Par Pacific Holdings' (PARR) Q2 2016 Earnings Call Transcript

Par Pacific Holdings, Inc. (NYSEMKT:PARR)
Q2 2016 Earnings Conference Call
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Executives
Christine Laborde – Director of Investor Relations
William Pate – President and Chief Executive Officer
Chris Micklas – Chief Financial Officer
Joseph Israel – President and Chief Executive Officer of Par Petroleum, LLC

Analysts
Thomas Mitchell – Miller Tabak
Scott Levine – Imperial Capital
Chi Chow – Tudor, Pickering, Holt
Leon Cooperman – Omega Advisors
Andrew Shapiro – Lawndale Capital
Jonathan Segal – Highbridge Capital

Operator

Greetings and welcome to the Par Pacific Holdings Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Christine Laborde, Director of IR and Public Affairs. Thank you. You may begin.

Christine Laborde

Good morning and welcome to Par Pacific Holdings' second quarter 2016 earnings conference call. With me on today's call is William Pate, President and Chief Executive Officer, Chris Micklas, Chief Financial Officer and Joseph Israel, President and Chief Executive Officer of Par Petroleum.

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

Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements.

Information about the risks we face and the uncertainties associated with Par Pacific's forward-looking statements can be found in the Company's annual and quarterly reports filed with the SEC.

A replay of today's call will be available on the site for the next 90 days. A copy of our earnings release was filed with SEC yesterday, and we plan to file our second quarter Form 10-Q later today.

Now let me turn the call to our President and Chief Executive Officer, William Pate.

William Pate

Thank you, Christine, and good morning, everyone. Chris will walk you through our second quarter financial results in a few minutes. Our colleague Will Monteleone is out in the field this week, so I'm going to provide and update on Laramie before Joseph discusses our refining operations. But first, I'd like to discuss several strategic initiatives and key steps that we've undertaken over the last 120 days to continue to build a strong energy company.

In July alone, we completed the purchase of Wyoming Refining Company, we completed a major inspection of our subsea pipeline connecting our Hawaii refinery to our offshore mooring. We began the rebranding of a significant number of our Hawaii retail locations from Tesoro to a new local brand (Hele), and we initiated start-up at our Hawaii refinery after a month-long turnaround.

With the recent WRC expansion and the Hawaii turnaround, we will have two refineries that are positioned to operate without any planned downtime for more than two years. Our Logistics network is bolstered by the additional asset base acquired through the WRC acquisition, and our retail network will not have a new local brand in addition to the respected 76 brand.

We intend to absorb the Wyoming Refining Company with no more than five additional back office personnel, demonstrating our ability to leverage our corporate systems and personnel with additional operations.

Year-to-date, we've now invested more than $335 million in acquisitions and investments, none of which is reflected in our first half 2016 adjusted EBITDA. Of this amount, roughly 40% to 50% of the value is attributable to non-refining operations. This further diversifies our operational profile with significant exposure to the upstream and midstream logistics business in addition to our refining activities. And this does not take into account the considerable value that is realized based on additional cash flow due to utilization of our tax attributes.

Finally Laramie Energy, our 42% owned natural gas exploration and production company, has made significant progress over the past six months. As previously disclosed, Laramie more than doubled the size of the company's acreage and production in March with a large acquisition adjacent to its core Piceance Basin holdings. When we led the equity investment to facilitate this acquisition, the investment thesis hinged upon cost reduction.

During 2015, the acquired property LOEs were approximately $0.73 per Mcfe and the legacy Laramie properties were approximately $0.56 per Mcfe. The Laramie team has an exceptional track record of driving down costs and this integration is another example of their capability. During the second quarter, combined LOEs were approximately $0.44 per Mcfe well ahead of our prior target.

If you annualize these cost savings versus previous expectations, it equates to annual savings in excess of $8 million. We believe there is more to come on the savings front as the Laramie team grows production and adds scale to its operations. While costs are key part of the story, the commodity price environment has markedly increased the value of the Laramie reserve base as well.

