Par Pacific's (NYSE MKT: PARR)
Q3 2015 Earnings Call Transcript

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Executives
Christine Thorp - Director, IR and Public Affairs
William Pate - President and CEO
Joseph Israel - President and CEO of Par Petroleum, LLC
Chris Micklas - CFO
Will Monteleone - SVP, Mergers and Acquisitions

Analysts
Jeff Dietert - Simmons
Doug Leggate - Bank of America/Merrill Lynch
Chi Chow - Tudor, Pickering, Holt
Andrew Shapiro - Lawndale Capital
Thomas Mitchell - Miller Tabak

Operator

Greetings and welcome to the Par Pacific Holdings Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A 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 Ms. Christine Thorp, Director of Investor Relations. Thank you. You may begin.

Christine Thorp - Director, IR and Public Affairs

Thank you. Welcome everyone to Par Pacific Holdings' third quarter 2015 earnings conference call. With me today is William Pate, President and Chief Executive Officer of Par Pacific Holdings, Chris Micklas, Chief Financial Officer and Joseph Israel, President and Chief Executive Officer of Par Petroleum, LLC.

Before we begin this discussion of Par Pacific Holdings' financial results for its third quarter ended September 30, 2015, please note that remarks made by management today may contain forward-looking statements.

These forward-looking statements 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 in these forward-looking statements.

Information about the risks we face and the uncertainties associated with Par Pacific Holdings' forward-looking statements can be found in the Company's periodic reports filed with the SEC. Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances. Today's call is being recorded and will be available on the Investor Relations section of our Web site.

Now let me turn the call over to Bill.

William Pate - President and CEO

Thank you, Christine. Thank you for joining us this morning. We have now reported four consecutive quarters of strong financial performance. It is important to note that this quarter's adjusted EBITDA of $34 million reflects mid-cycle crack spreads although we did have a few events that broke our way and boosted results, notably the continued decline in crude oil prices.

Joseph and Chris will go into these items and our overall operating and financial performance in a minute, but first I wanted to make a few comments about my recent appointment to the organization and the creation of Par Pacific Holdings. The Board of Directors and management decided to change the name of our organization to Par Pacific Holdings to more properly reflect our ambitious and diversified growth objective. We have a couple of great businesses in our Hawaiian franchise and Laramie Energy.

As you may know, Par came into existence in 2012 and started with one employee. Since that time, this management team has built a large corporate entity from scratch, and we believe we can accomplish much more. With our equity sponsorship from Sam Zell, our $1.4 billion net operating loss carry forward, and the already proven ability of our management to acquire and integrate businesses, we feel that we are perfectly positioned to execute an acquisition-oriented growth strategy.

This strategy is timely, given the need for a number of energy and infrastructure companies to address balance sheet and other capital requirements in this challenging environment. Our tax attributes gives us a unique advantage, allowing us to generate higher returns on our capital invested and therefore greater shareholder value creation from accretive acquisitions.

Personally I am delighted to be leading this effort. I spent 21 years in the Zell organization pursuing opportunistic acquisitions and serving as an advisor and board member to companies that were situated similarly to Par Pacific. My sole focus will be to build on what already is a very successful company. And I am fortunate to be a part of a great team that has created and implemented the necessary controls and processes to ensure crisp business execution and swift acquisition integration.

To be clear, we intend to buy and build energy and infrastructure businesses. Our main focus will be on growing our existing refining, marketing and logistics business to leverage our commercial operations and our fixed asset base. We will also prioritize similar businesses in Hawaii that, like our current operation, serve as a critical provider of the Islands' energy and infrastructure requirements. Our Laramie Energy business unit is completing some great wells and we will consider various ways to expand their operation as well.

Finally, we will look at other energy and infrastructure opportunities in the United States that leverage our tax attributes. Before turning the call over to Joseph to review our refining, marketing and logistics operations, I'd like to provide an update on the progress of Laramie Energy, our natural gas development company that operates in the Piceance basin of western Colorado.

First, Par and the other investors have agreed to change the name from Piceance Energy to Laramie Energy, which was the name used by Bob Boswell in his first foray into the Piceance basin. Laramie continues to make great progress on their development program, including reducing drilling and completion costs over the past three years by 33% to less than $1.2 million per well. They already have a 99% success rate, with EURs of 1.8 Bcfe, and they are able to generate single-well economic returns in the 15% to 25% range based on the current NYMEX strip.

