Par Pacific Holdings
Fourth Quarter and Full-Year 2015 Earnings Conference Call
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Christine Thorp – Director, Investor Relations and Public Affairs

Thank you, Operator. Welcome, everyone, to Par Pacific Holdings' fourth quarter and full-year 2015 earnings conference call.

With me today is William Pate, President and Chief Executive Officer, Chris Micklas, Chief Financial Officer, Joseph Israel, President and Chief Executive Officer of Par Petroleum, LLC and Will Monteleone, Senior Vice-President of Mergers and Acquisitions.

Before we begin this discussion, please note that some of the statements we make during this call may contain forecasts, expectations, estimates and projections. These are forward-looking statements that involve significant risks and uncertainties, which could cause actual results to differ materially from the results discussed in these forward-looking statements.

Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements, which are effective only as of today's date. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances. Information about the risks and uncertainties we face can be found in our Form 10-K and other documents filed with the Securities and Exchange Commission.

Today's call is being recorded and will be available on the Investor Relations section of the website.

Now let me turn the call over to Bill.

William Pate -- President and CEO

Thank you Christine.

And thank you for joining us this morning. 2015 was a terrific year for Par Pacific with strong financial and operating performance. Chris will go into the financials in more detail, but we are very pleased with our fourth quarter results despite pressure on our crack spreads, which ended the year below mid-cycle levels. Joseph and Will will cover the operating performance in Hawaii and Laramie, respectively.

Before they cover the operating results, I would like to touch on our 2015 strategic actions. In April, we closed the Mid Pac acquisition, which dramatically changed the profile of our Hawaiian operations. The impact is most noticeable with the recast of our operating segments for financial reporting. Profits are broken out for the first time among refining, retail and logistics. With the acquisition of the Tesoro operations, we had a decent business, but one in which it was difficult to increase our throughput. With the Mid Pac acquisition, we have a more internally balanced operation that allows us to operate our refinery at higher throughput and therefore lower unit costs. As a result, in 2015 we had $97 million in Adjusted EBITDA in refining, $33 million in retail, and $29 million in logistics.

We also agreed in December to make an additional $55 million investment in Laramie Energy to support their purchase of largely contiguous acreage with significant natural gas production and drilling inventory. We believe this purchase will prove as transformative to Laramie as Mid Pac was to our Hawaiian operation. We think we acquired existing production at a great price, and the economies of scale and our ability to reduce field costs should also change our going forward drilling economics.

Finally, we enter 2016 with a great balance sheet. We are in a net cash position due to the registered direct offering that we completed in October. Later in the fourth quarter we completed a refinancing of our retail secured credit facilities, pushing out any material debt maturities for several years. We will use some of our cash in the Laramie investment early in March. Nonetheless, we are well-positioned to pursue additional opportunities in the energy and infrastructure sectors, which are emerging rapidly in this volatile environment.

At this time, I would like to turn the floor over to Joseph who will provide more detailed perspective on our Hawaiian refining, retail and logistics business.

Joseph Israel, President and CEO of Par Petroleum, LLC

Thanks Bill and good morning everyone.

Before digging down to operations results, I would like to thank and congratulate Par employees for outstanding 2015 execution. We are especially proud of our 2015 safety record across the board, including our 0.26 Total Recordable Injury Rate in the refinery and zero for our Logisitics group.

Our Refining segment adjusted EBITDA in the fourth quarter was $23 million.

Combined 4-1-2-1 crack spread and mid pacific crude differential index in the fourth quarter was $8.25/Bbl, approximately 25 cents per barrel below the mid cycle environment. The weak index was mainly driven by low jet fuel crack spreads, basically at a five year low, and continued global weakness for diesel. However, our improved 62 MBD On-island sales, combined with high margin exports of mixed aromatics to Asia and optimized crude differentials, allowed us to outperform market conditions with realized adjusted refining margin of $6.05 per Bbl.

On the feedstock side, we continue to benefit from the oversupplied market, and contango market structure. In the fourth quarter we continued to build our crude oil flexibility by running new grades and optimizing transportation.