We've quantified Laramie's recent progress in the Company's internal mid-year reserve estimates. The estimate incorporates the recent acquisition, the improvements in the natural gas price drip and some but not all of the operational improvements realized by the Company this year. The PV-10 of the Company's proved reserves based upon mid-year strip prices has increased to $546 million with PDP plus drilled but uncompleted well value of $373 million.

The company current has more than 7,500 undrilled locations throughout the Williams Fork. Given the scale of this inventory, Laramie high-graded it's location to establish near-term drilling priorities. Laramie has in excess of 1,250 locations with an average NPV10 of $700,000 per well. These locations reflect several years of inventory for Laramie to maintain significant production growth.

The improvement observed in the estimated reserves, primarily reflect structural improvement to Laramie's operations. Since 2011, Laramie's reduced its operating expense from $2.50 per Mcfe to less than $1.60 per Mcfe. Continuing this trend of improved efficiencies, the most recent completions in July have an all-in D&C cost of around $900,000, an approximate 15% reduction from previously disclosed estimates, while current curves are approaching 1.9 Bcfe. We believe these results are competitive with the best of the United States Natural gas resource plays.

Laramie generated $9.4 million in EBITDAX for the second quarter of 2016, up more than 240% from $3.7 million of EBITDAX for the second quarter of 2015. Debt to EBITDA leverage during the quarter declined to 3.2 times on an annualized basis. No wells were added to sales during the second quarter, but during July, Laramie began completing its drilled but uncompleted wells to work down its 58 well inventory. If current market conditions persist, we expect that Laramie will begin a drilling program early next year, pulling forward, it's considerable resource base. In terms of exploitable resources, the U.S. Geological Survey recently reappraised the Piceance Basin noting that it was the second largest natural gas resource in the country, primarily driven by upward revisions to the Mancos Shale. Laramie has more than 100,000 net acres that are prospective for the Mancos, but does not report the resource potential given it's early stage of development. We feel that Laramie is well positioned with the premier drilling position in this region.

In summary, Laramie proved reserves has increased to 1.1 Tcfe of natural gas. Total proved plus probable reserves are nearly 8.2 Tcfe without reflecting any of the considerable Mancos potential. Laramie's probables at a PV20 result in discounted cash flow value of approximately $400 million. Combining this amount with the PV10 of Laramie's proved reserves totals nearly $950 million of estimated 2P reserve value based on the June 30 NYMEX strip price.

We're delighted with the progress and view Laramie as an important asset of the Company. In fact our interest in Laramie represents the Parr Pacific legacy asset. We believe through operating efficiencies, a timely acquisition, and excellent management execution, that Laramie will become an even more significant part of Parr Pacific shareholder value.

At this point, Joseph will provide more details on our Refining operations.

Joseph Israel

Thank you, Bill, and good morning everyone. I'd like to start by welcoming our Wyoming refinery employees to the PAR family, and also thank our Hawaii employees for their outstanding effort with regards to the refinery turnaround.

Refining segment adjusted EBITDA in the second quarter was a loss of $6.5 million. On the product side, the low demand/high supply condition across the Pacific is giving us the worst refining spread environment in over five years. Our 4-1-2-1 index has given us only $3.96 per barrel on Brent basis to work with compared to $9.76 per barrel in the second quarter of 2015 and $6.90 per barrel for three year average.

On the feedstock side, the oversupplied crude oil market has given us $2.04 per barrel crude differential or discount to Brent compared to $1.30 per barrel discount in the second quarter of 2015 and $1.22 per barrel for three years average. Overall, combined index in the second quarter of 2016 was $6 a barrel, $5.06 per barrel under the second quarter of 2015 and $2.12 per barrel under three year average.

Strong refinery operations in Hawaii has led the way to high margin capture rate in the second quarter. Our refinery throughput was 78,000 barrels per day consistent with our guidance. Mechanical availability was 100% and direct production cost was low at $3.15 per barrel. Strong performance, especially considering how close it was to our multi-year cycle turnaround and end-of-life hydrocracker catalyst.