The team recently announced a wellbore drilling program with Wexpro, which is the upstream subsidiary of the Utah based utility Questar. This arrangement further enhances these well economics because Wexpro has agreed to fund approximately two-thirds of the drilling cost, yet Laramie will receive more than its pro rata share of the economics in the partnership. We understand that this is an extremely challenging environment for natural gas development companies.

Nonetheless, unlike many of Laramie's upstream peers, we have significant flexibility in the operations almost all of our acreage is held by production and we have no midstream or interstate pipeline minimum volume commitments. The Laramie team has a proven track record of creating value through commodity price cycles and we believe they will continue to create shareholder value with the progress they have demonstrated in their development program.

In summary, the new Par Pacific reflects our desire to continue to grow our business opportunistically and build on the strong organizational momentum. I thank you for your support.

Joseph will now comment on the progress of our Hawaiian operations.

Joseph Israel - President and CEO of Par Petroleum, LLC

Thanks Bill and good morning everyone. Yesterday we reported Par Pacific's third quarter adjusted EBITDA of $34 million. Results were driven by the following three key dynamics. One, Mid Pacific refining margin environment at mid cycle in the third quarter, two, approximately $11 million positive impact attributed to falling oil price environment, and three, successful execution of planned maintenance in the refinery with approximately $2 million cost.

Overall, strong results, reflecting our improved capture rate and profitability profile, across the board. In other words, by improving and maintaining a high level of safety and reliability performance, yields optimization, feedstock selection and flexible sale profile, we were able to improve our financial performance beyond just what market conditions gave us.

Here are some numbers to put into perspective our improvements. Year-to-date, when comparing with last year, our on-island sales are up 13%, throughput is up 11%, production cost is down 19% on a per barrel basis. On the production side, we have improved our yield value by increasing distillate yield from 39% to 44%, gasoline and others from 28% to 30% yields, and reducing fuel oil yield from 30% to 22%. Bottom-line, year-over-year, while market has given us additional $2.93 per barrel to work with, on combined product and feedstock index basis, our realized net operating margin improved by $7.56 per barrel.

In the third quarter, our refinery system operated under a mid-cycle environment. Combined $8.49 per barrel, 4-1-2-1 crack spread and mid pacific crude differential index in the third quarter was $0.07 per barrel under the three year average. The weak index in the third quarter was mainly driven by seasonally low availability of ANS and global negative distillate pricing trends. Also, the Singapore fuel oil crack was a back down to mid cycle, following the strong first half 2015 environment.

The October combined mid pacific index for products and crude differential was $7.50 per barrel. $14 a barrel falling Brent price in the third quarter has supported our refining and retail EBITDA by approximately $11 million. As communicated in the past, the sensitivity of the oil price trend to our business is reflected in the following two ways. First, the contractual pricing lag on our jet fuel and utility related fuel sales, and second, the natural retail street pricing lag to changes in commodity prices.

In the third quarter, we successfully executed our planned reformer catalyst regeneration and other planned maintenance in our Visbreaker and Cogeneration units at a cost of approximately $2 million, or $0.30 per barrel. No major turnarounds are planned until the third quarter of 2016.

Third quarter On-island sales at 57,000 barrel per day were 8% lower than our second On-island sales, mainly due to timing and demand for jet fuel and fuel oil. 17,000 barrels per day were exported including gasoline to the West coast. We are expecting fourth quarter on-island sales to get back on track, and based on new supply contracts, including the recent award from the Defense Logistics Agency, we are well positioned for 2016 on-island demand with over 65,000 barrels per day, 8% more than our 2015 forecast.

Our refinery throughput in the third quarter was 74,000 barrels per day, consistent with guidance, and our planned throughput for the fourth quarter is close to 80,000 barrels per day. Our retail segment contributed $10 million of adjusted EBITDA in the third quarter. Year-over-year, gasoline volume and merchandise sales are up 3% and 11%, respectively, on a same store basis.

Mid Pac, on a standalone basis, has contributed approximately $11 million of adjusted EBITDA to our retail and refining results since we acquired it on April 1st. Integration efforts continue with the objective of realizing annual $5 million of synergies and cost savings by the end of the year. In summary, we have now generated $133 million of adjusted EBITDA in the past 12 months. We have benefitted from favorable market conditions but most importantly, we have improved our profitability profile 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 Chris, to review our third quarter numbers in more detail.