In 2015, we optimized our business and improved our capture rate. Our adjusted refining margin for the year was $6.82 per barrel, $3.45 per barrel stronger than our 2014 realized margin, while the combined index gave us only an additional $1.66 per barrel to work with.

So far, in the first quarter, the combined index has averaged approximately $7.00 per barrel. However, the global octane shortage and the gasoline blending dynamics in Asia continue to present mixed aromatics opportunities for Par. Overall, we continue to benefit from our improved capture rate, and mitigate market conditions in the first quarter of 2016.

Our strong 99.9% mechanical availability for the quarter and 98.7% for the year has allowed us to optimize our assets and execute our operations plan.

Our refinery throughput in the fourth quarter was 80 MBD, consistent with our guidance, and our average 2015 refinery throughput was 77 MBD, 13% higher than our 2014 average throughput. Our planned throughput for the first quarter is approximately 75 MBD.

Our production costs in the fourth quarter of 2015 was $3.51 per barrel and for the full year, our production cost averaged $3.54 per barrel, 25% under our 2014 average production cost. This reduction implies $30 million of annual cost savings, $8 million attributed to lower steam and electricity cost, and $22 million or 75 cents per barrel of improved efficiency through higher refinery throughput and other self-help improvements.

Our refinery turnaround is scheduled to start in the second week of July with an estimated 30 days oil to oil. Scope includes the execution of routine maintenance, including hydrocracker catalyst change, as well as regulatory consent decree works.

Our retail segment adjusted EBITDA in the fourth quarter was $7 million.

Year over year, gasoline volume and merchandise sales are up 2% and 10%, respectively, on same store basis. Following our successful integration with Mid Pac, we are achieving our profitability objectives – Annual $15 million EBITDA contribution to our retail segment and additional $15 million to our refining and logistics segments, under mid cycle conditions.

Running an integrated, difficult to replicate network of logistics assets, has been a primary key to our success, in the niche market of Hawaii.

Starting this quarter, we are reporting our logistics related financial performance as a separate segment.

Activities in this segment include feedstock receipt to our Single Point Mooring facility and shipments to the refinery, as well as refined products movement through our pipelines and eight terminals system, including trucking, barging and storage activities. Profitability for this new segment is mostly driven by inter-company activities.

Our Logistics segment adjusted EBITDA in the fourth quarter was $6 million.

In summary, we are very excited with our progress in 2015. We have benefited in the first half from favorable market conditions, but most importantly, we have diversified our system by growing our retail footprint and improved our profitability profile as a company to better capture future opportunities.

In addition, we are well positioned to grow and duplicate our business model in different places.

And now, I'll turn the call over to Will to review Laramie operations and results.

Will Monteleone, SVP - Mergers and Acquisitions.

Thank you Joseph. As Bill referenced, Laramie is actively consolidating assets in this opportunity rich environment and building a first rate asset base during this down cycle. The Laramie story and the overall economics in the Piceance basin continue to fundamentally improve for the company. A few data points on this front: 1) The Laramie team has driven down drilling and completion costs from $1.8 MM / well in 2012 to $1.4 MM in late 2014 to just over $1 MM as of year-end 2015. The vast majority of these reductions are driven by structural efficiencies rather than simply service cost reductions. Simultaneously, EURs are holding steady or improving and currently average between 1.6 – 1.8 BCFE per well. Ample takeaway capacity and robust market demand on the West Coast and Mexico provide attractive demand dynamics.

The previously announced acquisition of additional properties in the Piceance basin is expected to close this week and the work there is just beginning as far as reducing costs and extracting material synergies. As Bill mentioned, Par Pacific is investing an additional $55 MM of capital and increasing its ownership stake in Laramie Energy from approximately 32% to approximately 42%. The major merits of the transaction are the cost reductions available through the combination that allow for more efficient base operations and projected improved returns on incremental capital deployed.

Laramie's Lease Operating Expenses during 2015 averaged roughly $0.56 / Mcfe while the acquired properties were around $0.73 / Mcfe. This is a primary example of a great opportunity to right size the cost structure of the acquired properties, a task well-suited to the Laramie team given their realized efficiencies in the current asset to date.