In the second quarter, we sold only 70,000 barrels per day as we were building over 700,000 barrels of finished product and intermediates inventories prior to the turnaround. We ran approximately $3 million to $4 million of extra-high quality crude which will be reflected in our third quarter sales. We benefited from high-octane value by selling mixed aromatic to Asia and premium gasoline to the Pacific Northwest.

Our on-island sales were 61,000 barrels per day, approximately 4,000 barrels per day under our 2016 target with the following gaps. 1000 barrels per day short of jet fuel mainly turnaround and inventory management related, 1,500 barrels per day short on diesel including bunkering sales driven by low demand and seasonality, and another 1,500 barrels per day of what we consider structural demand loss on the fuel oil side.

We continue to adjust feedstock and refinery operations per demand and market environment yielding only 18% of fuel oil in the second quarter of 2016 compared to 24% in the second quarter of 2015 and 74% of gasoline and distillate compared to 69% in the second quarter of 2015.

Our Hawaii refinery is in final start-up stage with hydrocracker coming up. This will conclude a 36-days oil-to-oil turnaround, 6 days over plan, but on budget. In general, low productivity mainly driven by tropical storm Darby offset by minimum discoveries.

Turnaround scope included Consent Decree work managed by us and full funded by Tesoro.

On July 14, we closed on the Wyoming refinery acquisition and added an 18,000 barrels per day, 11 Nelson Complexity Index refinery in the niche market of Wyoming in South Dakota. Logistic included 140 miles of crude oil pipeline, a 40 mile product pipeline, couple of truck racks in the refinery and jet fuel terminal in Rapid City including a pipeline connection to the Ellsworth Air Force Base.

Starting today, you will be able to find on our website a New Wyoming index that will allow you to better monitor our Wyoming refinery margin environment. The index is based on our 3-2-1 spread calculated as follows. 2 barrels of E10 gasoline based on average, Denver/Rapid City postings, 1 barrel of ultra-low sulfur diesel based on average Denver/Rapid City postings minus the value of three barrels of WTI at Cushing.

Correlation with historical margins is strong, over 90%. We will update both Mid Pacific and Wyoming indexes on a weekly basis. As a reference, our Wyoming Index indicated $18.16 per barrel in the second quarter of 2016 compared to mid-cycle environment of $21.31 per barrel. And the estimated adjusted EBITDA for the second quarter is approximately $7 million. That's included in our second quarter results.

Looking at the third quarter, our planned throughput in Hawaii is approximately 50,000 barrels per day as a result of the turnaround and our plant throughput in Wyoming is approximately 16,000 to 17,000 barrels per day. In July, both of our indexes improved approximately $0.30 per barrel compared to the second quarter.

We are excited to move forward in the two refining systems post major turnaround.

And now, I'll turn the call over to Chris to review our financial results.

Chris Micklas

Thank you, Joseph. Par Pacific reported a net loss of $13 million or a loss of $0.32 per share and our reported adjusted EBITDA was a loss of $7 million. Our earnings release details our adjustments for arriving at adjusted EBITDA, however I would like to highlight major items; a $17 million loss from our investment in Laramie, which is comprised of $15 million for the mark-to-market derivative losses for hedges put in place after Laramie's recent acquisition and $5 million of depreciation and depreciation charges. Partially offsetting were an unrealized gain of $8 million, mainly on our internally consumer fuel derivative contracts and $4 million reduction in the value of our Tesoro earn out contingency.

In our Refining segment, the adjusted EBITDA was a loss of $6 million compared to a profit of $26 million from the same period last year. This was primarily impacted by a greater than $5 per barrel decline in our index crack spreads, pre-turnaround inefficiencies, approximately a $2 million decrease from our contract price lag as crude prices increased over the quarter and lower on-island sales.

Our Retail segment generated adjusted EBITDA of $5 million, a $2 million decrease compared to the second quarter of 2015. This decrease is principally due to compression of retail fuel margins driven by rising crude prices during the second quarter of 2016. We typically experienced lower fuel margins in periods when the cost of crude is increasing and higher margins in periods when the cost of crude is decreasing.

