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HFC - Q1 2017 HollyFrontier Corp Earnings Call

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OVERVIEW:

Co. reported 1Q17 net loss attributable to HFC shareholders of $45.5m or $0.26 per diluted share.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to HollyFrontier Corporation's First 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; and Tom Creery, President Refining and Marketing. (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, Sharon. Good morning, everyone, and welcome to HollyFrontier Corporation's First 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 March 31, 2017. If you would like a copy of the press release, you may find one on our website at hollyfrontier.com. Before George, Tom and Rich proceed with their 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 outcome. The call also may 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, May 3, 2017. Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or reading of the transcript. And with that, I will turn the call over to George Damiris.

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

Thanks, Craig. Good morning, everyone. Today, we reported first quarter net loss attributable to HFC shareholders of $45.5 million or $0.26 per diluted share. Certain items detailed in our earnings release that Rich will discuss in his prepared remarks decreased net income by $12 million on an after-tax basis.

Excluding these items, net loss for the quarter was $33.4 million versus a loss of $10 million for the same period last year. Adjusted EBITDA for the period was $85 million, a 10% decrease compared to the first quarter of 2016. This decrease is principally attributable to lower refinery segment production and sales volumes from heavy maintenance during the period, partially offset by earnings from our recently acquired Petro-Canada Lubricants business, PCLI.

We're pleased to report the first 2 months of financial performance from PCLI in our consolidated earnings. Adjusted EBITDA for February and March was $28 million, in line with our annual guidance range. Our sales averaged 24,140 barrels per day, and our operating costs were $36 million for the period. We are currently seeing strength in the peso market, driven by seasonal demand, and look forward to recognizing a full quarter of earnings in the second quarter.

This morning, we published a lubricants primer on our HFC Investor Relations page to provide you with a deeper insight into our lubricants business. The integration of PCLI continues to progress smoothly. We appreciate the warm reception from our new, talented, knowledgeable and dedicated colleagues. We welcome them and the skills and capabilities they bring to HFC.

We remain confident in our $20 million per year synergy target and expect to realize these benefits as we further integrate our 2 lubricants businesses. Combining PCLI with our existing Tulsa specialty lubricants business creates scale, diversity, operational and financial synergies and a solid platform for growth.

There is also opportunity to increase Group III base oil production through feedstock optimization, allowing for significant margin uplift potential. We are excited about our growing presence in the lubricants industry and are encouraged by our progress integrating PCLI into HollyFrontier.

Our refining outlook for 2017 remains cautiously optimistic. We anticipate solid economic growth will continue to support refined product demand and sustained growth in domestic crude oil production will lead to improved crude differentials. We are also optimistic that a more favorable regulatory environment could provide a tailwind for both the refining industry and the economy as a whole. With a large portion of our scheduled maintenance behind us, we are poised for strong financial and operational performance for the remainder of the year.

Now I will turn the call over to Tom for an update on our operations and commercial activity.

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial*

Thanks, George, and good morning, everyone. On the operations side, we had a first quarter crude throughput of 371,000 barrels per day versus our guidance of 350,000 to 360,000 barrels a day, as driven by a heavy maintenance schedule.

During the quarter, we successfully completed a very large turnaround at our Navajo Refinery. In fact, this turnaround was one of the largest in company history and included the revamps to multiple units as part of our $40 million efficiency and debottleneck project, thereby increasing Navajo's overall throughput capacity and allowing us to run more of the higher API gravity crude oils coming out of the Delaware Basin.

We had unplanned maintenance on our Tulsa reformer and planned maintenance at the El Dorado vacuum tower. During the Tulsa outage, we were able to accelerate other maintenance and a catalyst upgrade originally planned for later this year, all of which allowed us to benefit from higher liquid yields and octane during the summer driving season. We have no major planned downtime until our scheduled turnaround at Tulsa West in November of this year. We are focused on improving operations and reliability at our Cheyenne plant. And we expect our performance to continue trending in the right direction in the Rockies region.

During the quarter, we ran an average crude rate of 74,710 barrels per day, Cheyenne operations are improving, and we ran at a very strong 48,300 barrels per day crude rate in the month of March. Adjusting for ATP tariffs embedded in the Woods Cross and Rocky Mountain, OpEx was $8.91 per barrel. This amounted to a 10% reduction over fourth quarter of 2016.

