate basis?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

So, run rate. So obviously, we're going to end up owning the asset for 11 months of the year. So...

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

Okay, and how much would you say, in the second quarter you called out the maintenance, was that a meaningful impact on the result? I'm just trying to think about how we should -- we generally think about the second half of this year.

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think our LPO, our lost opportunity in the loose business, is probably around $20 million for the 5 months that we've owned it due to the operational issues we've had.

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

Okay, that's helpful. And then, just another clarification just on the rent expense. What did you say, the second quarter was $83 million, excluding the benefit, is that what the number was?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Correct.

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

And then, I know, in the last call you didn't want to get into too many specific numbers but is that kind of the right way to think about the second half of the year? Or how should we be kind of thinking about that with where RIMs are today and more broadly...

Tom Shetina

Well, Phil, if you run rate the current set of prices, yes, probably pretty reasonable. Tell me what RIN prices are going to be, right? So that's the -- I think that's a reasonable ballpark, yes -- today's market.

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

Okay. And just a broader question on the RINs, obviously, the D.C. Court of Appeals had a ruling late last week, and I don't know if you had any comments on that or how we should think about, any impacts that might happen to these 2016 standards? Is it meaningful for you guys if something changes there?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think, there's still a lot to be learned about what exactly this ruling means and what the EPA is going to do as a result. I think, maybe, taking a little step back here on this (inaudible), I think it's something we still continue to work hard. We're impressed with how eager this administration is to learn about the RFS in their desire to discover the truth and to do what's right, which is, obviously, a refreshing change from the administration. I think it's important to remember, these people are new, we're old. They're still trying to get up the learning curve on this complicated topic that we've all had the benefit of studying for over 10 years. We take for granted that the $15 billion RVO is above the blend wall, a lot of people in Washington are still learning about that fact. They're still learning about the fact that the bio-diesel RVO is above domestic production. They're certainly still learning about this unicorn biofuel called cellulosic that doesn't even exist. And I think although the changes in the recently-announced RVO are relatively modest, we did see some modest improvements down in the advance in cellulosic. I think there's no coincidence there. And I think they also mentioned they were interested in a possible reset of the RVO going forward. So I think that it's a long winded way of saying that there's a refreshing change with the new administration and they're going to try to do what they can within the confines of the RFS just to fix this problem.

Operator

Our next question comes from Neil Mehta from Goldman Sachs.

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

Just wanted to start on the refining gross margin in the Rockies. Obviously, very strong results there, but want to confirm the 19.47% that's in the release, that includes the one-time gain? And then the bigger picture question around the Rockies is just the sustainability of the captures that you saw there? Anything that you could provide that would help us think about that go forward.

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Neil, you're correct, the gross margin reported includes the benefit of the Cheyenne waiver. And broadly speaking, as far as capture is concerned, you think we should normalize that, if you will, we feel very comfortable with where we're at on the susceptibility of that going forwarded. The team has done a great job so far, there's a long way to go though, and are going to continue to work hard, I'm sure.

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

And is that improvement in capture more of a reflection of the ability to source more favorable crude barrels or the reflection of your ability to run the assets more optimally and driving better performance? Just trying to understand the DNA of that capture.

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George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Mostly it's reliability that's in those annual.

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

Follow-up question is just that, George, you talked in the past about growing scale across each of your 3 business lines, just latest spots, in terms of being an asset or, for that matter, a corporate acquirer, how is HollyFrontier thinking about the opportunity set that's in the market?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Well, again, I want to reiterate, our primary focus is on optimizing what we have, integrating PCLI and improving our reliability of our existing fleet. But we are seeing assets available across all 3 of our business lines, that's our direct success. So within priority of, again, optimizing what we currently have, we'll continue to look at and work opportunities to acquire something.

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

Is there any business line in particular that seems to be at focus? And should we look at what you did with PCLI as an example of the type of things that are potentially on the board going forward?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think we're looking at opportunities across all 3 businesses: Refining, downstream, midstream and lubes. And I think PCLI would be a good example of the sets that they were looking at where it's again accretive and it positions us well for the long term.

Operator

Our next question comes from Paul Sankey from Wolfe Research.

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

Just a couple for me, please. Firstly, can you talk a bit about the market as it regards the platform Petro Canada business. Rich, when you were in here the other week, you were talking about Pearl GTL, I wondered if there were some dynamics there that you might just highlight if there was anything worth highlighting. Secondly, a bigger question, do you have a target -- a specific target or something that we can think about for improved operational performance? I just wondered if there's something -- some aspiration that you have that we can -- after this quarter that we can look forward to.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

So Paul, let me grab the first one just on -- I mean, obviously we saw strength in base oil in the second quarter. Particularly frankly, in Group I, which is the tall end of our benchmark indicators. Pearl has had some issues, I don't think that hurt that market but I wouldn't call anything out beside that.