Our Logistic segment posted adjusted EBITDA of $6 million, a $1 million decrease from the same period last year. This was primarily due to approximately $1 million of expenses for the subsea pipeline inspection and a decrease in pipeline throughput driven by lower on-island volumes.

G&A expense was $11 million, a $1 million decrease or 10% from the same period last year. Although we have reduced these expenses, they are modestly higher than our expected amount as we continue the implementation of a new SAP enterprise solution. We plan to reduce these expenses going forward and believe that our run rate for G&A will be below $10 million per quarter even after taking into account the Wyoming refining acquisition.

Now turning to liquidity. During the second quarter, we issued convertible senior notes with an aggregate principal amount of $115 million. The proceeds from the convertible note were used to finance a portion of the Wyoming refining acquisition that closed in July. At the end of the second quarter, the principal amount of long-term debt including current maturity was $274 million. During the quarter, we repaid $16 million related to the Tesoro earn-out and repaid $5 million in the principal amount of our term loan.

Our cash balance totaled $164 million at the end of the second quarter and our total liquidity was $170 million. During this quarter, our capital expenditures totaled $7 million and our cash interest was $2 million.

As of August 4, after completing the acquisition of our Wyoming refinery, the principal amount of debt including the $52 million subordinated bridge notes is $472 million and our total liquidity is $78 million. Our capital outlay for the remainder of 2016 including maintenance CapEx projects is between $33 million and $37 million. The bulk relates to the completion of the scheduled Hawaii turnaround with cash expenditures anticipated at approximately $24 million. The remainder is largely related to an estimated $7 million capital expenditure to complete improvement on our Wyoming refinery mainly for a Benz-out project that is due to be completed at the end of the third quarter.

The Tesoro Consent Decree work has no impact as we are being reimbursed by Tesoro for the work we have performed. By the end of 2016, both the refineries will have completed their scheduled maintenance turnaround and we do not have planned outages for more than two years. We will have completed that rebranding of our Retail operations and the major subsea inspection work in our Logistics business, also will have been completed.

Therefore, going forward, we do not have major planned capital projects, and we expect our CapEx spend to be reduced to a level of $10 million to $15 million per year. We believe this positions us to manage liquidity through the current margin environment. As previously announced, we funded the Wyoming refining acquisition in part with the proceeds from the offering of $52 million in subordinated bridge notes that closed at the same time as the acquisition. The Company anticipates repaying the bridge notes in whole or in part with the proceeds realized from an anticipated $50 million rights offering. On June 17, we filed a registration table in the SEC in connection with this proposed write-off. We subsequently amended on July 22. We anticipate providing additional information concerning the write-off upon the effectiveness of the registration statement under the security laws.

Now, I will turn the call back to Bill.

William Pate

Thank you Chris. Operator, we could take questions now.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question comes from Thomas Mitchell from Miller Tabak. Please go ahead.

Thomas Mitchell

Just as a sort of a general background, certainly you are financing for what looks like it's about 18% that could return on investment right off of that in the Wyoming refinery and financing a chunk of it with 2.5% and 5% money. These two have enhanced your – that arbitrage the loans seems to enhance your sort of net asset value at the Company. At the same time of course, this is a time when 20% or even 25% if you take an inverse of operating profit to capitalization, this is not unusual in the refining industry these days. So, I guess my question is; one, do you think that you will continue to see opportunities to take advantage of high returns relative to your cost of funds on the money? And secondly, do you have any concern or interest in sort of the unpopularity of running Refining business these days as far as the stock market is concerned?

William Pate

Tom, this is Bill. We continued to look at acquisitions in this environment and we're focused on midstream and downstream opportunities in particular where our bring tax attributes, provide us with an advantage. At the same time we also really prefer opportunities that allow us to leverage our existing operations in Hawaii and the Rocky Mountains. And with the acquisition of WRC, I think there is opportunities to increase value where we think there is synergies and reasons why bolting-on to what we have in Wyoming will create value over and above the market.