Chris Micklas - CFO

Thank you, Joseph. During the third quarter, Par Pacific reported net income of $15 million, or $0.39 per share, compared with a net loss of $39 million, or a loss of $1.19 per share in the third quarter of 2014. Adjusted net income for the third quarter was $24 million, or $0.64 per share. Adjusted EBITDA was $34 million, a $62 million improvement compared to a loss of $28 million in the third quarter of 2014.

This quarter we have two additional adjustments for arriving at our Adjusted EBITDA. The first is a $13 million reduction in net income to adjust for changes in the valuation of our refinery inventory and changes in the valuation of the liability related to our supply and off take agreement with J Aron.

We use the FIFO method of accounting for valuing inventory and we value our liability to Our Aron at the estimated termination value at the quarter end. This results in a timing difference. The inventory valuation adjustment used to calculate adjusted EBITDA removes the impact of the timing difference to more closely reflect the cash impact of our cost of sales.

The second adjustment removes a non-cash charge of $10 million related to our commodity marketing and logistics business. We have continued to see market softness in the spreads between heavy crudes sourced in Canada and the price sold to refineries on the Gulf Coast. As a result, we decided to terminate our barge leases. The change in the market condition resulted in an impairment of our goodwill and our intangible asset related to the barge leases.

Consistent with previous quarters, our third quarter included the following items that are excluded from adjusted EBITDA. An increase of $4 million in the estimated amount owed to Tesoro under the earn-out provision of our agreement. As our earnings profile has improved, the probability of future payouts has increased which is reflected in this adjustment. Due to falling crude prices, we had $7 million in un-realized losses on future commodity contracts and a lower of cost or market inventory adjustment. We had a $1 million loss due to an increase in the value of our common stock warrants.

However, during the quarter, approximately half of our outstanding warrants were exercised. Therefore, going forward, we expect the magnitude of this adjustment to decrease relative to prior periods. We reported approximately $1 million in losses from our equity investment in Laramie Energy. And finally, we incurred $200,000 of acquisition and integration expenses related to our acquisition of Mid Pac.

At quarter-end, our cash balance totaled $102 million, total debt was $170 million and total liquidity was $153 million. Year-to-date, we have generated $144 million of cash from operations which has enabled us to repay net debt of $29 million, complete the Mid Pac acquisition, and make an additional $28 million investment in Laramie.

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

William Pate - President and CEO

Thank you, Chris. That concludes our prepared remarks. Operator, would you see if we have any questions?

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Jeff Dietert of Simmons. Please proceed with your questions.

Jeff Dietert - Simmons

I was hoping you could talk a little bit about your crude procurement strategy during the third quarter typically as you mentioned ANS and it goes into maintenance during the summer months and becomes extensive relative to other crudes. And I know you canvas many markets for your crude feed stock, so could you talk about what was attractive during the quarter?

Joseph Israel - President and CEO of Par Petroleum, LLC
Yes Jeff, crude flexibility is critical to us, for our success. In 2015 we ran 13 different type of crude versus 8 in 2014. We're willing to search, scan, try for new crude and adjust operations. It is extremely valuable for us, so we can pick the right differential and buy crude accordingly and we really do it on a monthly basis. The dynamics in Asia are interesting with BP and Caltex refinery shutting down in Australia recently and with the Petrobras refinery shutting down in Japan, we have some room on the demand side and then on the supply side, it looks like the Saudis and the Russians are over supplying this market, so crude availability in Asia is translates into opportunity for us and we stay on top of it.

Jeff Dietert - Simmons
Very good, could you talk about -- maybe talk about the Defense logistics contract in your overall strategy on increasing island sales it looks like you are making some progress there?

Joseph Israel - President and CEO of Par Petroleum, LLC
Jeff, on-island sales are very important as well to our margins, we want to realize on-island pricing versus exporting it as much as we can. DLA or the Defense Logistics Agency barrels are a big part of it, and this quarter the DLA announced an increase for us. We basically doubled our volumes sold to the Military for next year. And this is a great start to build our on-island sales further. In 2016, we will be 8% to 10% higher to where we average in 2015 and on average, this is probably a $5 to $7, $8 a barrel benefit to us versus the export alternative. So very excited about that.

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

Doug Leggate - Bank of America/Merrill Lynch
I got a couple of questions if I may on, I guess various different parts of the business. I hate to kind of push back on this a little bit but I'm just want to pick you up on your comment about the earnings in a mid-cycle environment. Can you explain what you mean by that? Because I think by any measure, price spreads in the third quarter were pretty strong across the industry. I just want to get make sure, I understand correctly what you are referring to?