On the commercial side, we ran 26% sour and 19% WCS and black wax crude. Our average laid-in crude cost under WTI was $0.61 in the Mid-Con, $3.83 in the Rockies and $1.70 in the Southwest. We are continuing to see compressed differentials in both the synthetic and WCS crudes due to the Canadian synthetic production interruption coupled with apportionments on the import line from Canada. We are optimizing our crude slates to minimize these effects by increasing volumes of Permian Basin crudes that can be delivered to the El Dorado refinery by the Centurion and Osage pipelines.

First quarter consolidated refinery gross margin was $7.74 per barrel, a slight increase over the $7.59 recorded in the first quarter of 2016. In the Mid-Con and Southwest, our realized margin was impacted by our maintenance at our Tulsa, El Dorado and Navajo refineries. In the Rockies, our realized margin was impacted by the temporary Salt Lake City pipeline outage. However, we were able to back to a certain portion of our crude slate and capture the increase in product cracks. During the increase in our laid-in crude cost, improved operations at Woods Cross and Cheyenne helped us realize almost a $4 increase versus the prior quarter.

Our RINs expense in the quarter was $66 million. We remain optimistic that flaws and inequities that are inherent with the mandate will be addressed by the present administration. For the second quarter of 2017, we expect to run between 440,000 and 450,000 barrels a day of crude oil.

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

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

Thank you, Tom. First quarter included several unusual items. Pretax earnings were negatively impacted by $15.6 million in acquisition-related charges, the $12 million lower of cost or market charge, $10.2 million in charges attributable to the inventory value step-up at PCLI and a $4.5 million charge for HollyFrontier’s share of Holly Energy Partners’ early extinguishment of debt. These charges were partially offset by a $24.5 million gain from foreign currency hedges related to the purchase of PCLI.

As George mentioned, we have included a reconciliation of these items in our press release. PCLI's adjusted EBITDA over 2 months was $28 million. HollyFrontier realized a $10.2 million noncash charge through PCLI's cost of goods sold for the step-up in inventory valuation associated with purchase accounting. We expect to realize a final $5 million of this noncash step-up in the second quarter.

While it is early days, we are very pleased with the performance of PCLI and look forward to the opportunities to come.

For the first quarter of 2017, cash flow consumed by operations was $39.4 million, including turnaround spending of $48 million. HollyFrontier's stand-alone CapEx totaled $49 million for the first quarter.

For 2017, we expect to spend between $375 million and $425 million of stand-alone capital, including turnarounds. This is a decrease of $25 million compared to our original guidance.

Additionally, we expect to spend $40 million of capital for HEP and $30 million for PCLI. As of March 31, 2017, our total cash and marketable securities balance stood at $130 million. During the first quarter, we announced and paid a $0.33 regular dividend, putting our yield at 4.7% as of last night's close.

As of March 31, we have $1 billion of stand-alone debt and no drawings on our $1.35 billion credit facility. This puts our liquidity at a very healthy $1.5 billion and debt-to-capital at a modest 18%.

On Monday, HollyFrontier received an investment-grade rating of BBB minus with a stable outlook from Fitch Ratings. We now hold investment-grade ratings from S&P, Moody's and Fitch, which illustrates our strong balance sheet.

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 HollyFrontier's LP units is over $800 million.

First quarter general partner distributions were $79.8 million, a 43% increase over the same quarter of 2016. As part of the lubricant primer posted today, we have published benchmark margins for Group I, Group II and Group III base oils. Going forward, we will publish these lubricant indicators monthly, along with the WTI base III to I 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 this data on the Investor page of www.hollyfrontier.com. Finally, we will be hosting an Analyst Day on the afternoon of December 7 at the New York Stock Exchange. More details will follow.

And with that, Sharon, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Doug Leggate from Bank of America Merrill Lynch.