We will look at Refining opportunities. But as I mentioned, when we're looking at Refining opportunities, we're also thinking about the assets that surround it. And so if you go back to Wyoming again, we feel like we were able to acquire some significant midstream assets in and around that property. And then at the same time we also look at acquisitions and think about our corporate structure, which we believe allows us to realize significant cost savings by leveraging our people and systems. And that's evidenced by the fact that with WRC, we were able to bring that asset in. And I think once we have it fully integrated, we'll have just a few additional personnel required to help manage that business. Thank you.

Thomas Mitchell

Sort of unrelated but interesting phenomenon which I felt we should try to understand a little bit. You were required to take a tax benefit, is that right? This is really for Chris. Because of the issuance of the convertible debentures, can you just sort of explain why that was the case? I think it's about $8.5 million.

Chris Micklas

It is a result of the equity portion of the convertible note valuation, and in adjustment to the tax provision and the valuation allowance and we're required to run it through the P&L.

Thomas Mitchell

Okay. That's great. Thank you very much.

Operator

Our next question comes from the line of Scott Levine. Please go ahead.

Scott Levine

Quick question about the – your SAP program, what exactly is the inflation for that? What do you have to achieve with this new program?

William Pate

Chris, do you…

Chris Micklas

So, during the second quarter we went live on SAP in our retail at Mid Pac segment. And the intent was to get the whole company on one system and we're going to use the system going forward with our Wyoming acquisition, and it will allow us to do the integration as Bill mentioned by only having to add a minimal amount of staff and achieve the synergies that we've committed too, which is over $5 million, program.

Scott Levine

Then, just out of curiosity for the rebranding and the retail change, is there a reason you guys only did some of those or – like some of the gas stations in a way?

Joseph Israel

The first objective was really to take the Tesoro brand out. We have done this transition service with Tesoro after the acquisition. So the timing was perfect for that. And we like our 76 brand, so we end up with a 37 stores that will be rebranded to Hele plus one a truck stop basically on the card lock. I should say and the rest will be 76.

Scott Levine

That's all I had guys.

Operator

Thank you. Our next question comes from the line of Chi Chow from Tudor, Pickering, Holt.

Chi Chow

Couple of questions on, Laramie. Regarding the natural gas hedge position, can you give me more details on how those hedges are structured? Are they fixed price swaps or collars? And do you have any additional clarity on the term and volumes hedged?

William Pate

Sure. Chi, we're going to provide more information on that with in release in the next 48 hours, but just briefly, they are fixed price contracts through the end of 2018. They are at NYMEX $2.60 per Mcfe roughly and then there is a basis swap that I think moves it down to into the mid $2.30s. And the adjustment in the quarter obviously was related to that price relative to market. I don't view the unrealized loss as net negative to Laramie, because the price move has also enhanced the drilling position as we've always with at Laramie, we felt like we would hedge out the fixed – our producing assets, and then as prices increase, it will allow us to pull the puds in the probable score by drilling and completing them.

Chi Chow

Any current number of volumes you have hedged?

William Pate

Just generally we're hedged with approximately 90% of the producing volumes for 2018, and again, we'll provide a full schedule of that for you for the public in the next 48 hours.

Chi Chow

Okay great. Look for that.

William Pate

We also hedged a little bit of liquids as well. So, we're hedged not only on the gas side but also with propane and ethane.

Chi Chow

Okay great. I know Bill you gave some commentary on this in your remarks, but can you talk about any additional details you can provide on the expected piece of development in the back half of this year and into 2017?

William Pate

Sure. We have got a 58 well, drilled but uncompleted inventory, so it doesn't make a lot of sense to drill until you complete those wells and that was initiated in July. Drilling and completing – or completing these wells will probably take most of the rest of the year just based on having one frac spread out there. That's essentially with 58 wells, you are taking about three pads, because it's roughly 20 wells per pad. I think some time in the fall, as I mentioned, if prices persist, then we'll probably make a decision as to put a rig out in the field, early part of next year, because by that time we'll have the inventory worked down.

Chi Chow

Thanks. And maybe I can sneak one more in here. I guess accounting signatures today, but any thoughts on the Colorado initiative, the 75 and 78, how that might turn out in the balance?