Year-end exit production was 56.8 MMCFED up from 46.3 MMCFED at September 30, 2015. Laramie drilled 18 wells and completed 14 wells during the quarter and further built the Drilled but Uncompleted backlog to 64 wells as of year-end. In addition, the $15 MM water infrastructure capital project came on line in early February and is now treating and storing produced and flow-back water for recycling. This project positions Laramie to further reduce total field operating costs through water handling cost reductions and efficiently run a large scale drilling program.

At this juncture Laramie is modifying its 2016 capital plans to reflect the current commodity price environment. Laramie laid down its drilling rig in December and has ceased completions. As a reminder, there are 58 wells on 3 pads in inventory that can be brought online quickly if economics support the investment. Pro forma for the closing of the pending acquisition, 2016 exit production is expected to be between 130-140 MMCFED which reflects modest completion activity in the back half of the year of $10-$20 MM. Post-acquisition, Laramie expects to be net cash flow positive during the remainder of 2016 and has the flexibility to accelerate completion activities and grow production rapidly or alternatively pay down additional debt with cash flow from operations. The final 2016 Laramie capital plans will be set at a minimum quarterly and will be based on then prevailing commodity market dynamics.

The Laramie balance sheet post transaction is strong and the Debt / EBITDA profile at year end 2016 is expected to be between 3 – 3.50x depending upon the ultimate level of completion activity. The debt balance pro forma for the closing of the acquisition will be approximately $129 MM. As a reminder Laramie hedged approximately 90% of projected, existing gas production through December 2018 at $2.34 / MMBTU which provides certainty in these markets.

During the quarter Par Pacific recorded a non-cash impairment to our equity investment in Laramie of $41 million. This charge reflects the equity valuation implied by the pending $55 MM investment to facilitate a highly accretive transaction to Par Pacific's stake. The carrying value on the balance sheet now reflects the recent valuation set by the investment.

The capital plan outlined previously demonstrates both the operational and financial flexibility captive inside Laramie, which provides great value to its shareholders. This flexibility affords Laramie the ability to make capital allocation decisions based on economics alone, rather than sunk costs or capital structure, factors that differentiate Laramie from its peers. Laramie is appropriately capitalized for the current market and has the runway to not just to survive this down-cycle but thrive as a consolidator.

I will now turn the call over to Chris to review our financial results.

Chris Micklas, Chief Financial Officer

Thank you, Will.

During the fourth quarter, Par Pacific reported its fifth consecutive positive quarter of Adjusted EBITDA at $23 million dollars and a full year Adjusted EBITDA of $110 million dollars. Adjusted EBITDA includes a one-time non-cash gain of $5 million dollars as a result of eliminating certain employer-sponsored benefit obligations.

To provide additional transparency into the drivers of our performance, we are now presenting our results using three primary segments and are reporting Full Year Adjusted EBITDA of $97 million dollars for Refining, $33 million dollars for Retail, and $29 million dollars for Logistics. Bear in mind our results include just 3 quarters of results from MidPac.

I would like to highlight three non-cash charges that reduced our net income for the fourth quarter. The first item is our equity loss of $50 million dollars related to Laramie, which has already been addressed by Will. The other two items include timing differences related to the valuation of our inventory and unrealized mark to market losses on derivatives.

We continue to see the operational and financial benefits of our supply and offtake agreement with J Aron; however, this agreement creates certain timing differences on a GAAP basis. During the fourth quarter, we had a non-cash charge to earnings of $19 million, which primarily includes a reduction of our inventory to the lower of its cost or net realizable value.

We use derivatives to manage the cost of our internally consumed crude, which is a major cost to our refinery. In 2015 we hedged approximately 75 percent of the costs associated with our internally consumed crude through 2017. We also use derivatives to manage the price of crude cargo purchased and inventory levels. The fall in crude prices during the fourth quarter resulted in a mark to market unrealized loss of $6 million dollars.

Year to date, we have generated $132 million dollars of cash from operations and, during the fourth quarter, we continued to strengthen and improve our balance sheet. We completed a stock offering raising $76 million dollars and consolidated our Retail financing agreements into one facility using a portion of the proceeds to repay $35 million dollars of our Term loan that was scheduled to mature in March 2016. Our year end cash balance totaled 168 million dollars, total debt was 165 million dollars and total liquidity was 229 million dollars.