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

Thanks for the additional detail on (inaudible). I think we all need a little bit of help with that. So I got 2 questions, if I may. So first one is on, obviously, capture rate was hit by maintenance and associated opportunity costs this quarter, but I'm trying to understand the impact of other RINs in -- the RINs cost. And I wondered if you could walk us through the sequential change in costs? And what I'm really trying to get out is, my understanding is you were kind of overinventoried on RINs at the end of last year. Does that mean you get a delayed impact from the reduction in RIN costs? In other words, will we see it show up a little more aggressively in subsequent quarters? And I've got a follow-up, please.

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

Doug, it's Rich. So the short answer is, yes, you are correct. We use -- we did consume some RIN inventory during the quarter. And we used a weighted average cost of accounting for those RINs. So we did have -- we're all running RINs that are higher than market through the P&L during the first quarter. Long story short, yes, you are correct. We'll see a delayed benefit from the improvement of RIN market.

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

Can you quantify the impact, Rich, the impact of the delay? In other words, if you are using spot RINs versus inventory RINs, what would the difference be?

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

It would be about $15 million to $20 million difference.

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

Okay. That's really helpful. I guess, my follow-up is -- I've got number of things I wanted to ask, but I'll keep it to 2 questions. So I'll keep -- I'll just go with PCLI. You’ve had it for a couple months now I guess. The run rate seems to be a little better above the $150 million -- greater than $150 million guidance that you suggested for EBITDA. What are you seeing good and bad from -- as you integrate that business? And is that guidance still -- are you still comfortable with that guidance? What I'm really getting at is, it looks like there might be some upside to that guidance.

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

I wouldn't bake in an upside just yet. I mean, it's still very early 2 months into this. But the original question regarding the good and bad, what we are seeing from PCLI, it's all on the good side. I mean, the people were getting -- have been very impressive. They have been very cooperative. It's basically -- they feel like they have been unleashed and freed up to do a lot more creative thinking and doing than they have under prior ownership. So that's a testament to them. And I think that's a testament also to the culture we have at HFC. But we -- across the board as far as both the base business and the potential upsides we see through synergies and feedstock optimization, all that is exactly as we expected if not better than when we walked in the door.

Operator

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

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

I'll ask 2 questions, both on lubes. For one, I'm not as familiar with the volatility or seasonality of the market. So I'm just curious, is 1Q typically a stronger or weaker period? So in other words, is it fair to kind of extrapolate these 2 months across the year? And maybe I'll just ask both questions and then you can respond. The second question is on the synergies of $20 million through '18. For one, I wanted to confirm that, that is not part of your original kind of $150 million midpoint of EBITDA. And then secondly, when you think we can maybe start to see some of that beginning to flow through and actually hit the EBITDA stream.

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

Sure. I'll try to take those. As far as the seasonality or what February and March are indicators versus the full year, I would say that February and March are not necessarily the peak season. I think the peak is really coming more in the second quarter. But there is not as much seasonality as perhaps our prepared remarks meant to imply here. It's more of a stable business. But if you want to call 1 quarter more seasonal than the other, probably call the second quarter in preparation for driving season and warmer weather when people tend to change out their oil more. As far as the synergies, again, we are very early into this. We're just getting to know each other between our Tulsa and our PCLI lubricants businesses. But I think you can start to expect some of that to flow through late this year, but most of it will start coming in, in 2018.

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

And George, just to confirm that is not part of the kind of the EBITDA of $150 million that you articulated when you...

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

That's correct. That's above the base expectation for the business, Blake.

Operator

Your next question comes from Paul Cheng from Barclays.

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

I think my first question is for Rich. Rich, on the roughly $23 million operating profit and EBITDA about $20 million, do you have a split between the base oil side to manufacturing side? And what is the lubricant side to the wholesale or the marketing side? And also whether the resell is pretty even between February or March or one month is substantially better than the other?

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

So Paul, on the first question, I think it's too early for us to get to that level of granularity. We'll work to that over the course of the year. As we mentioned right, we expect to have more disclosure over time here. On your second question, I think it is pretty evenly split basically between February and March. There was no major difference between the months.

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

And second question for, I think, this is probably for George. George, is there any particular good reason that you want to keep the GP in the GP instead of, say, maybe restructure and in exchange of a more maybe transparent vehicle in the LP, given that is already in the high speed? And also that, I mean, by doing so that maybe would allow the HEP to have a lower capital cost and perhaps that improve the competitive position in the market?