William Pate

Clearly we're following that closely. And it's something we're talking with [indiscernible] and Laramie and others have, it could have a significant impact on drilling opportunity there. If it were to pass, I think let me just say that, state governments obviously significantly opposed to this. I think you know all the local leaders in Colorado are opposed. There is still some question as to whether it even gets on the ballot. And we think if it does get on the ballot, the public is going to recognize that this is not something that will be good for the state. Responsible drilling obviously is very important, but I think there is other ways to do it than to essentially lock out 95% of the acreage in Colorado from production or from drilling.

Chi Chow

Thanks Bill. Thanks for the color.

William Pate

Thanks.

Operator

Our next question comes from the line of Leon Cooperman from Omega Advisors. Please go ahead.

Leon Cooperman

Thanks. I apologize if you addressed this at the beginning. I just landed from Rio, and got in about 10 minutes late in the call. Anyway, in most cyclical businesses, and we're clearly a cyclical business, the concept of peak normalized and trough earning power is very relevant. The company is very complex. It's not really broadly followed. Is there anything you could do to help us out in terms of the assets that you have accumulated, how you see your peak normalized, call it average and trough earning power?

William Pate

Sure. Certainly. And I think you have to take each business one-by-one, so let's just – I think with respect to the Refining business. The Retail and the Logistic business I think are easier because they are not a cyclical and they are fairly predictable. And the Retail business was up a little bit this past quarter. But as Chris mentioned it's largely related to price lag and we feel like that's something that will pick up. And if you look at our Retail business in quarters when prices, when crude prices rise, we get a little compression, when it goes down we get a little expansion. But all-in it's a fairly predictable business, and if you look at the average kind of over the last six quarters, it's probably being pretty indicative of kind of a modest trend and there is not a lot of peak and trough there.

Logistics similarly, there is a little bit of a decline in the past quarter. The costs were up. A lot of that was related to the inspection of the subsea pipeline, because we incurred some expenses in the second quarter in preparation of that inspection. We're going to have down quarter with Logistics any time that our throughputs down, because revenues are largely related on to the movement of barrels on the islands and the movement of the barrels to the island. So, we have a little bit of a downturn in the Q2 there. But again, it's fairly predictable.

With respect to Refining, I mean, I'm going to turn the Mike over to Joseph and let him handle it. But it is definitely a cyclical business. Joseph, why don't you just take – let's take Wyoming and Hawaii separately, because I think we need – each of them has a different dynamic.

Joseph Israel

For us and other refineries, we talk about focusing on what we can control through the cycles like cash flow in the downtime and run as hard we can when the margins are good. I think the first and the second quarter that was just a way to demonstrate that in Hawaii, with negative $6.5 million adjusted EBITDA. On the Refining segment and a positive $5.9 million adjusted EBITDA. In Logistics, it's pretty much pretty even – breakeven between the two. In Wyoming it's certainly going to be the same. It's going to be focusing on refinery optimization on the cost structure and our competitive advantage and make sure that we keep this reliability as high as possible, mechanical availability is critical and that way we will adjust cash flow in the down time and run hard when the margins are good.

William Pate

Just to address mid-cycle in the past, why don't you walk through what mid-cycle has been for both Wyoming and Hawaii.

Joseph Israel

For the Hawaii system, the mid-cycle environment is close to $8.50 per barrel on the mid-cycle on the combined basis. We have now $2.5 per barrel under that. And for the Wyoming system the mid-cycle is about $21.5 per barrel for our index and we have now $3 per barrel under that, so just to give you a feel about how far we are from the mid-cycle.

Leon Cooperman

I'm trying to figure at is, on a normalized basis what kind of EBITDA do you expect to generate as a business?

Joseph Israel

Hawaii system, as we've said in the past we think its $100 million adjusted EBITDA type of system between Refining, Logistics and Retail. And then for the Wyoming business, as we mentioned in the announcement, we think its $45 million EBITDA per year plus the $5 million synergies which is $50 million of adjusted EBITDA per year in mid-cycle environment.