Currently, our total liquidity is $175 million dollars. The reduction from year end is a result of pre-funding our $55 million dollar contribution to Laramie and reduced activity in Texadian, partially offset by a $23 million dollar increase in the availability of our J Aron deferred payment arrangement. With regards to Texadian, we responded to market conditions by consolidating activities in Houston and we allowed our credit facility to lapse. The expiration of the credit facility reduced our year-end liquidity by $26 million dollars however freed up access to $18 million dollars.

As Joseph mentioned, during 2017, we will be executing a plant turnaround at the refinery which will require cash expenditures of $30 to 35 million dollars. Additionally, we are performing maintenance projects on logistics assets which we expect will have a $5 to 10 million dollar impact on Adjusted EBITDA.

Now, I will turn the call back to Bill for his closing comments.

William Pate -- President and Chief Executive Officer

Thanks, Chris. Operator, that concludes our prepared remarks. Would you please check for any questions at this time?

Operator

[Operator Instructions] Our first question today is coming from Scott Levine from Imperial Capital. Please proceed with your question.

Scott Levine

First question, you referenced the deterioration in the Mid Pac crack spreads recently, but it looks like you've been able to offset a portion of that with improvement in your differentials. So I was hoping, Bill, you'll provide a little bit more color regarding any changes in strategy there, how confident you're that can continue and a little bit more elaboration on the crude sourcing strategy in general?

Joseph Israel

In first quarter, we continue to see the same theme from the previous quarter and overall last year. What we do is increase our on-island sales to improve margins and then we look for, what we call high quality type of exports that will allow us the same economics even when we load a cargo and send it to Asia. Last quarter, it was gasoline in the West Coast, this quarter we mentioned mix aromatics in Asia and as long as we're able to cash in those, then we'll outperform our market conditions like, we have done in the fourth quarter and like we're expecting in the first quarter.

On the crude side, we continue to look for flexibility run new grades and therefore, we improve our commercial leverage and also the overall differentials versus what the market is giving us.

Scott Levine

Understood, thanks. And then to just follow-up for Bill. Just hoping for maybe a little bit of an update you've been clear about your acquisition profile, where your priorities there, but just wondering, if there's any update to your thoughts and maybe a little bit more color around the market in general and how you see 2016 playing out from an M&A perspective for the industry as well, any thoughts directly relatable to Par.

Bill Pate

Sure, Scott. First of all, we're not going to make any comments with respect to any specific acquisition and that will be our policy. We won't comment on acquisitions unless and until we have signed in agreement and we decide to make it public. But generally speaking, I think one of the things you're seeing in the market in general is the distress that last year was somewhat contained to the E&P space is really moving downstream into the midstream sector and into the downstream sector.

As we've said, the only area of interest for us to-date on the upstream side has been to continue to build Laramie. Obviously, we're doing that with the announced acquisition in December, which we expect to close this week. Downstream and midstream is much more interesting for us because we think that the tax attributes provide more leverage and more of an advantage to us.

So the market I'd say is coming in our way. I feel like we are well capitalized enabling us to pursue opportunities in this turmoil.

Scott Levine

Great, thank you for that. And then, one last one, if I may? I think, Chris you'd indicated $30 million to $35 million in capital spend on that turnaround in the $5 million to $10 million. EBITDA impact is that all, expected to be in the third quarter and if you can provide additional color just regarding your capital expenditure expectations for 2016 for company as a whole, if you want to provide that as well.

Bill Pate

Scott, its Bill. Just quickly, I think Chris in his prepared remarks mentioned 2017. I just want to clarify that the turnaround is in 2016, not 2017. So go ahead.

Joseph Israel

Of course, there's a cost element that Chris clarified well in his comments. Beyond that, there's a missed opportunity side. We will run probably close to 60,000 barrels per day in the third quarter, 55,000 barrels to 60,000 barrels per day as a result of the turnaround and this will definitely be another impact on our financial results. But we're expecting strong Q2 and Q4 as far as throughput, so overall for the year, we'll probably be just a little under 75,000 barrels per day, to address the demand in our system.

Scott Levine

Got it and all of that will be contained in the third quarter, correct from the turnaround.