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

Okay. So I think the answer to your first part of your question is regarding the GP. I think there's a simple one-word answer for that, and that's control. So we want to keep the GP for very simple control reasons. But I think your larger question is really intended at the cost of capital side. And I think, we've said previously, and we're still in the very early stages of pursuing this, Paul. We do want to look at the IDRs to see if there is some sort of deal that can be struck between HFC and HEP that's a win-win for both, that basically lowers HEP's cost of capital as a result.

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

And do you have any kind of time line in mind that when that you may make the decision?

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

Well, we think we can get something scoped out this year. As you know, these things have a lot of tax details associated with them and our people have been little bit tied up with PCLI, but we need to really take the deep dive on the detailed issues here. So in other words...

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

I'm sure Rich doesn't need to sleep so he would be able to work for you.

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

Well, Rich is already growing fangs from being a vampire with no sleep, so -- but bottom line though, Paul, we think we'll have something fleshed out either way by the end of the year.

Operator

Your next question comes from Ed Westlake from Crédit Suisse.

Edward Westlake - *Crédit Suisse AG, Research Division - MD and Co-Head of the Global Equity Oil and Gas Research*

I guess, 2 questions. One, you shouted out some improvements in the assets at Navajo and then Tulsa from the general round of work that you did in the first quarter. I wonder if you can quantify the EBITDA or uplift you think in a normal steady state that would come from those improvements? And then the second question is around the contracting of Bakken and WCS crude. Obviously, those diffs have tightened because of DAPL and Syncrude that clearly would have a negative impact. And I'm just wondering if there is anything you can do to mitigate or any color you can add to that?

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

Sure. Sure, Ed. I think we've given a little bit of directional indication of what we think we can do with the projects at Navajo and Tulsa. And again, directionally, at Navajo, it's going to buy us a little bit more crude rate and make us more efficient in our downstream units by eliminating recycle streams that will basically get us a few thousand barrels per day more capacity in some of our downstream units like the DHT and NHT. But I don't think we want to put it an EBITDA dollar figure to those, Ed. I mean, it's just...

Edward Westlake - *Crédit Suisse AG, Research Division - MD and Co-Head of the Global Equity Oil and Gas Research*

We can do that work. That's fine.

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

Okay. And same thing at Tulsa. I mean, Tulsa, the new catalyst gives us better yield and more octane capability. But again, finding a specific EBITDA range or target for that is not something we would like to do. On the crude supply side, as you said, Bakken and WCS have tightened up, and I'll let Tom give you a little bit more feel and flavor for that.

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial*

Sure. Good morning, Ed. Let's just talk about WCS first. As previously mentioned what we did at the El Dorado refineries, we increased runs of what we call Permian sour blend that we can source in the Permian Basin and bring it over. So during the month of March, we got as high as 65,000 barrels a day of deliveries from Permian Basin, which was an all-time record for us. So that helped us reposition our crude slate to take advantage of higher WCS prices at Cushing for those barrels. And then at Cheyenne, what we have seen in the Cheyenne market, we've seen very high asphalt prices this spring, but it still allows us to run WCS at a good margin there. So what we've done is, we turned back our coker, made more asphalt and optimized profitability there. And Bakken prices, we buy everything on a delivered basis at Cushing on Bakken. And we saw some tightening towards the end of the quarter on -- because of DAPL that we will readjust as we move forward and replace with other grades as per the LP.

Edward Westlake - *Crédit Suisse AG, Research Division - MD and Co-Head of the Global Equity Oil and Gas Research*

And then just very quick one on lubes. The data pack you put out has a bump in margins in March. Is that just a seasonality you're referring too for the 2Q peak? Or is that just decline in oil prices and some stickiness on the base oil prices relative to oil, just trying to get a sense of how these prices move around.

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

I think that's more attributable to -- yes, it's more attributable to the seasonality.

Operator

Your next question comes from Phil Gresh from JPMorgan.

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

The first question is just a follow-up on the RINs. I believe in the first quarter of last year, it was $46 million. And I know you mentioned that $15 million to $20 million difference using weighted average cost. I just wanted to get a sense of how you think the rest of the year would progress based on the current RINs price relative to what the full year cost was for last year?