Leon Cooperman

So you're saying the correction of the two businesses is about $150 million of EBITDA?

Joseph Israel

Yes.

Leon Cooperman

Thank you very much. I appreciate that response.

Joseph Israel

Sure.

Operator

Our next question comes from the line of Andrew Shapiro from Lawndale Capital Management.

Andrew Shapiro

Hi. We've had a good quarters, obviously had a few quarters here so far of really tight crack spreads. Over this period of time, if it were to continue, there's got to be other players in this industry who are really suffering. I don't think we're the higher cost facility out there. And if that's the case, how long can these guys last before the spreads necessarily have to expand? What's the typical experience for this?

Joseph Israel

It's a good question. This is – its other supply market, inventories were built, inventories are high globally around the world, and now we're waiting, patiently waiting for refining rationalization is what will take at least in the short-term to sit in the situation and long-term, I hope we will see some good times from the demand side, demand side always helps. India, Indonesia, growth in the first half really helped through additional demand and over time we will start to see that playing as well. And now here on weak Refining in Europe and Asia that suffering and it's a question of time, and they will slow down runs, and they will eventually shut down in this type of environment. We need also to remember that both systems are niche markets and we do have this competitive advantage being out there and providing the lowest cost structure product in those markets.

Andrew Shapiro

Speaking with, as a follow-up here and speaking with respect to demand and demand within your niche markets, Hawaii Electric decided to go straight through renewables and avoid the interim step of LNG recently when their NextEra deal was called off. Now all that made me in a deferred switch off from fuel oil in the long-term they are still committed and they will be going to get rid of this on-island demand. What sources of on-island growth can take up this slack as you and the other refinery will eventually battle it out to, and I think you will be the survivor, but there is going to be this period of absorption where, on-island demand isn't necessarily going to support two refineries. Are you going to be able to get back to your stated goal of around 65 Bpd on island and is that even possible to grow?

Joseph Israel

It's a good question. Fuel oil will be driven by in the alternative electricity generation out there and like we mentioned this quarter, there is a structural reduction to 63.5. Now on the good side, in State of Hawaii continues to report record high tourism in Hawaii and this just happened year-after-year including the recently for the recent times and this will continue to boost and push on-road and marine and jet fuel margin. Our opportunity on the all-island sale is mainly on the jet fuel. Hawaii is short, almost 10,000 barrels per day and this is where we can continue and explore and increase yields and throughput toward that direction going up. Some of it will only take good quality change, as we are demonstrating consistently. Some of it may take a longer-term project that we may evaluate in the future.

Andrew Shapiro

Great. Thank you. I have further questions. I'll back out in the queue.

Operator

[Operator Instructions] Our next question comes from the line of Jonathan Segal from Highbridge Capital.

Richard Miller

Hi Richard Miller in for Jonathan. Just some clarifying questions on Retail and Refining, in Retail, you mentioned there was little margin compression in the quarter due to the crude run-up. Is there any reason to expect that that won't kind of mean revert in 3Q?

Chris Micklas

No there is not. As Bill stated, the margins tend to normalize over time and in a moving market like we've had lately, we would expect to see that the margins would actually expand as crude has dropped about $8 from its recent high. So, I would expect to see some margin expansion and then a mean reversion if things stabilize.

Richard Miller

I appreciate the mid-cycle information, the guidance you provided. On the Refining side, in the quarter, you know we kind of would have expected higher EBITDA even at this level of crack spread in differentials. It sounded like, at least what we were hearing is that, you know the change in the crude price and the turnaround kind of just sort of profitability in the quarter. Basically, in other words, you had to kind of buy more of this higher octane crude which you mentioned maybe build some inventory because of the turnaround with the hydrocracker was going into the turnaround that may have skewed profitability lower. Are we thinking about that the right way? Should we expect higher level of cash generation in the current crack environment, if it wasn't for the price ramp and the turnaround?