Joseph Israel

Right. Second week of July, 30 days oil-to-oil.

Scott Levine

Got it, great. Thanks guys.

Operator

Thank you. Our next question is coming from Thomas Mitchell from Miller Tabak. Please proceed with your question.

Thomas Mitchell

Since you're breaking out to the logistics separately, which I think is a great idea. There's been talk on and off about, maybe creating a master limit partnership that of logistics assets. It looks to me like to have something that would be interesting and possibly and MLP that was attractive to the public, if it was going to go public. It would need more scale that the level of EBITDA run rate or at least in the fourth quarter, the lower sales.

It seems like you would want something that would be three or four times that size before you could think about bringing it out into some sort of an offering in the marketplace. Just wondering about how you're thinking about it and about the potential for an MLP.

Bill Pate

Sure, Tom this is Bill. I think in light of the current market conditions, the likelihood that we would pursue an MLP at this point, is slim to none. I do think it's helpful to breakout the profitability of this infrastructure for investors, so they understand what we have. I agree with you, the scale is a little light. Although, I don't think it's significant as you make it out to be.

Most of the offerings, even with some of the larger companies have started with offerings where $50 million or so of EBITDA or free cash flow at the time of the IPO . But I agree, that the focus for us from an acquisition perspective is the MLP'able income. I think at this point, in light of where the market is, we're really thinking about it more from the perspective just free cash flow for our own entity.

Thomas Mitchell

Okay, that's very helpful. Thank you. Now, the other thing I just wanted to verify because I may have this wrong. But, I believe that prior to the offtake agreement with J. Aron, that switches, the changes in inventory valuation would have been since the inventory was owned by Par, not by third-party. Would have actually blended into the cost of revenues in those previous quarters basically before the third quarter is 2015. I just want to verify that is a correct reading on my part.

Chris Micklas

Thanks, Tom. This is Chris. Before switching to J. Aron we had a volumetric exchange and therefore the impacts would stay within the exchange. We did not have the gains and losses and unrealized gains and losses running through the P&L. So you're correct that there are other line items. However, our adjustment is done to make them comparable as we're trying to reflect the true economics of the agreements.

So that's why you see more line items as one is volumetric exchange and the other is supply and offtake agreement.

Thomas Mitchell

Okay, that's very helpful and then. The last thing is probably and it may sound a bit naive, but you've been focusing on mid-cycle. I'm just wondering what are the characteristics of late-cycle and early-cycle correct spreads as oppose to mid-cycle.

Joseph Israel

Yes, mid-cycle’s definition is the average three years crack spreads on the crude side as well as on the product side. You have down-cycles in this cyclical refining industry and you have good times like the first half of 2015 where spreads are higher than normal for almost every refiner.

So when we define mid-cycle it's just simply the average and it helps us to quantify, how good the market is for us in converting it to cash results. I think, the key in our industry is to be able to cash flow in the down-cycle and so far, we have seen this trend for our company, this is a good thing.

Thomas Mitchell

Is there any possibility that the down-cycle benefits Par by comparison with your single competitor in Hawaii, in one way or another?

Bill Pate

I'm not sure, that I'd assume that. I think each refinery in Hawaii has different economics, they have different configurations, but our profitability and their profitability, they're largely the same. They're not going to be materially different. There may be some differences at the extreme and obviously, they're smaller scale. The other refinery is smaller.

So their fixed cost are probably a little higher, which means they're breakevens, are probably a little higher. But they also have the benefit of being part of a much larger organization and I'm not sure, you'd really see those breakevens affect their operations in any material way.

Operator

Thank you. Our next question is coming from Doug Leggate from Bank of America Merrill Lynch. Please proceed with your question.

Doug Leggate

Bill, I've got one on Laramie and one on the signing, also if I may, so. So, I guess first on Laramie obviously you're taking up your stake on Par. I'm just trying to understand what the longer term game plan would be there in terms of your prepared as an ability to continue to support acquisition strategy.

And ultimately, you'll be able to limit as to what ownerships stake you want to have there and ultimately where do you see the opportunity to fully consolidate.