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

So Phil, look, I think we're going to shy -- given how absurd this market is, we can't even pretend to give you guidance on what RINs are going to do going forward.

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

Okay. So I mean, I guess -- okay. So moving on to my next question then. So for HFC, how are you thinking about the drop of whole EBITDA at this point to HEP? And do you anticipate this year potentially having any drops?

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

So I think, Phil, we're not anticipating drop-downs in 2017. Obviously, we did an outsize drop-down with the Woods Cross processing unit last year. We think we probably got a little more runway in the drop-downs of processing units. Obviously, we've done all the traditional logistics in terms of pipes and tanks. But really what we'd like to do, and this gets the IDR discussion is, we'd like to see HEP continue to grow externally, if you will. I think the other major area where we still have opportunities to leverage HFC for HEP's benefit is replacing other third-party service providers with HEP. Again, we spend about $1 billion a year moving things around at HFC. Not meaning to imply that all of that is addressable through this strategy, but there is still opportunities for us to give some of that business to HEP.

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

If I go back to the Analyst Day, I believe, you'd talked about $200 million of drop proceeds per year. And I know you had a larger one last year. So maybe not the end of Q for this year, but I thought that there were more -- there is more on the backlog, I guess?

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

Yes, so Phil, we -- at that time, we mentioned that those were going to be lumpy. So the $200 million was not meant to be ratable by year, but it was the easiest way to portray the math. It's also somewhat related, obviously, to the pace of projects and projects that fit the model, if you will, at HollyFrontier. So yes, obviously, we've cut capital spending back a little bit. So I think we'd expect that, again, we've got some more runway there, so we wouldn't expect to do anything in 2017.

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

Sure. Okay. And just last question just on the CapEx. Can you remind us how much is the sustaining capital requirements underlying those numbers that you gave? And just the turnaround pieces that how much of that was for turnarounds? And whether you would consider this a normal number or a higher-than-normal number?

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

So I think our turnaround number this year is, call it, $150 million to $165 million, that's higher than normal this year, just based on timing of maintenance. Sustaining capital on a run rate basis, call it about $100 million a year.

Operator

Your next question comes from Roger Read from Wells Fargo.

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

Guess, maybe following up a little bit on the PCLI piece here. You've obviously highlighted not a lot of volatility in the business, little better March. Curious as you look forward, though, and maybe a little bit back from the time you acquired it on pricing and some of the moves in crude, because we had the big movie in crude kind of December and January. Has the company -- has the business caught up with that move in crude, and so we are okay from this point assuming no major price moves? Or is there still more catchup to occur and that feeds into some of the guidance for the full year?

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

I think, as you're hinting at, there's generally a lag between crude moves and lubricant price moves. So to the extent that crude prices have moved up in the last few months, I think there's still some catchup to be done on the lubes price side.

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

And is there a rule of thumb you think we can use in that? I mean, 60, 90 or 120 days or...

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

There really is no one number, but I would say, it's somewhere between 2 to 4 months or maybe 90 days on average.

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

Okay. Great. Thanks. I'm sorry, go ahead. I didn't mean to cut you off, George.

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

It's all right, Roger. It's just tough to give a specific guidance here because there are so many different products produced and so many different pricing relationships. So we'll be able to provide more color as we get further into the details of the business as well.

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

Sure. Absolutely. And then back to, I think, it was Ed's question about EBITDA on other refineries post some of these improvements. Maybe if you don't want to talk about EBITDA guidance, can you give us an idea of maybe Navajo, huge turnaround, as you said, kind of expectations for either higher run rates or higher level of utilization and maybe also with some of the other units here?

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

Yes. I think the highest level, again, I think -- we expect to get about 5,000 barrels per day more crude capacity at Navajo. So we have typically run in the low 100,000 -- somewhere 103,000, 105,000 barrels per day. We hope to be pushing as high as 110,000 with the modifications that were made during this turnaround.

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

And then, I guess, really, I was kind of trying to get to maybe like a reliability aspect. I mean, do you -- I know until you run it, you can't say for certain, but is there an expectation that reliability is improved here and at some of the other units, including Tulsa, following some of this work?

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

Yes, I would say that Navajo has been one of our more solid performers from a reliability perspective. They can get locked into 105,000 for extended periods of time. And we'll look forward to getting them locked in at 110,000 for extended periods of time.