William Pate - President and CEO

I'll let Joseph handle that in detail but I think we post the 4-1-2-1 on our Web site on a weekly basis and I think we came in (Joseph you can correct me) within a dime of where that was but go ahead and give Doug more detail on that.

Joseph Israel - President and CEO of Par Petroleum, LLC

Yes Doug, we just have a different benchmark to your typical U.S. refinery right? We view ourselves as Mid Pacific, because our impact is coming from Singapore on what we consider 80% and the West Coast is what we consider 20%, so we continue to track the product spread there and crude differentials and publish them on a weekly basis on our Web site. In the third quarter, the combined index was $8.50 per barrel. This is exactly three years average and this is why we consider it mid cycle. It's probably not the case in the Gulf Coast and other places.

William Pate - President and CEO

Yes, I think, this is Bill, just to follow-up I think one of the key elements here is unlike continental refineries, we really don't benefit from the WTI Brent spread materially and so, we don't have the kinds of profitability, we haven't seen it, and we don't anticipate a major change associated with any narrowing of that spread should that take place, as that has taken place recently.

Doug Leggate - Bank of America/Merrill Lynch

Yes, I guess you answered the question in the first sentence with a three year average, I guess we think more about kind of five or 10 year average for that, that's very clear thank you. My second question, I guess and a related topic is you said that you benefited from the declining crude prices in the quarter. Is there any way of quantifying how that would have contributed and obviously as you know prices stabilized unfortunately at good levels -- how that would change under the same mid cycle conditions?

Joseph Israel - President and CEO of Par Petroleum, LLC

And Doug I will take that. About 20% of our sales are considered jet fuel and utility sales related that are driven by contractual one week to a one month pricing lag. So when there is a pricing lag in a falling market, we benefit from the price change and this is actually, we run cheaper crude and selling more expensive product basically. So 20% of what we sell is translated to about 400,000 barrels, call it in a month, which in this $14 per barrel reduced crude price is translated to $8 million for the quarter, for the refinery. And then on top of that, we have retail like any other place in the mainland and the country has benefited from the same dynamic. So we think it's about 3 million. 8 plus 3 is the 11, we are considering as the price lag impact.

Doug Leggate - Bank of America/Merrill Lynch
My last one if I may, Bill this one is for you. I'm just curious if there was any further thoughts on how you might attempt to utilize what is crude asset for you in the form of your NOL, is there any kind of strategic thoughts about where you might go after the Mid Pac acquisition?

William Pate - President and CEO
Sure. I mean first and foremost, we're focused on building the refining, marketing and logistics business. I mean we want to invest in areas where we can leverage our capabilities. And I think we've got a great team here. We've got good process and assets so to the extent that we can identify opportunities where we can leverage what we already have, that's going to be our highest priority. But as I told to everybody around here, we're going to scour the United States for opportunities, we're also going to look at other areas that might be a little further afield and they may require us to build more in terms of managerial capability. But given our tax attributes, I do believe we have a cost of capital advantage and we can leverage that and as long as we can identify good investments, where risk adjusted, our return on investment is materially better than what we believe to be our cost of capital. We're going to pursue those deals, generally focusing on the energy and infrastructure space. So the way, I visualize it and kind of present it to people around here, is our bulls eye is refining, marketing, logistics and that includes Hawaii. But as we step out, we're going to diffuse the focus but we're not going to preclude anything.

Doug Leggate - Bank of America/Merrill Lynch
Perhaps as a quick follow onto that Bill if I may. Has there been any movement in those as you can tell on Chevron situation in Hawaii. And I'm just curious if either from impact in your market or as a potential acquisition opportunity notwithstanding any regulators?

William Pate - President and CEO
Well I'm not going to restate any of the publicly available information regarding Chevron. And all I'll say is we're not going to comment on any acquisition activity.

Operator
Thank you. Our next question is coming from Chi Chow of Tudor, Pickering, Holt. Please proceed with your question.

Chi Chow - Tudor, Pickering, Holt

I guess following up on the Defense logistics contract. Do you actually have the actual volumes on the contract?

Joseph Israel - President and CEO of Par Petroleum, LLC

No, we don't disclose volume and what is available in public records, you can look it up. There is like $220 million award, they call it, and you can take on the math from there.