Bill Pate

Yes, good question. We're very comfortable with the 42% stake, but we'd be comfortable with higher stake. For us, it's a function of, do we have a good management team with a strong strategy. We believe that's the case and so we're very supportive. We also have very good partners here. Given the fact that the way one values Laramie and refining are very different.

I'm not sure that it matters, if we consolidate Laramie or not. Any investorlooking at our company has to look at each of the businesses independently and approach it from a sum of the parts basis. We've looked at the acquisition that was done in December as an opportunity to both increase the scale of Laramie and to pursue opportunities that reduce costs.

We actually hedged out through the end of 2018, so it's not about revenues or near-term perspective on where natural gas prices are going, but rather building an operation where a low cost producer of natural gas. We like the fact that the company has scale away from the Marcellus and to Utica because you're not doing battle day-to-day over marketing and getting the gas to market.

I don't think the Laramie or any Rocky Mountain gas has much hope of flowing east . So you're looking to gas markets to the west. Whether it be California or to South, even Mexico, but we think it's an attractive opportunity, where consolidation has been and will continue to take place in the Piceance and we like our management team and their ability to create value throughout the cycle.

Laramie doesn't have any long-term commitments, so it gives us a lot of flexibility over the next three to four years. We could spend no capital on this business over the next three or four years and just extract the cash flow.

Doug Leggate

Okay, that's very good. Just upon a clarification, so. If you did see a situation where you increased your stake further. You would continue to [indiscernible] relationships initiate or would you rather. I'm just thinking, the idea of the way that [indiscernible] refiners of being volatile over this, just because this last year or so. I'm just wondering if there's sort of many integrated business model as you may considered or no.

Bill Pate

When I think of the business and we discuss our mission around here, our goal is to buy and build energy business, utilize these tax attributes that we have in doing so. And we have a great business that Joseph runs in Hawaii, in terms of refining, marketing and logistics. And we think we can grow that business in the lower 48 as well by leveraging what Joseph does, his commercial team their ability to be very flexible and even in a difficult market environment and capture value and capture more of the crack spread.

On the Laramie side, I feel it's the same way, we've got a great management team in Denver, that's a business we can build. We tend to think about ourselves as operating a very, very thin holding company in pursuing and buying and building other businesses underneath that. So whether it's Laramie or it's Par

Petroleum or it's a third or fourth leg. Our objective is to build businesses with them in the market context.

And at the right time, with one of these businesses, if there's an opportunity to monetize, we'll monetize as well.

Doug Leggate

I'm sorry, clear. Thanks. My follow-up is on refining, this is very quick on for Joseph. So Pacific Northwest is particularly weak I guess, logistics constraints and so on have been impacting the whole region along with the weakness we saw last week in the California. So I'm just curious, Joseph we've seen some run cuts from some of your competitors. What's your expectations for how long it takes to clean up that West Coast market? Have you been trimming economic run cuts and is there any kind of prognosis you have for [indiscernible] kind of strengthen we saw in 2015 and likelihood of that occurs again on a go-forward basis. And I'll leave at that. Thanks.

Joseph Israel

Thank you. Just to remind you, we are about 80% driven by the Singapore market and West Coast is more like a 20% of our overall sales profitability. I agree with you on current environment in the West Coast is challenging and Tesoro’s management gave about 30% reduction in margins in 2016 versus 2015.

We don't have any reason to think otherwise. The diesel and the distillates are just looking for better news from the global economy side especially industrial production. However, I think there is a good reason to be optimistic on the gasoline side. We have started to see last week changes in the gasoline pricing in the spreads really driven by the RVP change, this is the time of the year and things are coming back there.

Also I would say, that on the demand side due to elasticity of the demand curve, we see a lot of good news. When talking about VMT, the mileage driven, Hawaii actually finished December with 7% increase year-over-year. California is about 11%. Interestingly enough, California is number one. Hawaii is number two in the country. Also, lots of good demand dynamics. Longer term, we continue to see the changes in fleet.

More and more SUVs and basically drivers are trading MPG with comfort like they have done before 2008. And finally, fuel oil is slightly better than mid-cycle in the first quarter. So yes, it's not as great as it was in the first half of 2015, but not overly concerned at this point. We adjusted our rates down to use some inventories and optimize our sales, but no panic, no drama at all, at this point.