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

And then as far as the second question as far as the target, Paul, I don't think we have a specific number we want to share but I think we've shared this example, El Dorado, where we're running about 150,000 barrels a day in a refinery that has historically run about 138,000. And I only use that as an example as the type of things we're focused on doing at El Dorado is not only improving the reliability at our base levels but finding those areas that are the next spot on -- if we can overcome it, it leads us to running more crude and more intermediate through the downstream units. Again, classic process engineering of finding the constraints and [we connect the] constraints till we find what the next constraint is, we deal with that.

Operator

Our next question comes from Brad Heffern from RBC.

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

I'll start by trying to ask Doug's question, again. Rich, on the cash flow number, the $513 million, it just seems like even if you take out the $80 million number that you called out, it still just seems out of line sort of how the business has been performing at these earning levels of late. I think you have to go back like 2012 when the WTI was -- the spread was $20 to get a number like that, so. But with the addition of PCLI, has the cash generation just changed? Like, can we think about it $0.66 of earnings, the business generating $500 million of cash at quarter end forward, just any more color that you can give me to help there.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Once again, Brad, what I'd say is with the working capital benefit we caught in the second quarter was over $200 million. Now we caught -- we had a pretty significant drag in the first quarter, so this is fairly predictable from us, seasonally. So what I tell you, secondly, the first quarter cash from operations is not -- understated, if you will, on a run rate basis and then you get the flip of it in the second.

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

Okay, sorry, I missed that, that working capital comment. I guess, secondly, on the Cheyenne exemption, has that facility received an exemption in the past? I don't remember hearing about it.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

No, this is the first time.

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

So what was the change there? Has it just been performing at a low enough level that it's now eligible when it wasn't in the past?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

I think that's good a characterization. That's why we're focused on the reliability there.

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

Okay, got it. And then just finally, any update on the process looking at the ATP IDRs?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

No update, but we're continuing to work that but nothing to announce or report at this time.

Operator

Our next question comes from Ryan Todd from Deutsche Bank.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Maybe just a quick follow-up, I'm not sure if I missed it earlier, did you say what the throughput was at Cheyenne in the quarter?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

No, we're not going to go to that level, Ryan.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Okay. But I guess, generally, from an operational point of view, I mean it seems you've got a couple of consecutive quarters of improved performance out of the Rockies there. I know it's been touched on to varying degrees over the course of the call, but can you -- how close are you, I guess, at Cheyenne, specifically? At being where you would like it to be? And how sustainable do you view the improved performance there?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think we've made good progress but we still have a lot of runway to go there. We -- as with every improvement initiative, you're going to have fits and starts. We have periods where we run -- where we would like to be and then we backslide a little bit and figure out what it's going to take to get -- again, it's getting to be -- getting to where it can be sustainable performance rather than just periodic performance, that's really where our focus is. So again, we hit where we want to be, but the matter of sustaining that type of level for a protracted period of time.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Okay, thanks. And maybe back over to -- to PCLI, the follow-up to -- you talked about some of the test batches that you run on the feedstock optimization. Any -- I think, previously, you had talked about the possibility that, that'd be something that might be able to -- we might be able to see the signs of the numbers showing up towards the end of the year, is that still a reasonable timeline to see potential impact of some key stock optimization. And then, maybe, just at a broader sense, the PCLI, you've had a few more months with it now under your belt, any thoughts evolving on the growth opportunities that you see there in the business over the next few years?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes, I think what we've said in the past, Ryan, or at least what we meant to say in the past is, we've started working on it towards the end of this year, I think you've seen that in the trust -- in the test trials that we just talked about. We'll have some more test trials between now and the end of the year, but I think as far as really starting to see it in the numbers from both the synergy and the feedstock optimization perspective, I think you should think more towards 2018 than second half of '17. To your second question, the more we get into this business, the more we confirm our going-in assumptions and feel comfortable that the value that we think we can add to this business and the value this business can add to our Tulsa business can be realized. So there's nothing that's concerned us from what we've learned, and if anything we are more confident, thinking more upside than we've talked about in the past.