Chi Chow - Tudor, Pickering, Holt

Okay. And then back on this question the mid-cycle crack. What's your outlook on how Singapore cracks and how that market will trend going forward here?

Joseph Israel - President and CEO of Par Petroleum, LLC

This is a hard one, I wish we knew… we will continue to monitor it. Gasoline looks good all over, right. I mean demand elasticity, low crude price, good demand, not only in the U.S, but good also in Asia. We look at gasoline spread that are at five years high and we benefit from this side and from the West Coast side. However, the distillate that are 95% correlated to industrial production are having some hard time with the global economy. And we see distillate at the low five year average a point. Fuel oil, that was okay for us in the first half is now going down from a high five years to the mid-cycle. So overall, it translates to a mid-cycle environment, just a mixed bag and going forward, I mean, we will continue to monitor the Asia economy and the crude price will be a big factor and take whatever the market will give us.

Chi Chow - Tudor, Pickering, Holt

Okay.

Joseph Israel - President and CEO of Par Petroleum, LLC

Now on the crude side Chi let me just add that. I think the spreads seem to be relatively weak, and differentials coming in are helping overall Asian refineries margins. And we get this boost or the help from the crude differential side as well versus the typical U.S. refinery just as a trend in the recent month or two.

Chi Chow - Tudor, Pickering, Holt

Just on the sourcing it looks like you sourced a lot of barrels from Asia this quarter, this past quarter. Can you talk specifically on what types of crudes you run in from Asia?

Joseph Israel - President and CEO of Par Petroleum, LLC

Yes. We don’t talk about specific grades. Obviously it’s a commercial information, we don’t disclose but you know, the Russians and the Saudis are fighting for market share in China and Europe. So the Russian crude is more attractive than ever. I think for the first time they now are the largest supplier to the Chinese market here this month and add to that, the refineries that used to be supplied in Australia, those refineries are not there. Crude is basically accumulated in Singapore and provide opportunities to us and others, can’t be specific about countries or grades.

Chi Chow - Tudor, Pickering, Holt
Okay. And final question maybe Bill back on the M&A side, do you have any specific geographic focus right now on opportunities in the U.S. Mainland?

William Pate - President and CEO
No we don't. We are focused on the U.S. but other than that we really haven't, I would say geographically concentrated any of our efforts. The West Coast is probably a little more attractive to us, because in some areas, it gives us an advantage and a leg-up, an ability to develop some relationships with our Hawaiian activities. But I wouldn’t say that that's a strong desire.

Chi Chow - Tudor, Pickering, Holt
Would you say your focus is more on the refining side, or logistics at this point?

William Pate - President and CEO
Well, the continental refineries are minting money right now so it’s very hard for anybody to really justify selling one, and it’s harder for -- hard for a buyer to step in and say I can pay you a fair price that make sense for both sides. So I doubt that it's a refining acquisition and I think logistics is probably a little more attractive. Then stepping out a little further we are also looking at midstream opportunities because obviously there are a lot of issues in that marketplace right now and especially in areas where you’ve got process oriented industries. We think we can add value, and we think we could acquire some attractive assets.

Operator
Thank you. Our next question is coming from Andrew Shapiro of Lawndale Capital. Please proceed with your questions.

Andrew Shapiro - Lawndale Capital

Yes, hi two questions on the refinery and then I'll back out in the queue. But I have a few others on Laramie. In the past, Joseph you talked about, how you can ramp-up that throughput or not but it's a question of economics and you said that you thought you could increase your on-island sales to at or above 65,000 or so but at present prices, at what level of on-island sales if any would justify increasing your throughput and alternatively at the present level of low -- of the spreads and the pricing, in the present level of on-island sales, what kind of price increase would be necessary to similarly justify increasing that throughput and lowering our cost per barrel?

Joseph Israel - President and CEO of Par Petroleum, LLC
Yes, we demonstrated 81,000 barrels per day throughput in the second quarter. In few days we can also demonstrate and we did, 90s, so we can definitely use our nameplate, it's not just a theoretical number.

Andrew Shapiro - Lawndale Capital
Right.