Doug Leggate

Appreciate your answers, Joseph and we'll see you in a couple of days. Thank you.

Operator

Thank you. [Operator Instructions] our next question is coming from Andrew Shapiro from Lawndale Capital Management. Please proceed with your question.

Andrew Shapiro

I'm not sure, if you had mentioned it or not, but briefly what production equivalent level did Piceance Energy exist December at, Will. And did this production growth meet your expected range, which I think was 55 to 60 on a prior call, yes?

Will Monteleone

Correct. So we exited December at 56.8 million cubic feet a day. So within the range that we provided.

Andrew Shapiro

Right and when you said, you're laying down the rig. Is that, in the area that you have the JV with Wexpro or is that a separate area that drilling and activity are still ongoing?

Will Monteleone

We're only operating one rig and that was under the Wexpro JV and we have played that rig down at this juncture.

Andrew Shapiro

Okay and the follow-up. I'm not sure, who to ask it off, but on the retail sales. Did you guys provide or can you provide your retail sales on the same store sales basis, is that available yet?

Joseph Israel

Yes, we've mentioned 2% year-over-year increase on the field volume same-store basis and 10% merchandise sales increased year-over-year. And our, sales volumes are in the press release.

Andrew Shapiro

Okay, excellent. I've a few more questions, I'll back out into the queue, but please come back.

Operator

Thank you. Our next question is coming from Mike Harrison from Seaport Global Securities. Please proceed with your question.

Mike Harrison

It looks like Europe showed up as a crude oil source for the first time. Can you maybe give a little more color on the dynamics that played into your crude procurement in Q4 and is Europe going to be the part of mix going forward?

Joseph Israel

Can you please repeat your question?

Mike Harrison

I was just wondering if you could talk about the dynamics that played into crude procurement in Q4 and whether Europe is going to continue to be part of the mix.

Joseph Israel

Yes, it continues to be an over supplied market. So we do have lot of options. A big part of that is also the Contango. Actually, traders don't mindfloating storages and filling tanks. So for us as refineries we have a lot of options to choose from. We have different alternatives for each and this has been a theme in the past two, three quarters and this continues to be the same in Q1.

As a refiner, the trick is, within the safety principles is to be open to test new grades and make sure the list of candidates is as long as possible. This is how we can get our commercial leverage and buy the best out there, possible for us to run. Now with regards to European refineries, interesting dynamics as well, the Iranian, crude is in the market big time in North Egypt available for European refineries to run competing with West African crude and lowering overall, crude cost for them.

So really crude differentials have been very good and friendly to refiners recently and expected to continue and do so with this market structure.

Mike Harrison

Right and then the on-island sales volume around 62,000 barrels a day. Does that reflect the contracts that are going to be in place during 2016 or should we expect on-island sales number to go higher as we go through the year?

Joseph Israel

As we mentioned in the previously call, we're expecting on-island sales based on signed contracts and bids to grow up towards 65,000 barrels per day. So we're expecting Q1 already to show an improvement versus the fourth quarter.

Mike Harrison

All right and then just a quick housekeeping, one. There are a lot of moving pieces with the debt, what is the best quarterly interest expense number to use for 2016 or is it going to be moving around.

Chris Micklas

The interest expense should be about $4 million, but cash interest is around $2 million to $2.5 million.

Bill Pate

The remainder of that amount is principally amortization of financing cost associated with the facilities.

Mike Harrison

All right, thank you very much.

Operator

Thank you. We have one more question at this time from Andrew Shapiro with a follow-up from Lawndale Capital Management. Please proceed with your question.

Andrew Shapiro

My follow-up is to have, are you able to provide an outline or give us a little bit of visibility on the hedges you have in place both at. You mentioned the pricing at which gas was hedged out on the Piceance, but I don't know if you have mentioned that it was ex-percent of production going out only six more months, a year. With another, if one of those hedges fall off and on the refinery side similarly, with respect to the internal use as well as any hedges, on the sales.

Will Monteleone

Sure, Andrew. This is Will. I'll take the Laramie portion of it. But we've hedged 90% of our existing production and that to be clear that includes both the existing Laramie production as well as the acquired out production through the end of December, 2018.