Joseph Israel

Yes. We were very happy with second quarter operations, mechanical availability 100%. Everything ran perfectly until we shut down some of the turnaround now. Prior to the turnaround, we did have few inefficiencies that I will explain here in details. About $5 million to $7 million of missed opportunities in the second quarter are related to the pre-turnaround situation. $3 million to $4 million of additional costs went to build high value inventories prior to the turnaround. Inventories that we will use is in the first, and what we used in the turnaround and after startup, so $3 million to $4 million there, $1 million to $2 million of lost sales opportunities related to building inventory anticipation of the turnaround. We expect that some imports and product early in July. We wanted to make room in the tanks. We shorted our customers – their inventories, not their potential of doing business. And by that we created $1 million to $2 million inefficiency for us.

And the last component is $1 million to $2 million of expense related to our subsea pipeline inspection. So this was early expense in the second quarter already. Combine the three, its $7 million of potential additional EBITDA if we wouldn't go to a turnaround early in May and July. Did I answer your question?

Richard Miller

That is extremely helpful, that detail explains a lot. Lastly on my list was just, with regards to Laramie, really appreciate the additional detail. Given the recent re-rating of natural gas enterprise values have seen in the market and basically the substantial value embedded in the Piceance. Market doesn't seem to recognize again in stock. Are there any considerations you are evaluating for either public or private market alternatives for the decision?

William Pate

Thanks Richard. We're really happy with this business, and I think it shows how we look at businesses in general and how we hope to add value. Laramie has done a great job capitalizing on a market opportunity in the downturn. I think buying an asset in December was timely. But more importantly they followed up by getting their cost down operationally and creating even more value than we had initially projected. And we think it will continue to create value for our shareholders and we want to continue to grow this business, and it's – but it's an attractive business, right. It doesn't obviously contribute a lot of cash flow to Parr Pacific, but it's self-funding. And it's self-funding with growth, and as long as we think it's creating value for the shareholders, we're going to pursue that. We feel like the more value we add, improvements we make, the more options we have for how and when we monetize this investment.

Richard Miller

Terrific. Appreciate it.

Operator

Our next question comes from the line of Andrew Shapiro from Lawndale Capital Management. Please go ahead.

Andrew Shapiro

Thank you for the opportunity and the follow-up. I'm not sure when you discussed Laramie, if you explained the lower daily production rate that Laramie exited June with versus March. Is that just production run-off relative to what you guys are putting on stream?

William Pate

It's actually not just production run-off. In addition to that, they had some downtime in the first part of the quarter. In may I believe that was associated with some gathering capacity and other operational issues, but the June production has been strong and overall production has been good, and as anticipated. So, it's probably a little artificially low. Part of it is Andrew related to the fact that you just did, decline associated with producing reserves. But it's probably exacerbated a little bit by some operational issues with the late spring.

Andrew Shapiro

And on the rights offering, were there subset of changes in the amended registration statement or mostly responses to comments that were non-sensitive?

Chris Micklas

Mostly response to comments.

Andrew Shapiro

And is there some type of particular time horizon they have for either further comments or those effective?

Chris Micklas

No. As soon as we have information, we'll make it public.

Andrew Shapiro

And during that period are there, are you allowed and are there upcoming investor presentations and conferences that you plan to be attending and going out to tell the story here of the assets?

Chris Micklas

We are allowed to go out. There is no restrictions on going to presentation and dong conferences.

William Pate

I think our focus will be once we are concluded registration and have the right offerings, and then we will probably have a small investor roadshow and going out and reach out to investors at that point in time.

Andrew Shapiro

Great. Thanks. No further questions.

William Pate

Thank you.

Operator

Ladies and gentlemen, we have no further questions in queue at this time. I would like to turn the floor back over to management for closing comments.

William Pate

Thank you. Our management team is highly focused on the creation of shareholder value and, and I think Laramie is a good example of that skill set. We were opportunistic and I think putting capital to work at the right time. We think in general, we're building long-term Parr Pacific shareholder value and similarly we're focused on both our Hawaii and Wyoming platforms and looking at ways that we can create significant value for shareholders there as well. We thank you for your time today.

Operator

Thank you ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.