Operator

Our next question comes from Roger Read from Wells Fargo.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

I guess I'd like to could come back a little on the operational performance. Obviously, solid in the quarter, but then your guidance for Q3 is a little bit lighter. Is there anything you've seen quarter-to-date that makes that? Or are we just trying to be careful, maybe Q2 was a little bit on the high side for total throughputs?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Roger, I would say that if you're talking about trying to get this down to a percentage point of accuracy, you're cutting it pretty fine. So we, obviously, have higher guidance in the third quarter than we had in the second, so we view this performance as sustainable and we're very excited about it.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then, George, you've talked before about, as a big organization and consolidating operations across the -- putting a core group in charge of reliability, where -- you've talked obviously about that on the call so far, but where do you think you are in terms of that performance? So the old baseball analogy, halfway through here in the fourth or fifth inning? Or are you in the third? Or are we pretty well through that process? What's sort of your take on that?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

I think we're probably in the middle third of the game. We have -- and we're seeing some positive, that we have plenty of runway left, so.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

And for the remaining part, presumably, the low hanging fruit first, is it -- are the things that you need to do going forward capital-consuming or are they more, as you said earlier, process-oriented?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

I think it's more process-oriented. Again, we're hitting rates that we'd like to hit. But sustaining those levels for a practiced period of time, that's what where our focus is. And so we don't need the capital, because we are hitting those rates for periods of time but it's sustaining those levels, which is, again, gets back to more operational processes.

Operator

(Operator Instructions) Our next question comes from Chi Chow from Tudor, Pickering, Holt.

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

Just back on the Cheyenne RIN situation. Rich, what exactly does the $30 million represent? Is that an elimination of an accrual? Or was there an actual cash impact flowing through?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Well, it represents the refund of our 2016 RIN obligation at Cheyenne, at cost. The cash impact will be, effectively, not needing to purchase those RINs then this year. So we'll have an avoided cost -- cash cost at the end of that.

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

Okay, got it. I may have missed earlier, but do you have an estimate on your RIN expense for this year?

Richard Voliva

Well, let's put it this way, Chi, it was $83 million for the quarter, excluding that benefit. If prices were all exactly where they are today, I think that's a pretty reasonable run rate. But again, we've got to make a price call more than anything.

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

Have you applied for an exemption for 2017, again, at Cheyenne or any of your other refineries?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

I think Cheyenne -- we're going to stay away from that question for any applications for the future.

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

Okay. Then back on PCLI, can we circle back to how this whole pricing dynamic works? Would the increase in the base oil cracks that you show on your website, was that a function of crude prices coming down? Or was it actual increases in pricing for the base oil?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Increases in base oil pricing.

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

Okay. Going forward, I guess, how impactful is the quarter-to-quarter change in crude prices on your margins versus -- should we be looking at base oil pricing as the most impactful factor rather than changes in crude prices?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

So, Chi, again, it's like a crack spread, there's base oil on the product side and there's [backing] gas oil on the input side. EGL is effectively 70% gasoline and 30% diesel but it's got its own market and dynamics. So maybe it traded on the Gulf Coast, you will find the quotes for it.

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

Okay, maybe one other question...

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

It closely correlates with crude but not exactly. So it typically trades at a differential to crude oil, we're talking about BGO now, and that differential does change from day to day.

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

One final question. George, you mentioned the $20 million opportunity cost in your comments earlier. Just to clarify, was that just for PCLI? Or was that a figure related to refining?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

No, that's just the PCLI.

Operator

Our next question comes from Paul Cheng from Barclays.

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

Rich, I just want to make sure I get it right, the 450,000 to 460,000 barrels per day, third quarter guidance, is that crude? Or it's the total throughput?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Crude.

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

That's crude?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Yes.

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

So that's actually -- it's not really that much lower than 2017 second quarter. And do you have the effective tax rate you're willing to share, the guidance for the second half?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

I think it's the same as the first half, we're talking 36%, 38%, ballpark. From a book perspective, we see no change.

Allen Good - *Morningstar Inc., Research Division - Senior Equity Analyst*

Final one for George. On the Rocky Mountain, that's the only region you're still running at less than 80% utilization rate. But given the size of the market over there, over the next couple of years, should we assume that this is probably as good as you can get? In other words, is the utilization there is constrained by the market? Or are you still constrained by the processes over there?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Not constrained by the market. I think there's more potential for us to run more crude rate, get back to our reliability. I think the last comment I have on here is, I think our capacity is overstated slightly. I think -- let's take Cheyenne, for example, I think our stated capacity at Cheyenne's at 52,000 barrels a day. I think that might be overstated by a couple thousand barrels a day.

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

Okay, so you have the processes to get everything right. What is a more realistic target you have in mind over the next couple of years you can get the utilization way up to, for this region?

George J. Damiris - *HollyFrontier Corporation - CEO, President and Director*

Let me take this question a little bit differently. I think we can get crude throughput in the Rockies into the 80's. 80,000 barrels a day.

Operator

There are no further questions at this time. Craig, I turn the call back over to you.

Craig Biery

Thanks, everyone. We appreciate you taking the time to join us on today's call. If you have any follow-up questions, as always, reach out to Investor Relations. Otherwise, we look forward to sharing our third quarter results with you in November.

Operator

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