Joseph Israel - President and CEO of Par Petroleum, LLC
But for us it's driven by demand, it's not driven by unit limits, configuration limits. I think this is what makes our story very interesting and attractive. You are right, at mid cycle 75,000 barrels per day, it's normally a good spot, but it's also going to be driven by planned maintenance. It's going to be driven by availability for ANS and other type of crude. So we thought 74 is a good spot for the third quarter and this was also on our guidance, in the last call. So going into the fourth quarter, we're still in a mid-cycle environment, but we're going up to 80,000 barrels per day. Because we have more crude available, and we have the ANS we have the crude differentials to work with. We have some on-island demand kicking in, in the fourth quarter and bringing us more opportunities. And you are right in the 65, we gave in the past still valid and this is where we are heading next year. This quarter is not a good example on the on-island sale, we suffered some timing issues with some customers and pipelines et cetera and we don't view it as a trend.

Andrew Shapiro - Lawndale Capital
Okay. And there is a follow-up on the refinery here, in what ways was the cost per barrel changed from prior quarter, due to the change in production versus we will call it the change in efficiency and do you think you are now operating close to your lowest cost levels in terms of efficiency or is there some more things that could be done?

Joseph Israel - President and CEO of Par Petroleum, LLC
Yes, there is always room for improvement in our industry period. We'll never reach a point where we are all happy and satisfied, so with $4.18 per barrel operating cost, we have $0.30 per barrel of special item which is maintenance cost. So true direct operating cost was $3.88 per barrel and it's really consistent with our profile. It's a little bit higher than the previous quarter, because our throughput is lower, but it's on the curve. And we'll continue to look at it and improve going forward.

Andrew Shapiro - Lawndale Capital
Great, thanks I'll back into the queue, but please get back to me I got some questions on Laramie and a few other corporates.

Operator
Thank you. [Operator Instructions] Our next question is coming from Thomas Mitchell of Miller Tabak. Please proceed with your question.

Thomas Mitchell - Miller Tabak
I have been just checking on a couple of things here. You've talked about the $11 million benefit from the drop in the price of crude during the quarter. And generally speaking, we have had a sort of two incidents of dramatically lower cost of sales. One occurring in the fourth quarter of last year, when on a percentage basis the cost of revenue dropped about 10 points. This one established a sort of a new benchmark. This one dropped about 5 points. Now I guess my question is, if $11 million of that turned out to be, for lack of a better term, a win for resulting from a steady directional move in the price of crude. Going forward should we be looking for margins to return to where they were more like the previous three quarters before the third quarter?

Joseph Israel - President and CEO of Par Petroleum, LLC
We actually spoke about it right before the meeting. It's actually right on, same ratio. If you look at the fourth quarter of last year, Brent was down $37 a barrel. You look at this quarter Brent was down $14 a barrel. Now, there is a 2.6 ratio. If you look at the $11 million positive help on our financial versus the $20 million help we discussed in the fourth quarter, it is exactly the same match with the adjustment of how much retail we had at that time and how much fuel oil sales we had at that time. So the $11 million impact is right on and we can...

Thomas Mitchell - Miller Tabak

Okay.

Joseph Israel - President and CEO of Par Petroleum, LLC
…talk about it more offline, if you would like, in more detail. We went through the math just previously on this call and I just won't repeat it.

Thomas Mitchell - Miller Tabak
But if we were to, I'm thinking more about modeling going forward. If we're not going throw check beforehand that there is a study directional move in the price of either Brent or WTI, wouldn't we move to a somewhat higher cost of goods sold as an ongoing projected level or have you really hit with Mid Pac and everything else a new lower level?

Joseph Israel - President and CEO of Par Petroleum, LLC
You're right Tom. Going forward, we have some hedging opportunities there, because there is obviously a position here that we can protect going forward, if crude price goes up. So we keep looking at it and we, management, we will do the right thing to protect ourselves on the way back up.

William Pate - President and CEO
Thomas why don't you give us a call and we'll try to work through the details of that margin issue with you offline too.

Thomas Mitchell - Miller Tabak
No, I think, so the only other thing I was going to ask, your hedges at the end of the last quarter were about $60 through I forget what period next year. But has that changed since then?

Chris Micklas - CFO
It's not changed significantly we were hedged through 2016, so it's not changed.

Operator
Thank you. Our next question is coming from Andrew Shapiro of Lawndale Capital. Please proceed with your follow-up question.

Andrew Shapiro - Lawndale Capital
Some follow-ups here on Laramie so can you tell us some information here like what production equivalent level did Laramie exit September at and is your production growth still on track to hit your expected range of 55 million to 60 million cubic feet equivalent of production by the year-end?

William Pate - President and CEO

Andy I'm going to let Will Monteleone handle that question. But generally yes, go ahead.