Andrew Shapiro

Okay.

Joseph Israel

Those hedges are in the Laramie books.

Will Monteleone

Yes, they're on Laramie's balance sheet. They do not flow through our financial statements.

Andrew Shapiro

Okay and on a refinery side?

Chris Micklas

Yes, Andrew with regard to the fuel burn, we hedged out 75% of the fuel burn for this year and the hedge price is at $50 to $55 a barrel.

Andrew Shapiro

Right, so that excess cost in a sense goes away at the end of this year.

Chris Micklas

Maybe, I miss understood - for modelling next year or this year that would be 75% and we have hedges in place through 2017 and with the current low prices, we're looking to put in a program for 2018. So again, we would try to do 75% of the fuel burn to lock it in at these lower rates.

Bill Pate

But Andrew to your question, yes to the extent the prices stay where they are then we would continue to have that additional expense through that timeframe.

Andrew Shapiro

To the timeframe, okay and on the sales side, we don't - the J. Aron thing is really not a hedge.

Chris Micklas

Correct. It's a planned offtake agreement and it is a derive but it actually mirrors cash. So when you model it, you model it towards cash. You don't model it assuming any hedges.

Andrew Shapiro

And a final follow-up. The money that goes in on this particular turnaround on the refinery. Are there any particular special notable projects for which when you come out of this, turnaround you're expecting some meaningful improvement in cost structure productivity etc?

Joseph Israel

This is typical routine maintenance for the refinery and probably the biggest scope item out there is replacing the catalyst in the hydrocracker. So normally the cycle is, you get out of turnaround and your catalyst is fresh and this is a where the activity is at maximum. We will see highest liquid recovery or volume expansion at that point and this will remain for the next cycle. So yes, we're expecting better operations performance after the turnaround.

Andrew Shapiro

Great, thank you. Guys.

Operator

Thanks. Our next question is coming from David Neuhauser from Livermore Partners. Please proceed with your question.

David Neuhauser

Most of my questions are answered regarding some of your hedges, but I did have a question. Just how you're looking at things via acquisitions at this time, are you seeing more opportunities, less opportunities, more opportunities to sort of diversify potential revenue streams? Can you, add a little color on that please?

Bill Pate

Sure, as I implied earlier, we're seeing more opportunities in and those opportunities are moving closer to our operations today. So it's more opportunities to build on the refining, retail and logistics network in Hawaii, not necessarily in Hawaii but in the lower 48. Given the distress is spreading downstream. And that will create opportunities for us.

And that probably positions us to utilize the tax attributes in a more favorable way because while we like the investment in Colorado that we made in December. E&P companies generally when they're drilling generate quite a bit of tax shield, so it doesn't create any taxable income. And it's not the best way for us to allocate capital that takes advantage of our tax attributes where at the downstream, we're more likely to do that.

David Neuhauser

Yes, that's an excellent point. I think that's one thing that a number of investors are focused on, is how you end up using that tax asset at some point and like you said the option side that's only allow that because it actually provides more cushion. So ways in which you could use to start to extract out the good thing.

In terms of the company at this point, when you look at further acquisition and again that could depend on size, how would you look to fund things going forward? Would we see more equity offerings, if something is very accretive or are there other ways you're looking at things?

Bill Pate

Well, as Chris mentioned our liquidity right now it's pretty strong and most the investments we're looking at are of a size, where we can probably accomplish them using available liquidity. But I would probably say that if we go out and do transaction or announce the transaction, we don't want to draw down too much on in terms of the availability at the J. Aron facility or utilize all our cash so we're likely to go back into the market and raise equity probably no more than the size of the acquisition that we actually announce. But I could see us going back into the equity market, once we or if we complete or announce a transaction.

David Neuhauser

All right and then of course, you're looking is to would be add-ons or tuck-ins that would be very accretive to the current structure?

Bill Pate

Certainly, we hope so.

David Neuhauser

All right, that's all I had. Thanks guys.

Operator

Thank you. We've reached end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Bill Pate

Thank you, operator. Thank you, everyone for joining us today. We're delighted to conclude a successful 2015. We're really looking forward to a successful 2016. Have a good day.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.