Operator

Your 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*

George, you mentioned that you've undertaken focused efforts to improve operation in the Rockies. Can you provide some specific details on those initiatives? And what results have you seen so far?

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

Yes, we have dedicated a lot of our talent across our refining system. That's corporate resources from Dallas as well as resources from our other refineries, especially our El Dorado refinery. So our thanks go to all those dedicated people that are spending time in Cheyenne, Wyoming versus with their families in the evenings to get this done. We've been at this since our last earnings call in earnest. And we are very encouraged by what we have seen. I think -- I can't remember the exact number, but from the fourth quarter of last year, we ran roughly in the mid-30s. And as Tom said in his prepared remarks, in March, we ran 48,000 barrels per day. There's a lot of days where we're hitting 50,000 barrels per day. And that's where we need Cheyenne to be in that high 40s to 50,000 barrels per day range. That fills up all the downstream units. And we're looking at the downstream units, especially the DHT and the FTC to get another 1,000 or 2,000 barrels per day more throughput through those units. So it's a very focused effort. It's led by Tom Shetina, who heads up our Reliability Group here corporately in Dallas. So kudos to Tom and many, many others that are making their sacrifices to get this done for us.

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

George, can you talk about operating cost in that region? Any sort of guidance going forward what we can expect on OpEx?

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial*

Chi, I think -- look, we'd expect to see continued improvement, to George's point, certainly on a per barrels basis, on a total -- on an aggregate number. Two things to highlight there, that should remain relatively stable at that point and keep in mind that our Rockies OpEx includes tariffs associated with the drop-down to HEP. So that's -- if you want to think about -- that's like true or clean operating cost. So -- look, we expect to see continued improvements on a per barrel basis as throughputs continue to rise.

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

So it's Richard. Our improvements are going to come more from the denominator, Chi, as we get the barrels up. And we would like to get the Rockies to $7 per barrel, and that excludes HEP types of drop-downs that, really, we can't hang on our operating group. That's more of a corporate finance decision.

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

Great. And then, Rich, what was the working capital change in the quarter?

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

We did draw working capital, I want to say around -- I don't have the number right in front of me, between $50 million and $100 million this quarter.

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

Is that something that reverses out here in Q2 or balance of the year?

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

Yes. I would expect over the next couple of quarters.

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

So most -- a lot of that was driven by the Navajo turnaround. We stored up a lot of refined products so we could supply our customer during that time period. We also typically do a lot of time trades during that period, storing barrels early in the first quarter for subsequent sale in the second quarter.

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

Okay. And your cash balance was pretty low at quarter-end. Do you have a more current cash balance figure? And what sort of minimum cash levels are you comfortable with on running the business?

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

So order of magnitude, the cash balances remain basically the same. Obviously, there's a lot of volatility intra-month with timing of crude payments. Generally speaking, look, our liquidity is very comfortable at $1.5 billion. I don't know that we necessarily think about it as a cash balance, it's more of a liquidity question than anything.

Operator

The next question comes from Paul Cheng from Barclays.

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

Two quick follow-up. In terms of the RIN carryover from last year, Rich, by the end of the first quarter, should we assume that it's already over, so that the second quarter forward that your RIN cost essentially based on the spot?

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

Yes, Paul, I don't think we want to get into that detail, because it starts getting into commercial side of our business. And I don't think we want to tip our hand to the market there.

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

All right. That's fine. The second one is that with all the turnaround planning and trend, do you have any rough estimate that what's the opportunity cost associated with each one, the plan and the end time, including the loss of opportunities?

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

Yes, I would probably put it in the $40 million range, Paul. That's excluding the large turnaround at Navajo, because we don't typically look at LPO associated with large plan turnarounds like that.

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

So the $40 million is essentially for the end time to downtime?

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

That's essentially for Tulsa -- for Tulsa and El Dorado for the planned downtime at El Dorado for the Vacuum Tower and the unplanned outage at the Tulsa CCR.

Operator

At this time, I'll turn the call over to Mr. Biery.

Craig Biery

Thanks, everyone. We appreciate you taking the time in joining 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 second quarter results with you in August.

Operator

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