Will Monteleone - SVP, Mergers and Acquisitions

Sure, good morning Andrew.

Andrew Shapiro - Lawndale Capital

Hi.

Will Monteleone - SVP, Mergers and Acquisitions

We exited September about 46 million cubic feet a day equivalent. And we have a number of wells that have been drilled but aren't completed and we still think that our expectation for the fourth quarter exit between 55 million and 60 million per day is online so.

Andrew Shapiro - Lawndale Capital

Okay. And you guys are in the midst of now a multi-year capital investment program and you announced and actually Questar Wexpro announced with even some greater detail. This 80 well program to be targeted into the Mesa Verde. Are there other development plans in different formations or is the focus on this Mesa Verde program first?

Will Monteleone - SVP, Mergers and Acquisitions

It's on the Mesa Verde first. We believe that we generate the most compelling economics out of that reservoir. But we do, as you are probably aware, have the underlying rights to deeper formation in the main coast, but we're focusing on the Mesa Verde going with Wexpro and are commencing that program as we speak.

William Pate - President and CEO

Yes and I'd add to that that the number of drilling locations in the Mesa Verde and the economics of these wells are such that it's hard to imagine, getting to the Mancos in the near future and frankly the Mancos, from a single well economic perspective, it's not in the same league as our Mesa Verde program.

Andrew Shapiro - Lawndale Capital

No, and it's much more costly, is there any more cash investment from Par required or anticipated for the Mesa Verde program?

Will Monteleone – SVP, Mergers and Acquisitions

No, not currently anticipated given the Questar program.

Andrew Shapiro - Lawndale Capital

Okay and then in terms of tracking their milestones did the Collbran Valley drilling begin on time as you suggest in the last, it was suggested in the press releases in early October. So it's -- would have just begun and what are your plans or Laramie's plans to disclose progress and results from the program?

William Pate - President and CEO

I think the rig has been operating almost continuously since March.

Will Monteleone - SVP, Mergers and Acquisitions

Yes.

William Pate - President and CEO

So, they have been drilling and Andrew year-to-date I think they drilled in the mid-50s in terms of wells and as Will mentioned the drilled but not completed count is over 40 wells in inventory. And I think the focus really right now is completing those pads.

Andrew Shapiro - Lawndale Capital

So when you say 40, and then there is 80, are you saying that they -- did they buy into the program kind of after the fact and there has been a rebate come back in with the capital?

William Pate - President and CEO

No, and they've been drilling pads and as they drill these pads, they are drilled but then in order to commence production, they have to complete and refrac the wells and that fracking process really just began in part because the Company invested a fair amount of the capital in the last quarter has really been focused on infrastructure for water handling, which allows the Company to more efficiently complete wells.

Andrew Shapiro - Lawndale Capital

Okay.

Will Monteleone - SVP, Mergers and Acquisitions

And the 80 wells are really sort of commencing now Andrew. So there is a program earlier this year and then the Questar agreement really is commencing.

William Pate - President and CEO

Yes, the wells I was referring to are all 100% working interest for Laramie.

Andrew Shapiro - Lawndale Capital

Okay. And with the economics, how so the current energy market conditions and pricing affect this program and when I'm asking about that for example, with Wexpro's announcement and such did their partner that was referred to in their press release get successfully Board approval to participate in the production from these wells?

William Pate - President and CEO
I'm not sure, I know what you are talking about and I can't really reference what Wexpro or Questar might have been discussing.

Andrew Shapiro - Lawndale Capital
So it was in the release, so I'm just wondering how the current market conditions affect the program or was it based on the current economics and so just simply any delays?

William Pate - President and CEO
Well again as I said, I think the single well economics are attractive even at today's strip and I'm referencing a strip price from late October and with the Wexpro program, those economics are even better. So we think the development program is attractive even with the most recent concerns over a warm winter that are affecting prices. Clearly it's a challenging environment, no doubt about that but I think these guys have a very attractive development program here in the Piceance.

Operator
Thank you. At this time I'd like to turn the floor back over to management for any additional or closing comment.

William Pate - President and CEO
Thank you. Listen, I want to thank everybody for joining us. I've been here now for three weeks and a day, so it's been a learning experience for me. We have a great team around here, we are very proud of what we've created. And we look forward to creating even more and I look forward to speaking with you in the near future. Thank you.

Operator
Ladies and gentlemen, thank you for your participation in today's teleconference. You may disconnect your lines at this time. And have a wonderful day.